

Service-related Challenges of Becoming a Solution Provider – A Case Study

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Abstract

Providing solutions is popular in the current business-to-business market. Responding to the customer demand and enabling longer customer relationships are examples of reasons why traditional manufacturers are nowadays interested in solutions. The change towards solution business is not simply a choice of a new strategy for these companies – the companies face various challenges on their path to solution business. Focusing on a single case company, this study names these challenges during three phases of the change process: *drafting* a new strategy, *changing* organizationally, and *managing* the solution business. Based on the findings, the change demands a massive organizational reconstruction in a multi-cultural environment. This causes multiple challenges within the organization, the most relating to the lack of customer-orientation.

Keywords: Solution marketing, strategic change, organizational development, service-dominant logic, B2B Marketing

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Introduction

The solution business has received more and more attention lately emphasizing the importance of developing new insights to solution literature. This paper concentrates on the challenges that traditional industrial manufacturers face on their path to successful solution business. These companies tend to possess strong experience on product business, but are now struggling to update their offerings towards service-based solutions. There are many reasons for the recent development. Solutions are of interest to B2B manufacturers because they help for example in securing sales, enabling longer customer relationships, setting growth opportunities, fulfilling the gaps between purchases, managing through economical cycles, and responding to customer demand. In addition, global markets with new Third World suppliers present new kinds of threats against traditional manufacturers. The change towards solution provider is not only a simple choice of strategy for these manufacturers. Solution business constructs on relational processes (Tuli, Kohli and Bharadwaj, 2007). Furthermore, extensive collaboration with the customers is one of the main antecedents of solution business (Sawhney, 2006). The further a supplier takes control over a customer's business by offering solutions, the more and deeper collaboration is needed. Although going downstream closer to the customer proves to hold profit potential (Wise and Baumgartner, 1999), the role of customer collaboration is many times underestimated among the traditional manufacturing companies.

Collaboration with customers, or the lack of it, is not the only challenge a company faces on its path to solution business. The aim of this pilot study is to offer insights into these challenges, especially in the context of traditional manufacturer transforming to solution providers. There are quite few studies on the challenges during the development towards solution business, creating a need for further research (Matthyssens & Vandembemt, 2008). The study contributes to the developing solution marketing research stream by answering the following research problem: What challenges a manufacturer faces when moving towards solution business?

Solution business literature

Solution type of business has existed for decades (Davies, Brady and Hobday, 2007). In the academic literature, however, combining products with different services has been debated as the emergence of solution business only recently. There are many intertwined concepts relating to the solution business. According to Stremersch, Wuyts and Frambach (2001), a solution combines numerous elements uniquely to create value for the customer. Solutions are defined as offers, where the scope, scale, and the degree of integration between the elements are at a high level (Cova and Salle 2007). Also the concepts of integrated solutions (Brady, Davies and Gann, 2005; Windahl and Lakemond, 2006) and customer solutions (Cornet et al., 2000; Tuli, Kohli and Bharadwaj, 2007) have been used to describe the same kind of business. Furthermore, project marketing has many similarities with the marketing of solutions. Project-related services (Skaates and Cova, 2004), for example, could be understood as solution elements. In line with the similarities, Cova and Salle (2007) have proposed that there are synergies between the marketing of projects and solutions. In this paper, we have utilized all these concepts and literature streams in order to discuss the subject thoroughly.

In the context of traditional manufacturer companies, solutions are usually based on some sort of physical element, for example, a paper machine. In addition, there are numerous types of service elements implemented in various phases of the solution life cycle (Artto et al., 2007; Pekkarinen, Salminen and Jalkala, 2008). These elements are becoming more and more important (Davies, Brady and Hobday, 2007). Adding more service increases the complexity of an offer. This sets challenges for a manufacturer, who have relied on its technological competence and somewhat neglected the role of service. Besides the offering complexity challenge, solution offering involves collaboration and relational processes (Tuli, Kohli and Bharadwaj, 2007). Solution business has service-dominant (S-D) logic (Vargo and Lusch 2004) characteristics, as solutions are often co-created to match a customer's problem (Cornet et al. 2000, p.2; Sawhney 2006). Traditional manufacturers have used to market their products *to* customers. According to the S-D logic, the marketing in solution business should be performed *with* the customer highlighting the close cooperation (Lusch and Vargo 2006). In the present study, a solution provider is understood as a supplier of complex offerings, delivering value for the customer in close cooperation with the customer.

Challenges related to solution business

The leap from manufacturing towards service-based solution is challenging and gaining profit through complex solutions has shown to be quite a challenge (Tuli, Kohli and Bharadwaj, 2007). Gebauer, Fleisch and Friedli (2005) list three prerequisites for a successful manufacturer service strategy; comprehensive market understanding, comprehensive participation throughout the organization and transparency on the systematic strategy change. On the other hand, Cova and Salle (2007) found four major challenges in solution business; change in the orientation, need for new capabilities and skills, transformation of the structure and processes within the organization, and implementation of the transformation process within the organization. In service-provider solutions, Brax (2005) classified supplier challenges under the following somewhat interrelated categories: marketing, production, delivery, product-design, communication, and relationship. All of these challenges and prerequisites stress the importance of co-production as well as deep organizational development.

