

Increasing Services

- A Case Study at ABS Regarding the Change Process
towards Service Orientation

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Abstract

- Title:** Increasing Services – A Case Study at ABS Regarding the Change Process towards Service Orientation
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Schwarz, Philip, Dewatering Business Segment Manager, Cardo Pump.
- Issues:** The theoretical issues concern what factors to consider when transforming a product oriented company into a service oriented. The practical issue regards the development and implementation of a rental concept for ABS in Sweden and Poland.
- Purpose:** The main purpose of this master thesis is to identify the issues concerning the transformation process of a product oriented company into a service oriented company, and how these issues can be overcome. We will exemplify this by developing a dewatering pump rental concept for ABS, and identify the drivers and barriers for ABS when implementing the service oriented rental concept in Sweden and Poland.
- Methodology:** This master thesis is based on the systems perspective. The reason for this is the required holistic perspective, where the system has to be regarded from different points of departure in order to be understood. The theoretical studies include services and change management. Through the services theories and the empirical studies at ABS Spain, we have developed B.O.M.B.A. – our suggested full scale rental concept for ABS. Through the change management theories, B.O.M.B.A., and the empirical studies at ABS Sweden and Poland, we have identified what needs to be done in the two organisations in order to implement a rental business. Finally we present the PST model, which is our suggested generic model for how a product oriented company could transform into service oriented.
- Conclusions:** Increasing the amount of services in product offerings has become a popular way of increasing profit in mature industries. However organisational changes often imply barriers. Step-by-step methods are effective ways of performing long lasting change. We have proposed the *Product to Service Transformation (PST) Model*,

which is a step-by-step method for transforming product oriented companies into service oriented companies. We stress the importance of *creating an ideal service concept* in order to identify all important parts associated with the service orientation and service organisation. We further believe the ideal concept strengthens the vision and shows the organisation a well thought-out idea, preferably built on a success story. Through this the organisation is better prepared to overcome the internal barriers towards the transformation. The concept should continuously be revised and developed in order to create new competitive advantage. We emphasise the importance of *controlled flexibility* in service organisations. The expression includes both the importance of personnel taking own initiatives within terms of reference, in order to meet customer demands, and the importance of cost control, in order to set the right prices of services and to know how flexible to be within tendering processes.

Key words: change management, controlled flexibility, concept development, dewatering consultancy, high involvement, rental, services, step-by-step methods

Preface

The past five months have been very exciting and eventful for us. We have exchanged our lecture room university studies for master thesis studies at ABS. During the semester we have had the opportunity to travel from Nordmaling, in the north of Sweden, to Madrid in Spain, with the purpose of understanding the rental business of dewatering pumps. We have learned much about dewatering and pump rental, we have met interesting persons, and we have learned that writing a master thesis is not like writing an exciting novel – the ending should not come as a surprise! We have also experienced long work hours, setbacks and prosperity, and the challenge of performing interviews with limited skills in Spanish. It is amazing how much that can be said by gesticulation, drawing, and the use of a few words.

We would like to thank the following persons: Our supervisors Bengt Hansson, Carl-Henric Nilsson, and Philip Schwarz for coaching and support. Our Spanish friends Jesús López Gago and Ángel Durango Alcalde for a rewarding visit at ABS Spain, for taking us to see Real Madrid, and for delicious Spanish meals. Johan Låftman for taking care of us and introducing us to ABS Sweden and for encouraging our work. Maciej Lewandowski and Andrzej Prusakiewicz for an interesting visit at ABS Poland and sightseeing in Warsaw. Finally we would like to thank everybody else we have met and spoken to during our master thesis project the past spring semester. We appreciate your hospitality and the many hours of interviews and discussion.

Lund, May 23rd 2005



Gustav Diebitsch



Sofia Wiedling Fernandes

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1 Introduction

In this chapter we intend to discuss the main fields and reasons for this master thesis. We further give a short introduction to the ABS organisation and to the organisation of its parent company Cardo Pump.

1.1 Background

“Everyone faces service competition. No one can escape from it.”

Grönroos (2000)

For over two decades the Western world has experienced a post-industrial service economy¹, in which it is hard for companies to differentiate their products. Unique ideas are likely to be copied by competitors immediately.² Developing services has become a more and more attractive way to meet the descending profits in mature industries³. Service-centred activities help manufacturing industries towards new innovative business strategies, which intend to add more value to customers⁴. Moreover the profitability of services is usually higher than the profitability of products⁵. Increased service orientation may be to integrate maintenance and after sales services into product sales⁶. As service competition has become reality in more and more industries, whether traditionally regarded as pure service- or manufacturing businesses, the core product is now only the starting point in developing competitive advantage⁷. Normann (2000) goes as far as saying that there is no pure industrial economy, since manufacturing companies of today need to offer services to some extent. The value creating logic of today is more related to the service economy than to industrial economy⁸, and Dahlström does not believe it is possible for a company to thrive without regarding service aspects as an important factor within customer value creation⁹.

Kjell Svensson, CEO and president for the Cardo Group, states in an interview with *Sydsvenskan* that Cardo aims at developing a concept based on the idea that the customer buys services together with Cardo's products. Moreover, he visions that the industrial door division within the Cardo group in the future offers free industrial doors and charges the customer each time the door is opened. Peter Aru, CEO of Cardo Pump, means Cardo Pump is capable of taking full responsibility of the wastewater treatment process in sewage treatment works. This service reduces the investment costs for municipalities since Cardo Pump owns the equipment.¹⁰ When a customer buys equipment the initial investment usually represents five to ten per cent

¹ Grönroos (2000) p 1

² Nordström & Ridderstråle (2000) p 30

³ Hara et al. (2004) pp 66

⁴ Tomiyama (2001) p 614

⁵ Anderson, Fornell & Rust (1997) pp 135

⁶ Tomiyama (2001) p 614

⁷ Grönroos (2000) p 10

⁸ Normann (2000) p 20

⁹ Dahlström (2002) p 120

¹⁰ *Sydsvenskan* (13/3/2005)

of the total life-cycle costs of the product¹¹. Life-cycle thinking is promoted by UNEP¹². The concept of product-service systems (PSS) encourages companies to sell services together with products, thus increase the utilization degree and decrease the environmental impact. PSS has received attention as a new business approach which favours the environment as well as the economy for companies.¹³

