Servitization – The Holy Grail?

Considering The Strategic Dark Sides of Servitization

Relevance of the phenomenon being studied

In highly competitive manufacturing markets, evermore firms offer goods through services as opposed to sell them directly. These servitization strategies are implemented by manufacturers to sustain competitive advantage and to survive in the market. Consequently, servitization has gained significant traction over the last few years in academic research. On the one side, early literature put forth consent in suggesting that manufactures should servitize their offerings to generate growth beyond their goods base (e.g. Quinn, 1992; Wise & Baumgartner, 1999). On the other side, more recently, ambiguity emerged on the success of servitization (e.g. Kastalli & Bart Van Looy, 2013; Benedettini, Swink, & Neely, 2017; Valtakoski, 2017). Indeed, scientific literature increasingly calls for further research on the threats of servitization. Specifically, critical questions remain yet to be answered on the strategic threats on servitization and how research can advice manufactures in designing appropriate implementation strategies of servitization.

Potential contributions to the field

Following these calls, we raise a critical voice concerning servitization and shed light on its strategic threats for extant manufacturing business models. Moreover, the conceptual discussion of this work-in-progress research aims to raise attention on sustainable market transition processes in the context of servitization strategies. In doing so, we aim at contributing to the body of knowledge in service research by providing a theoretical perspective on how the strategic threats of servitization (i.e. the ‘dark sides’ of servitization) can be conceptualized.

Research questions

First, we seek to raise awareness on the strategic dark sides of servitization for manufacturing firms concerning their corporate sustainability. That is, we critically discuss servitization strategies of manufacturers in the light of short-term profit gains versus long-term market shares. Second, we extend the critical strategy perspective of servitization from the single-firm perspective to market transitions. With that said, we explore how servitization decisions of manufacturers (e.g. car manufacturers) may open markets for new business models (e.g. carsharing) that can finally cause a decrease of the manufacturer’s focal positioning in a profit chain for a certain market when an appropriate service business model has not been considered beforehand by the manufacturer. Hence, we explore the influence of servitization on corporate sustainability and strategic agility (Ivory & Brooks, 2017).

Theoretical foundations

Recent literature on servitization has started to explain different impact factors for its influence on manufacturing firm performance (Kastalli & Van Looy, 2013; Benedettini, Swink & Neely, 2017). Especially the view on companies as a portfolio in which different capabilities are needed for manufacturing compared to services, guides us to further enrich these insights with considerations regarding dynamic capabilities of firms (e.g. Teece, 1997; Barney, 2001). Dynamic capabilities are strategic tools that allow organizations to align and coordinate its individual resources in response to business environment changes. Moreover, such capabilities allow organizations to explore new options and to change the organization effectively.

Conceptual framework

Our conceptual framework concerns partly substitutional markets where manufacturers can either generate revenue by material product sales or service sales. In that economic field servitization functions as a means of coping with hypercompetition (D'aveni, 1995). Hypercompetition is characterized by fast and asymmetric market changes due to actions (e.g. creation of alliances or signaling fake strategic intents) by market players which lead to volatile competition environments. Servitization can help manufacturers to diversify into different industries to be able to mitigate risks regarding hypercompetition. We, however, argue that servitization can backfire if the firm is not able to establish and govern appropriate dynamic capabilities to move within these several fields. Regarding this notion, we introduce a source of strategic threat by what we call the *substitution spinoff effect* of servitization (see Figure 1). That is, the introduction of a servitization option by a manufacturing firm may open a new service-dominant market overall substituting the goods-dominant market. This will lead to a disruption of the manufacturers' focal market position as the new service market will be dominated by third-party service providers given that appropriate dynamic capabilities for competing in service markets have not been considered beforehand by the manufacturer. This is especially relevant when customers perceive the third-party service providers as being innovative and, as such, different compared to the manufacturer.

