

A Knowledge-flow framework for transitioning from a product-centric business to provider of a customer-centric solution

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Abstract:

Equipment manufacturers often struggle to transition from product-centered businesses to customer-centric solution (CCS) providers. To overcome this, they partner with independent distributors, which act as a key intermediary between customers and equipment suppliers. Independent distributors take on a number of roles, but their most important role is to integrate value-added services to the manufacturer's products. Paradoxically, independent distributors experience similar issues in introducing servitization. Manufacturers rely on independent distributors in servitizing their offering and therefore it is crucial for distributors to succeed in this process. This study is based on an in-depth qualitative investigation of a packaging equipment distributor that struggles to transition from offering a commoditised product to a being a CCS provider. Using a systematic combining approach, the initial findings suggest that the knowledge flow between distributor's internal departments, suppliers and customers is one of the key reasons for distributor's inability to introduce CCS. Therefore, the purpose of this paper is to propose a framework for distributors of manufacturing equipment to facilitate this transition.

Keywords: servitization, manufacturing, customer-centric solution, independent distributor

Introduction and Literature Review

An increasing competition from equipment manufacturers operating in low-cost economies resulted in a need of western industrialised nations to provide an added value to their offering (Baines and Lightfoot, 2013). By combining products with value-added services, equipment suppliers are able the transition from product-centric to customer-centric business logic.

Vandemerwe and Rada (1988) termed such transition as servitization. The customer-centric solution ranges across a spectrum of value-added services from; a) provision of a regular equipment maintenance through b) knowledge intensive services such as expansion of the existing production line to c) a comprehensive system life-cycle solutions. The existing literature points to a range of servitization benefits, e.g. increasing profit margins, customer satisfaction and sustained income (Gebauer and Kowalkowski, 2012; Ceci and Masini, 2011). Unfortunately, not many equipment manufacturers are able to fully capitalise on these efforts and achieve correspondingly high returns (Benedettini et al., 2015; Ulaga and Loveland, 2014; Valtakoski, 2017).

A solution to avoid the ‘clash’ between the dominant manufacturing culture and service related counterculture are partnerships with independent distributors (Gabauer et al., 2006; Gabauer and Fleisch, 2007; Olivia and Kallenberg, 2003; Windahl and Lakemond, 2006). The distributor acts as a key intermediary between the customer and equipment supplier (See Figure 1.). It’s role is to promote equipment supplier’s offering, identify customer leads, provide the customers with quotes in collaboration with the supplier, contact the supplier with equipment specifications, install the customised equipment as well as deliver services to the customer. The above stated roles are multifaceted and the distributor requires capabilities in; a) relationship building with the customer to be able to provide them with the most suitable solution, b) advanced internal technical knowledge as well as c) a good relationship with the equipment supplier. Joint efforts of different actors are crucial for successful servitization of

the independent distributor (Prahalad and Ramaswamy, 2003). These capabilities influence the level of added value and distributor's level of involvement with a particular customer portrayed by Figure 1. The equipment manufacturers are increasingly reliant on independent distributors, particularly when trying to establish themselves in foreign markets. Detailed insights into issues faced by independent distributors as value providers are largely neglected area in the literature stream on servitization of manufacturing. In particular, the literature misses to provide insights into how successful are these 'service entities' in provision of customer-centric solutions or what are the causes for their failure to servitize (Baines et al., 2009; Bikfalvi et al., 2013; Story et al., 2017). This leads us the following research question;

RQ) What are the antecedents to independent distributor's problems to successfully servitize?

Our paper focuses on an independent UK distributor (FoodPak) that sells packaging equipment and associated services on a behalf of a leading global packaging equipment manufacturer based in Italy. The distributor has been struggling to establish itself in the food packaging sector through provision of comprehensive customer-centric solutions for almost eight years. The distributor was chosen as a result of sponsored research project that was originally designed to assess and develop sales strategy for the distributor. The objective was to assist the distributor in establishing itself in the food sector and help it to move from Tier 1 to the Tier 3 (See Figure 1 - provision of customer-centric packaging solutions, as a core strategic business activity).

Join efforts of different actors, i.e. suppliers, intermediaries and customers could become a way for mutual value creation (Gronroos and Helle, 2010; Prahalad and Ramaswamy, 2003). Håkansson and Waluszewski (2013) particularly point to the complex interactions among actors to facilitate the ability to create value. These can be further combined with resources from different actors (Moller and Rajala, 2007). Network capabilities are playing a crucial role in servitization (Kohtamaki et al., 2013). In particular, Ngugi, Johnsen and Erdelyi (2010) point to the ability to integrate, learn and value co-creation. Another big opportunity is

played by the ‘Big Data’ to aid innovation. However, this will require collaboration with actors “possessing data management capabilities (Opresnik and Taisch, 2015).