There are a number of definitions of a service. Ford et al. (2003) explain that when a customer buys equipment in order to perform some kind of work, the customer buys a product. When the customer pays a supplier to do the job, the customer buys a service.¹⁴ The service cannot be stored in contrast to physical products¹⁵. According to Grönroos (2000) a service consists of activities, or a series of activities, which to some extent are produced and consumed simultaneously. This implies the service receiver in some form participates in the production of the service.¹⁶ In this master thesis we regard services as a number of activities performed when doing a job for a customer. The value of the service is created through the coordination of external and internal resources¹⁷. A service offering is a bundle of intangibles and tangibles related to the service process. It consists of a *core service*, the reason for a company to be on the market, and *extras*, which differentiate the service offering and make it attractive. The service offering develops from a *service concept* determining the intentions of the organisation. This concept should consist of concrete guidelines for target markets and customer segments, explaining what the company offers, in what manner, and with what kinds of resources. Based on this concept a *basic service package* including the core service, facilitating- and supporting services, and also the augmented service offering is to be defined. *Facilitating services* facilitate the consumption of the core service, while *supporting services* increase the customer's perceived value of the service. The *augmented service offering* includes service organisation interaction, customer participation, and service accessibility.¹⁸

A service offering consists of the *service content*, which is the activity provided by the *service provider* to the *service receiver*¹⁹. Physical products are only seen as means of providing the service, so called *service channels*. The service channels aim at controlling and amplifying the service content²⁰. They further determine the quality of the service in condition of timeliness and convenience²¹. Grönroos (2000) maintains the direct interactions between the service provider and the service receiver in the service process are of substantial importance as they have a deep impact on how the receiver perceives the quality of the service. He calls these interactions *moments of truth*.²² Ford et al. (2003) claim that the quality of the offering is directly

¹¹ Lewandowski (17/3/2005)

¹² UNEP stands for: United Nations Environment Programme

¹³ UNEP (2002) p 3

¹⁴ Ford et al. (2003) p 68

¹⁵ Tomiyama (2001) p 615

¹⁶ Grönroos (2000) pp 46

¹⁷ Wikström, Lundkvist & Beckéus (1998) p 149

¹⁸ Grönroos (2000) pp 164

¹⁹ Tomiyama (2001) p 615

²⁰ Sakao et al. (2004) pp 68

²¹ Tomiyama (2001) pp 614

²² Grönroos (2000) pp 46

related to how well the service solves the customer's problem. They further point at the complexity of business relationships, as business customers attach great importance to the supplier's performance beyond price and superficial quality of the product or service. An offering to a business customer includes not only the product, but also a combination of service, advice, logistics, and adaptation to the customer.²³ Gummesson (2002) agrees as he emphasizes the importance of co-operation, commitment, and trust in business relationships. The service receivers are a company's sources of revenues and the company has to create value for them by focusing on long-term relationships and win-win situations.²⁴

Transforming a product oriented company into a service oriented company requires an extensive change and strategy renewal. Wissema (2001) argues that there are three reasons to why companies change. The first reason is when a company's functions, i.e. production, services, or logistics are not up to date. A *defensive change* is needed for the purpose of regaining balance between the company and its surrounding environment. After completing a defensive change the company may have caught up with the competition, however it has not gained any competitive advantage. The second reason is when a company strives for gaining competitive advantage through new technology, new ways of marketing or distribution, or through a better organisation. This is an *offensive change*. The third reason is when the company gets a new leader with a different management style and means to change the company.²⁵ Rohlin, Skärvad and Nilsson (1998) agree with Wissema (2001) by proposing that changes occur either because the leading actors are dissatisfied with the current state or because they believe things could get better²⁶. We regard the transformation of a product oriented company into a service oriented company as an offensive change, as it is an innovative way to search for competitive advantage. Gill (2003) means that a change is too often seen as a "quick fix". Poor planning and control, as well as a lack of resources and know-how, are the most common reasons to why change programmes fail²⁷.

1.2 Issues

"Competitive advantages do not weigh more than a butterfly's dreams"
Nordström & Ridderstråle (2000)

A great challenge for companies in mature industries is to further expand their market share and profits. Service development has become a more and more common way to handle this kind of competition²⁸. Services, instead of products, will certainly be the line of attack in differentiating a company's offerings to customers in the future. Considering this, Normann (2000) means that the differences between manufacturing- and service companies are hard to define²⁹. Manufacturing business within the construction industry is a good example of a mature industry with descending profits.

²³ Ford et al. (2003) pp 63

²⁴ Gummesson (2002) pp 29

²⁵ Wissema (2001) p 332

²⁶ Rohlin, Skärvad & Nilsson (1998) p 158

²⁷ Gill (2003) p 308

²⁸ Hara et al. (2004) pp 66

²⁹ Normann (2000) p 19

We believe the potential for a traditional manufacturing company within this industry to provide increased service could be immense. Construction companies use dewatering pumps, henceforth in this master thesis referred to as pumps, to a large extent within construction projects. Dewatering Business Segment Manager Philip Schwarz assumes it is an advantage for construction companies to rent pumps instead of keeping them in-house, due to the facts that a wide assortment of pumps is needed in construction projects and that each pump usually is used for only a short period of time³⁰. Further, pumps require frequent repair due to the rough environments in which they commonly operate. Pump repair is time consuming and expensive for construction companies to handle.³¹ Through developing a good concept for pump rental, a pump manufacturer can achieve to stay competitive in a world focused on services.

ABS, a subsidiary of Cardo Pump, operates as a pump manufacturer and offers pump sales, services, and to some extent even rental services. To gain competitive advantage and increase its market share ABS has to adjust its strategy to fit the current tough and changing environment. Schwarz's attention has been drawn to the potential of rental business by the high turnover from the business at ABS Spain. Would it be possible to develop and implement a pump rental concept at the different ABS companies across Europe? The present development level of ABS' rental business in the various European countries is different. At ABS Poland pump rental is new and just about to develop. At ABS Sweden pump rental exists, but the frequency of rented pumps is low and the management of the rental business is poor. To simplify and improve the rental business a complete IT-system, developed and used by ABS Spain, is to be implemented at other ABS companies.³² However, implementing the IT-system is not enough to change ABS' position on the market. Work routines and services are examples of processes that need to be mapped out in order to understand the key success factors of the ABS Spain's rental concept. Further, attention should be paid to the challenges with implementing a common concept across borders in order to consider the critical aspects during the implementation.

People are commonly averse to changes. The main reasons for this are insecurity and insufficient knowledge about what the change will involve, as well as a lack of belief that the change is needed.³³ Transforming ABS from product oriented to service oriented will most likely involve some averseness to change, insecurity, and lack of understanding why the change is needed. Gill (2003) means that a change is too often seen as a "quick fix". Poor planning and control, as well as a lack of resources and know-how, are the most common reasons to why change programmes fail.³⁴ To prevent this it is necessary to perform the change process according to a plan which treats averseness to change from different dimensions.

