

## Chapter 6.5

# Opportunities and Challenges for B2B Manufacturing Firms: Moving from Products to Services—Case SKF

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### ABSTRACT

Today, many traditional manufacturing firms are focusing on their service operations, which are often seen as a better source of revenue than the first-time installations. Information and communications technology (ICT) can accelerate this process by offering efficient ways to deliver services to the customers and by allowing companies to transform their traditional product strategies to services. This chapter tells the story of a traditional component supplier that wanted to become a service firm. The transition is analyzed based on an established theoretical framework identifying efficient strategies for delivering different types of services, thus providing managers with guidelines for choosing the appropriate business model. The findings of this single case study confirm that the

role of ICT as an enabler in the transition process is significant. Furthermore, the buyer's trust in the supplier turned out to be an essential factor in developing new service-based business.

### INTRODUCTION

Levitt (1972) first announced that everybody is in service. It has taken a long time for companies and researchers to make sense of this provocation. It was not until recently that researchers turned to manufacturing companies and found that manufacturing strategy can be successfully based on a service approach (Fry et al., 1994). Today, managing the transition from products to services is a very important emerging managerial issue in the business-to-business environment (Oliva & Kallenberg, 2003).

The objective of this chapter is to describe how one specific firm—Svenska Kullager Fabriken, SKF—has undergone the change from product-oriented thinking to services-based concepts. We analyze this transition using an established framework and discuss the challenges and opportunities that the repositioning of the company's offering creates. More specifically, we use the theory of full-service contracts (Stremersch et al., 2001) to describe how SKF has moved from offering products to offering full-service contracts. In addition, we use the Service Process Analysis (SPA) (Tinnila & Vepsäläinen, 1995) to evaluate the different channels that SKF uses for the different kinds of offerings.

We find that the information and communications technology (ICT) provides firms with a strategic tool that acts as the main enabler in the transition from products to services. In the case of SKF, information technology is used via *endorsia.com* to build closer electronic linkages to customer companies. In addition, SKF has added intelligence to its products by developing enhanced status-reporting bearings. These two ICT developments—*endorsia.com* and intelligent bearings—are described in this chapter. Also, we find that the buyer's trust in the supplier is an essential factor in the transition from products to services-based systems. The finding is in line with previous theoretical work, which suggests that these enhanced relations between a buyer and a seller require considerable trust in order to create the full-service offering.

The chapter is organized as follows: the next section briefly presents the theories of full-service contracts and service process analysis. The third section introduces the case SKF. In the remaining sections, we present theoretical and managerial implications.

## **FULL-SERVICE CONTRACTS**

The traditional marketing literature defines services as intangibles, variables, and perishables. Therefore, the consumption and production processes of services cannot be separated. Rust et al. (1996) and Kotler (1999) define products as “anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations, and ideas” (p. 291). A service is seen by Kotler (1999) as “any activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything” (p. 291).

In our study, we use the concept of full-service contracts (Stremersch et al., 2001) to examine the transition from product-oriented thinking to services-based concepts. Full service is defined as a bundled offering that is an extension in meeting customer needs, requiring interaction between the supplier and the customer and thus making it more challenging than traditional delivery (Figure 1).

The bundling literature, initiated by Burstein (1960) and Stigler (1963) and later formally formulated by Adams and Yellen (1976) originally seeks to contemplate why firms often sell their goods in packages (e.g., sporting and cultural organizations offer season tickets and restaurants provide complete dinners). In the business-to-business context, bundling is often used to create full-service offerings in order to provide customer companies a single point of contact (Cristol & Sealey, 1996; Stremersch et al., 2001). A review of current literature on bundling is provided in Stremersch and Tellis (2002) and Penttinen (2004).

The second dimension, extension in customer needs, describes the extent to which customer needs are satisfied by the supplier firm. The three levels are single, extended, and total need fulfillment. The general proposition of many academic and practitioner-oriented research papers has been

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