



From products to services

How can research contribute to the significant opportunities service solutions provide?

A huge trend is sweeping Western Europe, North America and parts of Asia. This trend is not limited to marketing, and it is attracting the attention of the most senior leaders of product-dominant firms, manufacturers, distributors and even some retailers and consumer goods companies. The opportunity piquing the interest of B2B manufacturers in particular is the chance to create and grow a whole new revenue stream in services. Let me be quick to point out that I'm not referring to 'entitlement' services – product-dominant companies have long had to provide services in support of their products – services like repair and maintenance as well as training and warranties. Instead, I'm referring to newer and often more profitable services in support of the customer. Services like asset management, business process outsourcing, managed services, advisory services and integrated product-services solutions. Opting to pursue these newer services frequently requires these firms to expand their existing transaction-based business models or create whole new relationship-based models.

This growing trend offers a significant opportunity for the marketing research community. Yet, to date research organisations have not been a major resource to their B2B clients in assessing and acting on the opportunity. In this article we will examine why this trend has emerged and highlight some of the factors that are keys to success. Then, we'll look at how marketing researchers can help their clients turn this opportunity into a reality.

WHY SERVICE SOLUTIONS?

So, what's driving product-dominant companies into pursuing services growth? Pragmatically, economic realities are the biggest reason for this interest. As an aerospace executive shared with me recently, "We don't sell an airplane every day or even every month. Services offer us a more steady stream of revenue." IBM has over US \$100 billion in multi-year service agreements with its customers – a stable source of revenue that has helped buoy the corporation's fortunes through the tough economic times of recent years. Product-dominant companies also find that the revenue associated with services supporting customers is often more profitable than its entitlement services or its products.

These companies are also attracted to new services because of competitive advantages. Services are typically more difficult for rivals to copy than products. Further, services enable, or even more importantly typically require, firms to get far closer to their customers. They must come to understand the customer's business model and even how the model attracts and retains the customer's customers. Customer knowledge and intimacy can in and of itself provide the firm with competitive leverage. An often overlooked benefit of executing a services growth strategy is that it helps firms sell more products by uncovering opportunities.

For many firms, their own customers are leading them into new services. Management gurus and business school faculty exhort customers to "stick to your core competencies and

outsource everything else.” A natural outgrowth is for customers to look to their product suppliers for assistance. The help most often sought, however, is not more product, but rather service solutions.

CHANGING CULTURE'S

Let's look back on the early years of the internet revolution. IBM then was a product-dominant enterprise. Yet, its customers were frantically badgering 'Big Blue' with queries like, 'Can you help us get involved with the internet? Can you help us develop our first website?' Initially, IBM provided these requested services for free. Eventually, however, customer demand led the corporation to create a whole new services business.

Though the services opportunity has high appeal for many product-dominant firms, various road blocks can stymie them from capitalising on this appeal. Most often the biggest impediment is culture. Product-dominant companies tend to operate with an engineering or technical logic. They internally value their ability to make great products, achieve economies of scale and convince their customers to purchase their offerings. When services enter into the discussion, it's most often in terms of what they can do to support our products. Yet, to succeed with new services, a customer-logic must be embraced. Here, the focus is on thoughtfully listening to customers and helping them solve their problems. The relationship begins before the contract is signed and falls or flourishes based upon the value the firm brings to the customer throughout the entire relationship.

KEY SUCCESS FACTORS

There are many key success factors for growing new services. One major factor is fully embracing a customer-logic. DuPont has thirteen SBUs, twelve focused on products and the associated entitlement services and one focused on services in support of customers. A long-time core competency of DuPont is its safety expertise. Prior to the creation of the services SBU, this safety competence was only deployed internally. Yet safety improvement is a notable need of a class of DuPont customers – the oil and gas industry. Coupling this customer need with DuPont's wealth of safety knowledge and experience provides the foundation for the services SBU's primary offerings – safety solutions. Developing, offering and having a major customer impact with this offering could only occur because DuPont's leadership enabled one of its SBUs to embrace a customer-logic.

A second key success factor is creating value with, rather than for, customers. Until recently, SKF has been a global manufacturer and seller of industrial bearings. This normally rather staid business can, however, rapidly assume a high priority among customers. When a bearing breaks, it's a disaster because production stops and the customer can lose a lot of money. By embracing a customer-logic, SKF changed its own business model to become a service solutions provider. Following in-depth discussions with customers, SKF made some strategic services acquisitions and organically expanded its services capabilities. By co-creating value with customers, SKF no longer sells bearings. Instead, its business is to work with its customers to provide machinery up-time and productivity.

A third key success factor, becoming solution agnostic, rarely happens quickly and for many product-dominant firms it may never happen. In essence, being solution agnostic means that when appropriate the firm recommends a competitor's product or service to a customer over its own offering. Certainly, touting a rival's offering is not the route to winning friends and support within your own organisation. Yet it may be the acid test, as IBM Global Services has proven, in determining if a firm has completely adopted the customer-centric logic. Though being agnostic is fraught with internal controversy, it does help the company's trustworthiness with its customers.

So how can the marketing research community participate in and contribute to this trend sweeping product-dominant companies? To begin, researchers can identify the business models for growth and expansion into services. What capabilities and competencies are needed? The most challenging and lucrative services to support are services in support of customers. How do firms develop and manage a portfolio of services in support of customers? This is where the research community has an important role to play – namely in providing insights on the services most needed, what they look like and how they can benefit their customer's customers.

The challenge for researchers is that in many firms the drive into services is being led by the C-suite rather than the firm's marketers. This means that researchers may be required to develop new relationships at higher levels in client organisations. From my observation to date, consultants, rather than researchers, have been providing some of this expertise. Yet the customer insights that only quality researchers can provide need to supersede or complement the value that consultants are bringing to the table. **RW**



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