When implementing a service-oriented business model, the main challenge seems to be in the organizational change domain (Oliva and Kallenberg, 2003). Furthermore, a gap in the analytic thinking between the headquarters and the operational managers is seen to be an internal barrier when moving towards solution business (Matthyssens and Vandenbempt, 2008). This reflects the importance of internal communication during such transformation. There are a few studies that have described the change process through the offering development viewpoint (Matthyssens and Vandenbempt, 2008; Oliva and Kallenberg, 2003; Vandermerwe and Rada, 1988). However, the organizational reconstruction has not been discussed thoroughly. Thus, we approach the change process from an organizational development viewpoint. Before the interviews, we formulated a four-part development phase model: strategic preparation, decision making, first delivery, and finally management of solution business. These phases were selected to cover the change process from a single idea level to a successful management of solution business.

Research setting

The nature of this study is explorative. In order to gain a deeper understanding of the relatively unexplored change process from a traditional manufacturer to a solution provider, we have adopted a classic case study approach by focusing in-depth on a single case company (Dyer and Wilkins, 1991; Yin 2003). The use of a single case as an empirical data supports the idea of explorative research problem in a complex phenomenon studied in its real-life context (Yin, 2003). Case study offers also a possibility to move between data and theory to gain novel insights into the problem (Eisenhardt, 1989; Eisenhardt and Graebner 2007). The case selection is the most important methodological decision (Dubois and Araujo, 2007). It should be selected because of it is unusually revealing or an extreme example, or based on the opportunities for unusual research access (Yin, 2003). Also, the selection of appropriate informants is important (Halinen and Törnroos, 2005). The research problem directed the search of the case company towards a solution provider that has recently gone through a transformation for a traditional manufacturer to a solution provider. As this is a pilot study, it was decided to choose a limited number of top-level managers in order to explore the topic at a strategy-level. Finally, three corporate-level directors (Chief Strategy Officer, Senior Vice President, Marketing, and Chief Technology Officer) as well as one division-level director (Vice President, Marketing) were interviewed using a thematic interview structure.

While the primary method for gathering the empirical data was thematic interviews, the data collection was carried out with multiple sources of data. This is typical with case studies (Eisenhardt, 1989; Yin 2003). The personal interviews covered issues such as the interviewee's perception of the solution business, the case company's milestones in the development path to become a solution provider, the challenges the company has faced on its path, and how these challenges have been managed. All the interviews were tape recorded and transcribed and field notes were made during the interviews. The transcriptions were then analyzed by using a content analysis, which helped to reduce and classify the information (Patton, 2002). Secondary data included company documents, such as annual reports, CEO presentations and brochures, as well as company web pages.

Case analysis

The case company supplies metal-based components, systems and integrated systems to construction and the engineering industry. The company has a wide range of metal products and services. The net sales in 2008 were almost 4,000 million EUR with an operating profit of nearly 15 per cent. Around 15,000 employees worked within the company in 26 countries across Europe. Its main market area is Europe, while the long-term growth is focused on Eastern Europe. During the last five years, the case company has transformed from a traditional industrial material supplier into a customer-oriented solution provider. Based on our empirical findings, we needed to modify our conceptual change process phase model. Instead of the above described four phases, the process can be outlined with the following three phases; Drafting, Changing, and Managing. This change process is depicted in Figure 1. The boundaries between each phase are described above the timeline. The drafting phase started with an idea of a strategy change. Then, the decision of going towards solution business launched the changing phase. Finally, the company moved to the managing phase as it started to build its first solution according to new business model. Next, the found challenges within each phase are discussed. As the challenges occur in rather different organizational levels, each phase is discussed through *strategic*, *tactical*, and *operational* levels.