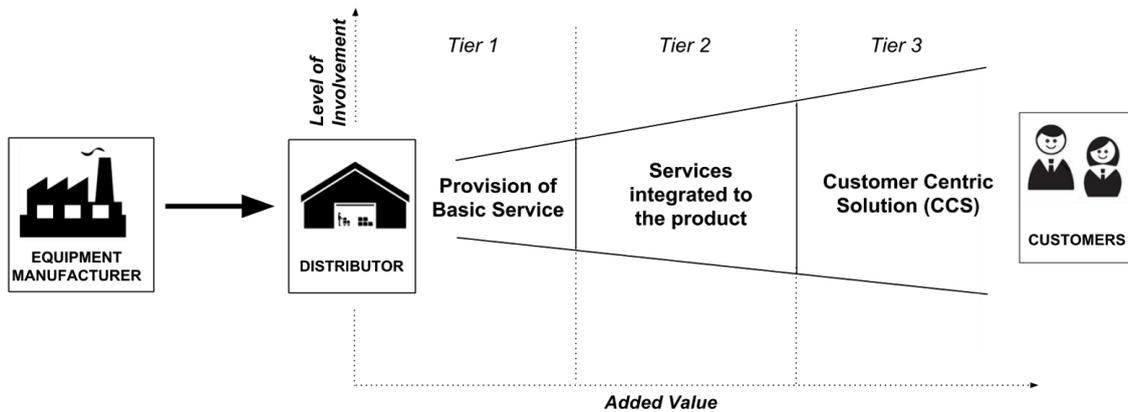


Figure 1. Added value vs. Level of Involvement of a Distributor (Own illustration)

Methodology

We base our study on an exploratory single case to holistically capture the antecedents of failed/unsuccessful initiatives to servitize at the independent distributor. This case study involves independent distributor of packaging machinery for food & drink industry based in the UK (thereafter FoodPak) that has been focusing on shifting its business towards servitization for the past eight years. FoodPak has directed its attention to servitization as a response to tenable decline in its core markets (mailing industry). As a result of this shift (from mailing industry to food packaging) the company was hit by unprecedented competition, significantly fragmented customer segments and tighter margins. This rather fluid environment has further accelerated the need to establish a competitive offering for the food & drink market. Having one of the largest service teams in the UK when compared to it’s competitors, FoodPak was determined to differentiate itself through provision of outstanding services. The company has decided to shift away from the mere provision of products to offering full servitization to its customers. In 2017 it has been exactly eight years since the FoodPak initiated this transition but has not yet been met with success.

Through studying the real-life case (Eisenhardt, 1989) of failed servitization initiatives we were able to expose and understand the antecedents of these failures. The insights sought and the richness of detail required could only be provided by studying real accounts as experienced and understood by main organisational actors (Charmaz, 2006). As such, we use Abductive Research Strategy (ARS) (Blaikie, 1993, 2000, 2007, 2010) to derive unique insights based on the real social actors' accounts. Following the ARS logic we ensured that we maintained and interpreted our data during the analysis "in the language and meanings of social actors" (Ong, 2012, pp. 422-423). Within our data collection and analysis, we adhere to the core principles of systematic combining (Dubois and Gadde, 2002) to match the theory with reality (Eisenhardt, 1989; Strauss and Corbin, 1990). Using systematic combining has allowed us to move 'back-and-forth' between data and theory helping us to shape our work without being influenced by preconceived theoretical perspective. We have followed a nonlinear process where "theoretical framework, empirical fieldwork and case analysis evolve simultaneously" (Dubois and Gadde, 2002, p. 554).

During our preliminary research stage we have selected senior executives from four departments (Engineering, Marketing, Sales and Services Departments) to participate in our study. We conducted seven interviews, three focus groups and attended sales pitches and quarterly senior management meetings. Currently, we have scheduled 10 interviews with senior management in different departments within the FoodPak company. Besides the data collection at the FoodPak we are planning to conduct additional interviews with FoodPak's most recent customers. Data will be coded and analysed using Atlas ti7 following the process of systematic combining as laid out by Dubois and Gadde (2002) while adhering to the ARS underlying logic (Tavory and Timmermans, 2014).

Furthermore, during the preliminary data collection phase, targeted at identifying main obstacles to successful servitization, we found the 'knowledge flow' to have a significant impact on distributor's ability to transit from commoditised products to a provision of solutions. Our initial interviews uncovered significant weaknesses in accumulation, management and use of external and internal knowledge. As verbalised by participants, this often resulted in unexplored possibilities and missed long-term opportunities customers could have benefited from. In other words, the distributor derailed customers from seeing the added

value in entering the relationship. Hence, customers settled only for the one-off purchase of equipment (transactional relationship) instead of pursuing relationship. Therefore, the next stage of this study was designed to identify and further explore internal and external knowledge flows within the packaging equipment distributor. Using a theoretical sampling we were able to 'narrow down' our future data requirements for delimiting the theory (Locke, 2001, p. 52).

Future steps to develop the paper

Previous studies pointed to a need for development of tools that practitioners could use to help them effectively manage the shift from product focus to provision of bespoke solutions. This is mainly due to abundance of descriptive case studies (Baines et al., 2009) which focus on companies operating within high-technology industries; i.e. Rolls-Royce, Xerox, Nokia (Davies et al., 2006). Moreover, these case studies are to a large extent based on success stories and best practices of traditionally based manufacturing companies. There is, however, a lack of prescriptive approach that could help solving a specific problem and propose guidelines for 'practical' issues (Baines et al., 2009). This 'practical guideline' is meant to be the main contribution of our study.

Following the data coding, the initial codes will be grouped into sub-themes and then into main themes. The main themes will point to the key antecedents (and their relationship) that prevent the independent distributor from provision of customer-centric solutions. These antecedents will form a basis for development of an independent distributor knowledge flow framework. By analysing the findings through different theoretical lenses, such as the knowledge base theory, the framework will portray internal decisions and competencies that lead to different levels of servitization, from being a transaction-oriented product provider, to comprehensive life-cycle solution provider. Once having a draft of the framework, it will be presented to the FoodPak. The framework will then be adjusted based upon their feedback and ideas for further improvement.

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