³⁰ Schwarz (22/11/2004)

³¹ Svensson (18/10/2004)

³² Schwarz (22/11/2004)

³³ Kubr (1996) found in Gill (2003) p 308

³⁴ Gill (2003) p 308

In this master thesis we will investigate the following research questions:

- What factors are important to consider when transforming a company strategy from being product oriented to being service oriented? How could such a transformation be carried out?
- How is the rental business at ABS Spain managed? Why is the Spanish rental business successful?
- Why are the ABS organisations in Sweden and Poland driven to change? How could the barriers to change be overcome?

1.3 Purpose

The main purpose of this master thesis is to identify the issues concerning the transformation process of a product oriented company into a service oriented company, and how these issues can be overcome. We will exemplify this by developing a dewatering pump rental concept for ABS, and identify the drivers and barriers for ABS when implementing the service oriented rental concept in Sweden and Poland.

1.4 Focus and Delimitations

This master thesis concerns rental business of dewatering pumps at ABS. The focus of the theoretical study lies within the theories of services and change management. The focus of the empirical study lies within the fields of sales and marketing, services, organisation, and future expectations for the rental business of dewatering pumps at ABS Spain, Sweden, and Poland. Other fields will be explored, however only with the purpose of increasing the readers' comprehension of the situation. The focus of the analysis will be on developing a rental concept for ABS, discussing how, and to what extent, this could be implemented in Sweden and Poland. We further suggest a model for handling change in organisations moving from product- to service oriented.

1.5 Target Audience

The target audience of this master thesis is primarily the managers of the dewatering business segment within Cardo Pump. The master thesis is intended to be an external evaluation of the rental prospects for ABS and a suggestion of how the rental concept could be framed. Secondly the target group is employees working with rental of dewatering pumps at ABS. The third target group is university employees and students interested in services, transformation processes, or rental business within the construction industry.

1.6 Reader's Guide

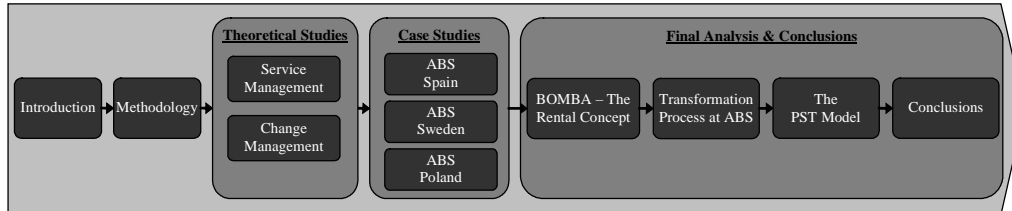


Figure 1.1. The figure shows the outline of the master thesis.

- Chapter 1 Introduction**
 In this chapter we introduce the reader to the master thesis. We discuss the main fields and reasons for this master thesis. We further give a short introduction to the ABS organisation and to the organisation of its parent company Cardo Pump.
- Chapter 2 Methodology**
 In this chapter we describe the methodological approach of this master thesis and the working method for the performed the study.
- Chapter 3 Services**
 This chapter concerns services. In the theories of services we include service strategies, service engineering, the service organisation, and drivers and barriers for service orientation. The aim of the chapter is to give the reader a good picture of how companies can compete with services and how a service oriented organisation could be managed.
- Chapter 4 Change Management**
 This chapter concerns change management and strategies for change. We focus on step-by-step methods, which are powerful when performing offensive changes. We discuss the advantages and disadvantages with these methods and, influenced by a few accepted step-by-step methods for effective change, we highlight the important steps to take during a change process.
- Chapter 5 ABS Spain**
 This chapter describes the dewatering pump rental business at ABS Spain. The chapter is based on an empirical study performed in Madrid, Valencia, and Zaragoza.
- Chapter 6 ABS Sweden**
 This chapter describes the dewatering pump rental business at ABS Sweden and is based on empirical studies in Stockholm, Gothenburg, and Nordmaling.

- Chapter 7** **ABS Poland**
This chapter describes the dewatering pump rental business at ABS Poland and is based on an empirical study at ABS' sales office in Warsaw.
- Chapter 8** **B.O.M.B.A. – The ABS Rental Concept**
This chapter presents B.O.M.B.A., the full scale rental concept which we have developed for ABS. The development of B.O.M.B.A. is based on the theories of services and our empirical study at ABS Spain.
- Chapter 9** **The Transformation Processes**
In this chapter we present our analysis of ABS Sweden and ABS Poland. We discuss the drivers and barriers for these organisations regarding the development of the rental businesses. Moreover we present our suggestions of how to perform the change processes at the two national organisations. The discussions are based on B.O.M.B.A., the theories of change management, and the empirical studies at ABS Sweden and Poland respectively.
- Chapter 10** **The PST Model**
We present the PST model in this chapter. The PST model is a generic step-by-step method for transforming product oriented companies into service oriented. The model consists of three phases and seven steps and is based on B.O.M.B.A. and the change management theories.
- Chapter 11** **Conclusions**
Finally we sum up our conclusions of the master thesis. Moreover we discuss recommendations to ABS and suggest further researches. We also question our own method and how we have reached these conclusions.

1.7 Company Description of Cardo Pump

The Cardo Group is a leading international engineering company supplying products and systems together with aftermarket services. The headquarter is located in Malmö, Sweden, but 90 per cent of the sales relates to customers outside Sweden. Cardo has subsidiaries in about 30 countries, mainly in Western Europe. The Cardo Group consists of two business areas: Cardo Door and Cardo Pump. Cardo Door is one of the world's largest manufacturers of industrial doors, and moreover one of Europe's largest manufacturer of garage doors. Further Cardo Door is the leading supplier of dock loading equipment in Europe.³⁵ Cardo Pump is a leading actor³⁶ on the European market in developing, manufacturing, and selling applications; pumps, aerators, compressors, and control and monitoring systems, for water and wastewater, industry, and building services. In addition Cardo Pump is the global leader

³⁵ Cardo (4/4/2005)

³⁶ Cardo Pump had a turnover of 2.9 billion in 2003

producing measuring equipment for the pulp and paper industry.³⁷ Water and wastewater is the main field within Cardo Pump and it stands for 70 per cent of the group's total turnover. Cardo Pump is represented in 100 countries world wide, with approximately 40 subsidiaries and 2 200 employees. Although Europe is the biggest market, with 70 per cent of the business, the company is also represented in North and Latin America, Asia, the Middle East, and in smaller scale in the rest of the world. The production plants are located in Sweden, Germany, Ireland, and Finland, but in-house sales organisations are present in about twenty European countries, North America, and Asia. In other countries Cardo Pump is represented through distributors or agents. In addition Cardo Pump has a large number of authorised workshops around the world. The company possesses two separate pump brands within the dewatering pump sector: ABS and Pumpex, which together have a market share of approximately five per cent in the world³⁸. While the Pumpex product line is directed to distributors and international key accounts, the ABS product line is marketed by the ABS organisation to end-customers, aiming to offer know-how, accessibility, and service.³⁹