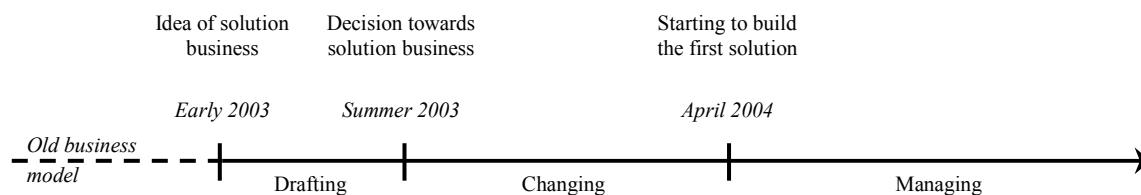


Figure 1. Timeline for the strategy change in the case company

Drafting-phase

The need for a change in the company strategy arose from the industry, which had witnessed plenty of mergers and acquisitions in the beginning of 2000's. Being a relatively small actor, the case company had to find its niche market or else it would have most likely become a victim of the ongoing consolidations. In early 2003, the company started to search new direction and an idea of going downstream towards the customer in the value chain was discussed. The time between the idea of solution business as a strategy and the final board decision to focus on solutions is here called a strategy *drafting* phase. In the beginning of the transformation, the main focus was on strategy development. The main challenge at first was solution definition – what is a solution and what it is not. In the case company, the start was handled by a small group of interest employees: *“There were only five of us at the beginning... it took us half a year to decide where to go... and what options to take”*. While the case company changed its business model rather drastically; it became clear that it would need fresh customer-oriented ideas from the customer industries. Thus, the planning of recruitments and acquisitions were started. Acquiring new experience was a challenge, mainly because the new strategy was not crystal clear and there were some misjudgments made. Furthermore, the experienced managers were at first skeptical about the new planned direction.

Changing-phase

After the strategy drafting, the company moved on to actually changing its organization towards a solution provider. This organizational *changing* phase lasted about a year until the development of a first solution was started. On a strategic level, strategy redefining, acquisition, and recruitments continued to set challenges. Now, the tactical level received the most attention – how to carry out the new strategy within a substantially reborn organization. One of the key issues was to think marketing differently, in a more customer-oriented way. According a director: *“it is not enough to understand the customer, we really need to understand the customer's customers, and even the end-users”*. This sets multiple challenges, as the sales skills have to be renewed: *“Solution selling requires consultative selling skills, it is different, and it takes a lot of practicing and training”*. A major barrier in this process is cultural-related, as a director puts it: *“in Eastern Europe, there are numerous issues in training, but we need to start with English language”*. On an operational level, project management and planning must be re-configured. Also, the new strategy has to be communicated throughout the organization.

Managing-phase

The final phase, titled as *managing*, includes developing, selling and delivering solutions. The management of solution business is the focal task. Strategically, the challenge is to listen to the markets for possible strategy re-orientation needs. Tactical challenges remain quite the

same, with emphasis on customer relationship related tasks and flexibility of (networked) resources. The focus moves now more on the operational level, as the new strategy have to be implemented efficiently. One of the sales-related challenges is to find the right channel to market the solution to a customer organization, as an interviewee said: *“our understanding is that the first contact should be CEO or someone who really understands the added value and does not think only the price”*. Overall, it can be noted that there are numerous challenges when moving towards solution business in the case company. These are listed in Figure 2.

Drafting	Changing	Managing
<i>strategic</i> <ul style="list-style-type: none"> ▪ Defining new strategic directions ▪ Planning acquisitions ▪ Recruiting managers to follow through the change 	<i>strategic</i> <ul style="list-style-type: none"> ▪ Planning acquisitions ▪ Redefining organizational structures ▪ Specifying strategy in more detail 	<i>strategic</i> <ul style="list-style-type: none"> ▪ Keeping track for possible strategy changes
	<i>tactical</i> <ul style="list-style-type: none"> ▪ Carrying out acquisitions ▪ Forming the core offering ▪ Renewing sales processes towards customer-orientation ▪ Dealing with internal change resistance ▪ Recruiting customer-oriented employees ▪ Integrating the new organization, culture and language differences ▪ Implementing new strategy 	<i>tactical</i> <ul style="list-style-type: none"> ▪ Carrying out acquisitions ▪ Enabling scaling of network resources ▪ Planning value-based pricing models
	<i>operational</i> <ul style="list-style-type: none"> ▪ Reshaping project planning and management skills ▪ Communicating the change internally 	<i>operational</i> <ul style="list-style-type: none"> ▪ Implementing new strategy ▪ Acknowledging different customer needs ▪ Finding the right sales channels within customer organizations ▪ Recruiting customer-oriented employees ▪ Managing sales force ▪ Co-creating the offering with customers ▪ Maintaining customer information effectively

Figure 2. Challenges in the case company during the transformation towards solution business

Discussion

The pilot study strengthens the previous research results. The challenges and characteristics found by Brax (2005), Cova and Salle (2007) and Gebauer, Fleisch and Friedli (2005) are supported by our results. However, here the development is studied more longitudinally. This sequential-approach provides an opportunity to study how the challenges changes during the transformation process. The emphasis slides from a more strategic decision type of tasks to more operational level issues as the change advances.

The found challenges relate to the lack of knowledge, expertise and resources, but also to the organizational reconstruction and operational differences. Furthermore, when operating globally, the cultural differences have to be acknowledged. The key issue aroused in the interviews was the mindset of a solution provider – customer-oriented way of operating is a major business model change to a traditional material supplier organization. It has to be communicated internally clear enough.

Next, we will verify the results by using a revised interview framework in two-to-three solution provider companies. Furthermore, as our aim is to model the change process from a traditional industrial supplier to a solution provider, a quantitative approach is not excluded in the future. Quantitative analysis would allow us to study the importance of different factors more systematically.

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