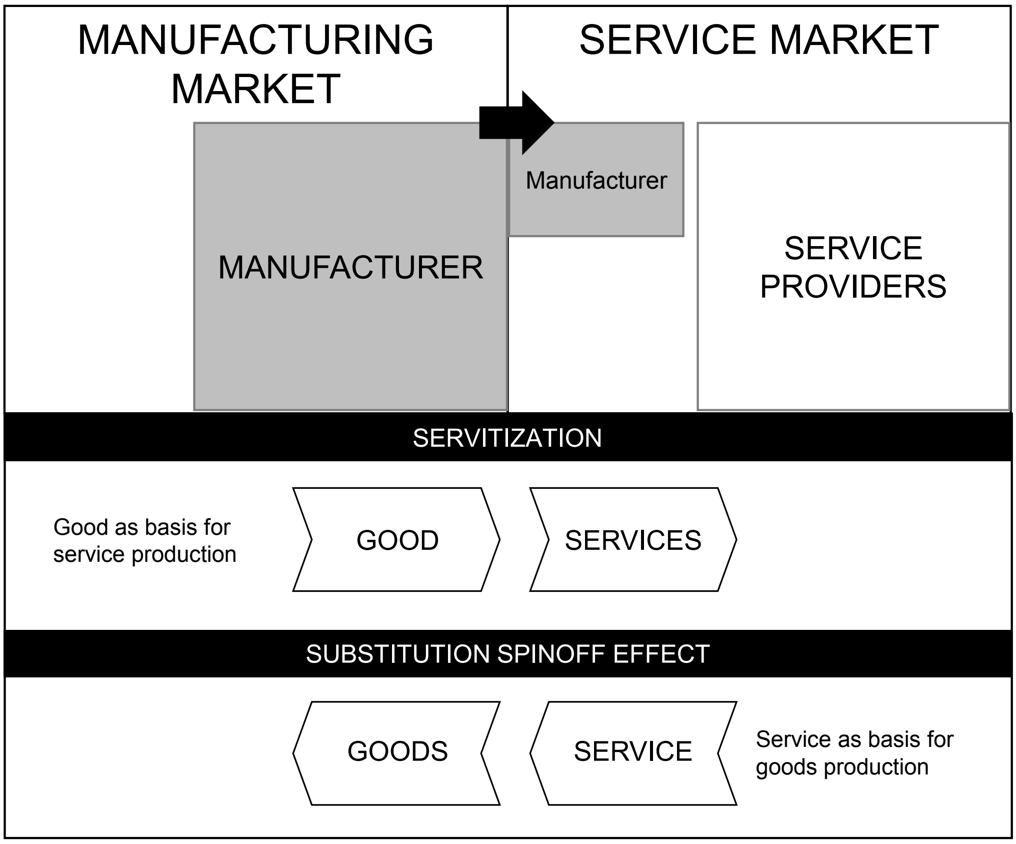

Figure 1 Substitution spinoff effect

Methodology

We seek to investigate the substitution spinoff effect by means of conceptual analyses and case studies. The case studies are intended to analyze companies starting servitization as well as companies that have already done this and how the long-term impact on their respective market was.

Findings

The substitution spinoff effect describes the strategic threat of servitization that may lead towards a shift from the manufacturers' focal power position on a market towards its position of a supplier in an environment where service providers dominate goods providers.

Discussion

The substitution spinoff effect may provide further explanations for and serve as a conceptual extension of the servitization paradox as described by Kastalli and Van Looy (2013). However, further research is needed on the phenomenon proposed here. We welcome vivid discussion on empirical approaches to assess more information and gain a better understanding of the processes that may cause the effect. Critical questions remain yet to be answered how companies can successfully manage servitization transition processes in order to circumvent the substitution spinoff effect. That is, more research is needed on which capabilities precisely are likely to prevent companies from suffering under the substitution spinoff effect. Considering the substitution spinoff effect we further aim to explore under which circumstances sources of revenues through services for manufacturers are efficient and sustainable.

Conclusion

Servitization should be considered as a portfolio decision in a hypercompetition environment. Manufacturers are well advised to preconceive their dynamic capabilities under consideration of the substitution spinoff effect before entering or opening service markets through servitization decisions. Hence, we urge managers to include long-term market movements besides analyzing manufacturer’s revenue streams in evaluating servitization benefits.

References

Barney, J.B. (2001). Resource-based theories of competitive advantage. A ten-year retrospective on the resource-based view, *Journal of Management*, *27*(6), 643-650.

Benedettini, O., Swink, M., & Neely, A. (2017). Examining the influence of service additions on manufacturing firms' bankruptcy likelihood. *Industrial Marketing Management*, 60, 112-125.

D'aveni, R. A. (1995). Coping with hypercompetition: Utilizing the new 7S's framework. *The Academy of Management Executive*, *9*(3), 45-57

Ivory, S. B., & Brooks, S. B. (2017). Managing Corporate Sustainability with a paradoxical lens: lessons from strategic agility. *Journal of Business Ethics*, 1-15.

Kastalli, I. V., & Van Looy, B. (2013). Servitization: Disentangling the impact of service business model innovation on manufacturing firm performance. *Journal of Operations Management*, 31(4), 169-180

Quinn, J.B. (1992), Intelligent Enterprise, Free Press, New York, NY.

Teece, D.J., Pisano, G. & Shuen, A. (1997). Dynamic capabilities and strategic management, *Strategic Management Journal*, *18*(7), 509-533.

Valtakoski, A. (2017). Explaining servitization failure and deservitization: A knowledge-based perspective. *Industrial Marketing Management*, 60, 138-150.

Wise, R. and Baumgartner, P. (1999). Go downstream: the new imperative in manufacturing. *Harvard Business Review*, Vol. 77 No. 5, pp. 133-41.