1.8 Description of the Dewatering Segment within ABS

ABS⁴⁰ was founded in 1959 in Scheiderhöhe, Germany. In 1989 the company was acquired by Cardo Pump and ABS is now one of Cardo Pump's main brands. In this master thesis ABS Bombas is referred to as ABS Spain, ABS Pumpex referred to as ABS Sweden, and ABS Pompy referred to as ABS Poland. ABS mainly operates within water and wastewater, but also within dewatering.⁴¹ Its business concept within the dewatering segment is to provide the construction sector with the most cost-effective solution, including rental service, with regard to the whole life of the product. ABS describes rental service as: "flexibility [...] appreciated in many cases where an immediate problem must be solved".⁴² ABS has two brands within the dewatering pump segment, namely ABS and Pumpex. The company's new strategy is to use the ABS pumps for rental and the Pumpex pumps for sales.⁴³ ABS' international organisation has sales and service companies, representatives, agents, and distributors in more than 100 countries around the world. It offers all kinds of pumps and lifting stations for private, industrial and commercial buildings, and has a service program including everything from on site repair to full service maintenance.⁴⁴

³⁷ Cardo AB Annual Report (2004)

³⁸ Schwarz (22/11/2005)

³⁹ Cardo Pump (2/3/2005)

⁴⁰ ABS stands for Albert Blohm Scheiderhöhe

⁴¹ Schwarz (22/11/2005)

⁴² ABS Pumps (8/3/2005)

⁴³ Schwarz (22/11/2005)

⁴⁴ ABS Pumps (8/3/2005)

2 Methodology Discussion

We begin this chapter by describing the methodological approach of this master thesis. We consider it important for the reader to be aware of our approach in order to understand and follow our discussions. Further we explain the working method for our theoretical and empirical studies. We believe it is of interest to the reader to be familiar with our practical procedures as they influence our conclusions of this master thesis.

2.1 Methodological Approach

We believe in a complex reality, where the different parts affect each other either positively or negatively. Our view is in accordance to the systems perspective, which presumes the totality does not equal the sum of the parts. The systems perspective explains the parts from the qualities of the whole, which means the developed knowledge is depending on the system.⁴⁵ It is further a holistic perspective, which means a system has to be regarded from different points of departure in order to be understood⁴⁶. The term system has many meanings⁴⁷. As both Arbnor and Bjerke (1994) and Lundahl and Skärvad (1992) we regard a system as a number of components and their internal relations⁴⁸. To understand the whole, when interpreting qualitative data, the systems view is helpful⁴⁹. With the systems perspective we aim at finding a connection between the indicators leading to the effect of successful rental business. One indicator may not solely cause a certain effect, but every indicator is one of several possible in order to reach that effect. Further one indicator can lead to several alternative effects.⁵⁰ We will do our research in open systems, since we regard the ABS system in its context with regard to its customers and competitors⁵¹. The systems in the three countries of research differ from each other, why our final suggestions for the different systems will be different for each country.

There are two distinct approaches to qualitative research; induction and deduction. Induction is when several occurrences give rise to a general principle and an inductive study is based on empirical studies from which a common reality arises. Deduction is based on a theory, or hypothesis, which is or is not proved through the study.⁵² This master thesis has a theoretical foundation. However it is based on case studies of ABS in Spain, Sweden, and Poland in order to find the key success factors of pump rental business and also to find the impending challenges with implementing a generic rental concept. Thus the approach in this master thesis is abductive. Abduction is a common approach in case studies. It is a combination of induction and deduction, where the empirical area of study is developed and the theoretical foundation is adjusted and refined throughout the study. However abduction is distinguished from

⁴⁵ Arbnor & Bjerke (1994) pp 66

⁴⁶ Lundahl & Skärvad (1992) p 149

⁴⁷ Quinn Patton (1990) p 78

⁴⁸ Arbnor & Bjerke (1994) pp 127, Lundahl & Skärvad (1992) p 149

⁴⁹ Quinn Patton (1990) p 79

⁵⁰ Arbnor & Bjerke (1994) p 167

⁵¹ Ibid p 128

⁵² Andersen (1998) p 30

induction and deduction, which are shallow, explaining approaches, by the means that abduction includes understanding.⁵³

2.2 Theoretical Study

The theoretical study of this master thesis builds on secondary data; data collected by others than the researchers⁵⁴, and results in a theoretical framework which is the ground for the empirical study. The literature references for the theoretical study include literature searched for in the Lund University Library's search engines ELIN and Lovisa, as well as course literature from the Technology Management programme. We have further found relevant articles from the reference lists of other articles and master theses. At many times the assimilation of some literature has led our interest into other or similar theories, which then have been included in the theoretical framework or inspired the suggested topics for further research.

The theoretical framework is primarily based on the theories of services and change management. Our aim is that the theoretical framework should give a broad perspective on the existing theories within the chosen fields. The service theories are considered important in developing and managing a service focused rental concept. Change management is an explored field and many researchers have suggested methods for successful change. The theories concerning change management are a foundation when evaluating the challenges of transforming a product oriented company into a service oriented company, including implementing a new rental concept at ABS.

2.3 Empirical Study

The empirical study of this master thesis started in November 2004 with a meeting at ABS Sweden. Thanks to this early introduction of the ABS organisation we have had much time to think about the purpose of this master thesis and the execution of the empirical study. The empirical study of this thesis is qualitative and based on primary data; data gathered by the researchers⁵⁵. In order to meet our purpose of identifying challenges and opportunities for ABS when implementing a service oriented rental concept, we have studied ABS organisations in three different countries, at different development levels of pump rental business. Through various kinds of data gathering, such as interviews and observations, the qualitative study has given a deeper understanding of the factors that influence the markets of Spain, Sweden, and Poland⁵⁶. With focus on the fields of market, sales and marketing, services, and future expectations, the aim of the empirical study is to understand the complex situation of the rental business, its success factors, and the different business conditions in the three countries.

2.3.1 Case Studies

In order to get a deep insight in the pump rental businesses in Spain, Sweden, and Poland, this master thesis is based on case studies at ABS organisations in these countries. Case studies are defined as a research strategy within single settings,

⁵³ Alvesson & Sköldbberg (1994) pp 41

⁵⁴ Andersen (1998) p 150

⁵⁵ Ibid p 150

⁵⁶ Ibid p 31

focusing on understanding the dynamics by combining different methods of data collection. According to Eisenhardt (1989) the output of case study research is increased due to the fact that the researchers have different roles and therefore will perceive things differently.⁵⁷ The fact that we have different backgrounds, within business administration and mechanical engineering, may have broadened the output of our findings.

Case studies are good ways of describing and understanding what happens within organisations. However they involve many variables to be taken into consideration,⁵⁸ which we have experienced on our intense and very rewarding visits at the ABS offices. To be able to handle and consider all information received, we have limited the number of studied objects to three. ABS Spain was chosen as a study object due to its experience in working with pump rental business. We believe it is important to study a successful rental organisation in order to learn about success factors and also to learn from its previously made mistakes. ABS Poland was chosen as an object of study as it is in the very beginning of developing rental business and operates on a highly potential market for rental since the entrance in the European Union. Through the empirical study in Poland we get an insight in the challenges the company faces due to the transformation, but also the opportunities the company sees with rental services. ABS Sweden is somewhere in between Spain and Poland. It has rental services, but these are not prioritised, nor effectively managed. By studying Sweden we can learn about ideas, attitudes, and challenges in an organisation in the middle of a transformation process. It has been important to experience the differences between the three countries in order to understand the possible challenges when implementing a service oriented rental concept. We believe it would have been impossible for us to get as deep into the rental business as we have done if we had not had the opportunity to visit the rental offices in the different countries. On our research trips we have interviewed several key persons involved in the rental pump business, made observations in the offices, workshops and warehouses, and observed pumps in use at construction sites. To broaden our knowledge further we have participated in the rental IT-system training sessions for the rental personnel at ABS Sweden in Stockholm. Understanding the IT-system has facilitated our understanding of the rental business at ABS Spain.

2.3.2 Interviews

As we have performed our empirical studies in Spain, Sweden, and Poland, the main part of our interviews have been arranged by our project sponsors at the different ABS offices. We have identified which groups of stakeholders we needed to interview; rental salesmen, service engineers, administrators, and customers in order to understand the rental market, the rental processes, and the rental prospects for the future. Our project sponsors have set up interviews with relevant persons within these stakeholder groups. This kind of selection process is referred to as cluster selection⁵⁹. Since the rental organisation is larger at ABS Spain than in Sweden and Poland, it has been relevant to interview a larger number of individuals within the Spanish organisation. In Sweden and Poland we have identified and interviewed relevant

⁵⁷ Eisenhardt (1989) p 534

⁵⁸ Andersen (1998) pp 128

⁵⁹ Ibid p 124

people for the rental business. Performing many of our interviews in foreign countries have been challenging, as many of our interviewees spoke no or limited English. We used interpreters for several interviews, as well as we tried to perform the interviews with the interviewees limited English- and our limited Spanish skills. In order to assure that we did comprehend the interviewees' responses correctly, we have let the managers, with knowledge within the certain fields, read through and comment our findings.

Our interviews have been based on questions of "how" and "why", as done in case studies in order to understand the reasons behind actions and processes⁶⁰. Our aim was to find how the rental organisations worked and why they worked the way they did. The interviews have further been semi-structured, as we had some theoretical and empirical knowledge about the current field before the interviews and based the interviews on a question guide to enlighten certain aspects within the field. After the introduction at ABS Sweden during the autumn- and early spring semester we concentrated our study on the theoretical part of this master thesis. By doing this we built a solid ground and a useful theoretical framework for the interviews. The interview questions in semi-structured interviews may lead the respondent into certain directions and affect the respondent's description of reality, which makes our interview findings stimuli data. We are also aware of the fact that every human being makes its own subjective interpretations of the context⁶¹.

The interviews have been informant interviews, as the studied phenomenon already has taken place and it has not been possible for us to observe the phenomenon. Instead the interviewees, the informants, have shared their primary information about the phenomenon with us.⁶² During the interviews we have taken support notes which we, in close relation to the interview occasions, have edited in order to render the interviews correctly. Since tape recording at interviews make the interview atmosphere formal, which may lead to the respondent feeling uncomfortable and inhibited⁶³, and since we have not found it necessary the interviews were not recorded.

2.3.3 Observations

Observations are studies of phenomena in their natural environment. We have made observations at construction sites, at the service workshops, observing the overhaul and service of pumps in-between two rental contracts, and at the ABS offices. These observations were open, which implies that the observed persons knew they were being observed. Further no stimuli were given to the persons observed, which made the gathered data non-stimuli data. Through these observations we have got a deeper understanding of the corporate culture at the different ABS organisations and increased our understanding about pumps and their applications. We have also performed observations at the *Byggmaskiner* and *Scanbygg* industry fairs in Gothenburg. During the observations of pump manufacturers and pump rental companies we asked the exhibitors questions, in order to get a feeling of the attitudes

⁶⁰ Yin (2003) pp 7

⁶¹ Arbnor & Bjerke (1994) p 147

⁶² Andersen (1998) pp 150

⁶³ Lundahl & Skärvad (1999) p 120

towards different aspects of pump rental. Thus this data collected was stimuli data.⁶⁴ The data gathered from the observations has increased our ability to suggest an ABS rental concept which we believe in.

2.4 Validity and Reliability

To assure a high level of validity⁶⁵ of this master thesis we have based our interviews on the theories of services and change management. We have had discussions with our three supervisors, and with managers at ABS, regarding the problem of this master thesis and how the empirical study should be carried out in order to be relevant to the problem. To assure a high level of reliability⁶⁶ of the master thesis we have gathered empirical data from persons at different levels within the Cardo Pump and ABS organisations, as well as from customers. As many of our interviewees had limited English-skills we have assured the accuracy of our interpretations by letting our project sponsors confirm our findings. The information obtained from the interviews with direct stakeholders will be carefully revised and evaluated, as this information is sensitive⁶⁷.

2.5 Analysis of Theoretical and Empirical Studies

The theoretical- and empirical data have been analysed in a multivariate analysis, which means the correlation between several variables from our studies have been analysed⁶⁸. The analysis will be presented in three chapters, one suggesting a pump rental concept for ABS, one presenting how far we propose Sweden and Poland should go with the rental concept and how the concept should be implemented, and a final chapter proposing a general model for how to implement service oriented strategies in product oriented companies.

⁶⁴ Andersen (1998) pp 150

⁶⁵ Validity means valid and relevance

⁶⁶ Reliability measures to what extent the results from a method is affected by coincidences or how exact we measure what we expect to measure

⁶⁷ Lundahl (1999) p 118

⁶⁸ Andersen (1998) p 189

3 Services

This chapter is about service management and current service strategies. We have also chosen to include the theory of service engineering in this chapter. Service engineering aims at intensifying the service content to products by proposing development models for new services. It is important for a company changing its strategy to become more service focused to be aware of how to improve and develop its service offering. We further present common drivers for companies to become service oriented and also barriers to the change. The mentioned theories and service aspects of this chapter are considered an important foundation to the empirical part of this master thesis.

3.1 Service Strategies

The strategy guru Michael Porter (1990) asserts a company can compete either with price, making cost awareness in the organisation extremely important, or with product differentiation, i.e. design, image, quality, or service⁶⁹. Grönroos (2000) distinguishes instead between four major strategic perspectives; the price-, core product-, image-, and service perspectives. The *price perspective*, similar to Porters price strategy, considers low price a criteria for surviving on the market and the main provider of value for the customer. The following three perspectives could be compared with Porters differentiation strategy. The *core product perspective* regards the core product as the main provider of value for the customer. From this perspective additional services are perceived necessary, however not strategically important. To achieve success the company should focus on the development of the core product. The *image perspective* perceives the brand image, created by marketing, as the main contribution to the customer's value creating process. The company should work to differentiate its offering by imaginary extras around the core product. Finally, the *service perspective* sees additional services, including product- and service components, information, and personal attention, as adding value to the customer's process.⁷⁰

The *product service system* (PSS) concept is mainly used in the context of a sustainable environment. The purpose is to increase the utilisation of products to create a cleaner environment. Although the purpose of this master thesis does not include environmental issues, PSS is a highly relevant and helpful business strategy for a company moving towards a higher service degree and a new way of interacting with customers. UNEP⁷¹ defines PSS, as: "The results of an innovation strategy, shifting the business focus from designing and selling physical products only, to selling a system of products and services which are jointly capable of fulfilling specific client demands." The purpose of PSS is to increase the degree of services in product offerings with the intention of creating a cleaner environment. Together with marketing efforts a shift towards PSS may open new markets for a company, as is shown in figure 3.1.⁷²

⁶⁹ Porter (1990) p 39

⁷⁰ Grönroos (2000) p 5

⁷¹ UNEP stands for the United Nations Environment Programme

⁷² UNEP (2002) pp 4

Customers of today are well informed and demand for more than a mere technical solution. They want more value, i.e. increased comfort, fewer problems, lower additional costs, and less trouble caused by the use of goods and services. Further the global competition is severe, forcing companies to improve their offerings to stay competitive. Improved offerings by one actor trigger other companies to improve, which in turn enhance customer demands.⁷³ This has forced companies to compete with immaterial values, like service agreements, image, intelligence, and people. The value lies in brands, relationships, and concepts and not in physical products.⁷⁴

Traditional product sale	Innovative alternatives: PSS	
Consumer buys a washing machine to clean cloths in house/hotel.	Consumer rents a washing machine to clean cloths in house/hotel.	Client buys a service from a company (laundry) to clean cloths (Company determines best equipment and methods based on client's need).
Client owns, uses and stores a washing machine. Consumer is responsible for maintenance and the 'quality' of the cleaning.	Company retains ownership of washing machine and is responsible for maintenance. Client is responsible for use and 'quality' of cleaning.	Company owns, maintains and stores the cleaning equipment including washing machine. Company is responsible for 'quality' of the cleaning.
Initial investment for consumer could be considerable.	Consumer costs are spread over a time (they pay a low initial deposit and then pay per wash).	Consumer costs are spread over a time (they pay per wash).
Consumer ultimately disposes of washing machine and buys replacement.	Company is responsible for disposal and has incentives to prolong use of product, reuse component and recycle materials.	Company is responsible for disposal and has incentives to prolong use of product, reuse component and recycle materials.

Figure 3.1. The table shows the characteristics of PSS compared to traditional product sale⁷⁵. The traditional product sale could be compared to Grönroos' (2000) core product perspective.

3.2 Service Engineering

“Often a new service fails because the firm’s personnel have not been properly trained to sell and deliver the service”
Scheuning & Johnson (1989)

As mere cost-, technology-, or quality leadership no longer is enough in the hard competition, innovative services are of growing importance. It is challenging for a company to develop new or improved services faster than its competitors, and simultaneously meet the customers’ high expectations. Further, many companies lack suitable structures and processes for effective development and continuous improvement of services.⁷⁶ The theory of *service engineering* aims at intensifying the service content to products, so called *servicification*, by looking at development,

⁷³ Grönroos (2000) pp 10

⁷⁴ Nordström & Ridderstråle (2000) p 30

⁷⁵ UNEP (2002) p 4

⁷⁶ Bullinger, Fähnrich & Meiren (2003) pp 275

design, and production of services in order to improve their efficiency, quality, and delivery. To achieve servicification the company needs an innovatively new business strategy, i.e. incorporation of maintenance contracts to products, all-in-one solutions, or replacing sales of products with rental offerings.⁷⁷ Bullinger, Fähnrich and Meiren (2003) describe service engineering as “a technical discipline concerned with the systematic development and design of services using suitable models, methods and tools”. It is explained as a technical method of exploiting existing traditional engineering know-how of product development, to expand the service content of the offering for customers.⁷⁸ Froehle, Roth and Voss (2000) have found that firms with formalised service development processes enhance the chances of taking a first mover advantage on the market⁷⁹. Service engineering concerns the two fields of developing new service products and service operations management, where development of new services is the main focus⁸⁰.

Bullinger, Fähnrich and Meiren (2003) consider structures, processes, and outcomes important to be taken into consideration during service development. They mean these three dimensions should result in resource-, process-, and product models. The *structure dimension* determines the capability and readiness of the company to deliver a specific service. It is represented by the *resource models*, which focus on planning the resources necessary to perform the service, i.e. human resources, deployment of operating resources, and design of supporting materials. The *process dimension* concerns the external factors included in the service process, and are represented by the *process models*, which describe how to achieve the desired outcomes of the service. By documenting the different processes the aim is to eliminate activities that do not add value and to remove unneeded interfaces. The *outcome dimension* concerns the impact of the outputs on external factors, and can be represented by the *product models*, mapping what the service does. In case of complex services Bullinger, Fähnrich and Meiren (2003) advice to split the service into partial services, thus modularise the service, so the offered service package easily can be adjusted to specific customer demands. Many of the service development models presented in the literature are so called *waterfall models*. A waterfall model represents a number of discrete steps where each step needs to be finalised before moving on to the next.⁸¹ Scheuing and Johnson’s model (1989) is based on a product development model from Booz Allen & Hamilton, which is a seven steps waterfall model. The model proposed by Scheuing and Johnson (1989) is divided into 15 steps grouped into the four stages *direction, design, testing, and introduction*.⁸² The *arrow model* was built from case studies and consists of the *idea-, project creation-, development-, and implementation phases*. Larsson, Nyström and Pålsson (2004) suggest two reasons why this model does not work properly. First the companies, which the study was based on, have not been leading service companies in their industry, and second the project teams in the case studies worked on an ad hoc basis, which contradicts the intention of the process.

⁷⁷ Tomiyama (2001) pp 613

⁷⁸ Bullinger, Fähnrich & Meiren (2003) pp 275

⁷⁹ Froehle, Roth & Voss (2000) p 13

⁸⁰ Bullinger, Fähnrich & Meiren (2003) p 276

⁸¹ Ibid pp 277

⁸² Scheuing & Johnson (1989) pp 26

Larsson, Nyström and Pålsson (2004) are of the opinion that a process development with strict single steps facilitates to plan, control, and manage the process.⁸³

Management of human resources is important in developing services, as the outcome of the process is correlated to the competence of the persons involved⁸⁴. Moreover, specialised teams seem to benefit the process for service development⁸⁵. This makes recruitment, incentive systems and employee development important.⁸⁶ There are organisational alternatives for service development depending on the development task being permanent or temporary. For service development as a permanent task a separate organisational unit to develop services may be a way of ensuring service development in the organisation. However this alternative concerns a great amount of effort and work. An alternative is to let an existing organisational unit handle service development as an additional task. This supports the conservation of development-specific know-how in one unit. If the service development is of more temporary nature service development may take place in specific project teams, where employees are put on to the development team on a case-to-case basis. The drawback is that knowledge developed along the way of the development process will not be kept within the group. A final alternative is to outsource the development of services, a good alternative if the company does not have any experience in developing services.⁸⁷

3.3 The Service Organisation

“We’ve got some nice desserts to follow your main course”

Lovelock (2000)

A service organisation should not be bureaucratic or hierarchical⁸⁸, but include *boundary-spanning positions* in which the employees act efficiently and are attentive to customers. Nordström and Ridderstråle (2000) maintain that the people in the organisation are the factors making the service solution unique⁸⁹. The employees should be proactive, have authority to take extra actions when needed, and be prepared to meet customers’ request of assistance with short notice and past office hours.⁹⁰ Grönroos (2000) emphasizes the importance that all employees, the service providers with direct customer interaction as well as the employees within supporting functions, understand and accept their responsibility for the customers⁹¹. Moreover Lovelock (2000) accentuates that interpersonal skills, selling capabilities, and skills in co-production⁹² are important characteristics of boundary-spanning personnel as employee attitude strongly correlates to customer satisfaction⁹³. Gummesson (2002)

⁸³ Larsson, Nyström & Pålsson (2004) pp 48

⁸⁴ Specht & Beckman (1996) found in Bullinger, Fähnrich & Meiren (2003) p 284

⁸⁵ Froehle, Roth & Voss (2000) p 13

⁸⁶ Specht & Beckman (1996) found in Bullinger, Fähnrich & Meiren (2003) p 284

⁸⁷ Bullinger, Fähnrich & Meiren (2003) p 284

⁸⁸ Grönroos (2000) pp 304

⁸⁹ Nordström & Ridderstråle (2000) p 30

⁹⁰ Lovelock (2000) pp 455

⁹¹ Grönroos (2000) pp 304

⁹² Co-production means working together with customers

⁹³ Lovelock (2000) pp 457

considers satisfied and loyal customers to be very good marketers of a company's services⁹⁴. Lovelock (2000) has found it common that managers simply state that their companies compete with service, without defining what the differentiating and attractive characteristics of the service offering are. He means to develop an attractive service offering the company needs a positioning strategy, based on the customers' perception of the company, target markets, characteristics of the service offerings, and differentiation from the competitors.⁹⁵ Trout (1997) states four principles regarding strategic market positioning:⁹⁶

1. A company must position itself to its targeted customers.
2. This position should be clear, providing one single and consistent message.
3. The position should further differentiate the company from its competitors.
4. A company can not do everything for everyone – it must focus its efforts.

The developed service offering is always first evaluated by the company's own personnel. In order for them to be good part-time marketers of the service offer they must believe in the service concept. For the purpose of gaining the employees awareness and acceptance of new services and processes, Grönroos (2000) implies internal marketing should be an integral part of strategic management. As negative attitudes usually are based on lack of understanding, employee training makes an important part of internal marketing. Internal- and external training build "*service knowledge*", including a holistic view of the service strategy, favourable attitudes, and enhanced communications-, sales-, and service skills within the organisation. Grönroos (2000) also points at the importance of management support. This can be practised through active encouragement of the employees' everyday work, employee involvement in planning and decision-making, and two-way communication in the organisation.⁹⁷ Lovelock (2000) discusses three levels of employee involvement; suggestion involvement, job involvement, and high involvement. *Suggestion involvement* includes formalised processes for employees to come up with new ideas for improvements. *Job involvement* means increasing the employees range of tasks. *High involvement* is about enabling two-way communication in the entire organisation.⁹⁸

3.4 Drivers and Barriers for Service Orientation

Hopes, expectations and opportunities drive companies towards new ways of approaching the market through more service oriented offerings. However barriers of different kinds may make the transformation process of a product oriented company to a service oriented company more difficult. To handle and overcome the barriers it is important to be aware of them. It is also important to pay attention to the drivers, as they have the possibility to encourage the company to continue in the set direction of transformation.⁹⁹

⁹⁴ Gummesson (2002) p 32

⁹⁵ Lovelock (2000) pp 195

⁹⁶ Trout (1997) found in Lovelock (2000) p 200

⁹⁷ Grönroos (2000) pp 304

⁹⁸ Lovelock (2000) p 474

⁹⁹ Mont (2002b) p 92

Drivers

Miller (1998) indicates that convincing drivers are needed to perform cultural change in organisations. He points at self-interest as a main driver for people and thus means all members of the organisation need to believe that the change is important for the company's success and for the employees' well-being.¹⁰⁰ One of the most important drivers for companies in mature industries to become service oriented is the opportunity to expand on the market through customised offers and closer customer relationships. Service oriented offerings are often more appropriate than mass production in order to satisfy the market demands of today. Consumers benefit from service orientation as it implies more diversity on the market. Cost is no longer the main driver for customers, but instead flexibility, mass-customisation, quality, and added value.¹⁰¹ To meet the customer demands of extensive service and low risks, companies can offer leasing agreements, thus reducing the product responsibility for the customer. Further the customer will gain advantages like professional advice in product operation and economies of scale in product servicing.¹⁰² Mont (2002a) further points at the opportunity of improved competitiveness by better environmental performance. Service oriented offerings add non-physical value to products, which is an opportunity as environmental limits change the patterns of production and consumption. Environmental awareness is important in order to build a sustainable society.¹⁰³

Barriers

Corporate culture tends to have a big impact on how an organisation receives new ideas¹⁰⁴, and organisational resistance to change is a key barrier when a product oriented company transforms into a service oriented¹⁰⁵. Miller (1998) mentions diversity and inclusion as key words within organisational culture. Diversity exists within every group of people, whereas inclusion includes which persons allowed to really contribute to the group. In many organisations barriers exist towards letting everyone fully contribute their skills and ideas, and instead differences are being suppressed. Not until differences are looked upon as value adding resources the organisation is truly inclusive.¹⁰⁶

Offering more than just the core product forces the providing company to obtain a deeper understanding of the customers' business and processes, which inquires higher skilled personnel and closer cooperation with customers.¹⁰⁷ To offer a full product service system some companies degrade their core-competencies by spreading their know-how over a too wide range of activities. This will impact the total offer to the customers negatively. Instead of a single company offering everything, a solution may be partnerships between companies who together provide a solid solution to the market.¹⁰⁸ Many customers request the opportunities to buy the product as well as to

¹⁰⁰ Miller (1998) pp 151

¹⁰¹ Mont (2002a) p 240

¹⁰² White, Stoughton & Feng (1999) p 12

¹⁰³ Mont (2002a) p 240

¹⁰⁴ Mont (2002b) pp 93

¹⁰⁵ Stoughton et al. (1998) found in Mont (2002b) p 95

¹⁰⁶ Miller (1998) pp 151

¹⁰⁷ White, Stoughton & Feng (1999) p 29

¹⁰⁸ Stoughton et al. (1998) found in Mont (2002b) p 95

rent it¹⁰⁹. However, Mont (2002b) means there seems to be a common agreement that the service-oriented offers must add a significantly higher value to the customer than the product itself, if the customers shall accept the service offering¹¹⁰.

White, Stoughton and Feng (1999) have found that an internal conflict may arise between the functions of traditional product sales and service systems¹¹¹. Mont (2002b) means conflicts of interest between different actors along the value chain are common external barriers. Trust building, customer acceptance of service oriented offers, and customer lack of knowledge about cost structure are examples of such conflicts.¹¹² When a service provider delivers a service there could be an opposition from the customer's personnel who might feel the service personnel are taking over their job¹¹³. This strengthens the marketing theory that stresses the importance of building a good customer relation with the right people at an early stage, which in this case is the actual user of the product. To further solve this problem an approach could be to share the profits amongst the actors in the value chain that participates in the provision of the service.¹¹⁴

It is fairly common that customers lack knowledge about life cycle costs of product ownership. Price setting is an important part of the service centred solutions, as costs often are barriers in labour intensive activities due to the commonly high cost of labour. Mont (2002b) states that a number of Swedish companies have problems with their customers' lack of care for the products they rent.¹¹⁵ A solution to this kind of problem could be to develop economic incentives for customers to treat the products more carefully¹¹⁶.

¹⁰⁹ Fishbein, McGarry & Dillon (2000) p 18

¹¹⁰ Mont (2002b) p 94

¹¹¹ White, Stoughton & Feng (1999) p 94

¹¹² Mont (2002b) p 94

¹¹³ Ibid p 98

¹¹⁴ Weitz et al. (1995) found in Mont (2002b) p 94

¹¹⁵ Mont (2002b) pp 94

¹¹⁶ Ritzén & Ölundh (2002) p 32

4 Change Management

The aim of this chapter is to give the reader an overview of step-by-step methods for change. We believe these are the most effective methods for offensive changes of companies transforming from product oriented to service oriented. Step-by-step methods are well planned and structured, and make sure that nobody or nothing is neglected in the change process. We begin by introducing some different strategies for change. Further on we concentrate on the characteristics of step-by-step methods. By looking at three step-by-step models, see figure 4.1, developed by Kotter, Miller and Wissema, we have identified three common phases of step-by-step changes. We believe the division of the steps into phases clarifies and concludes the important actors and actions at different moments of change. The three identified phases are presented in three sections, each section built on ideas from the three step-by-step models. However, to broaden the perspective, we have also added interesting ideas from other researchers.

4.1 Strategies for Change

“To make status quo seems to be more dangerous than launching into the unknown”

A former CEO of a large European company,
found in Kotter (1995)

Pascale, Millermann and Gioja (1997) highlight power, identity, conflict, and learning as signs of a company's vital status. They mean that by analysing the influence and power of employees, how the employees identify themselves, and how the organisation handles conflicts and new ideas, the company can be helped in deciding for future strategies and change processes.¹¹⁷ Wissema (2001) mentions four kinds of strategies for change. With the gradual strategy the company makes gradual changes in order to adapt to internal goals and to the external environment. This strategy can be both defensive and offensive. The strategies referred to as turnaround and quick and dirty imply defensive changes and occur when a big strategic gap is to be closed. He implies authoritarian methods usually are needed for these kinds of changes. The fourth strategy is the step-by-step strategy. It is powerful during offensive changes, with the aim of creating important competitive advantage by changing the company's function towards the customer. Top management has a vital role in supporting the organisation in the change process¹¹⁸. To handle offensive change they need to keep a careful balance. Employees may lack comprehension of the need for offensive change as things already go well. A too aggressive approach may thus raise the barriers towards change, while a too gentle approach may jeopardise the planned changes.¹¹⁹ As a result the employees loose commitment to the change. Further employees may feel threatened by the uncertainty associated with change, and thus act conservatively in regards of change. An effective change method thoroughly handles problems like introspective corporate culture, bureaucracy, lack of trust for change, little teamwork,

¹¹⁷ Pascale, Millermann & Gioja (1997) pp 127

¹¹⁸ Kotter (1995) p 60

¹¹⁹ Wissema (2001) p 333

negative attitudes, and faltering leadership¹²⁰. Wissema (2001) is of the opinion that step-by-step methods put focus on the objectives for change and through this reduce the resistance towards it. They further combine the design with the implementation of the change, which facilitates the needed cultural change with the structural change.¹²¹ Many researchers indicate a potential influence of top management on corporate culture¹²². Wissema (2001) states that changes in culture develop top-down and if top managers do not set a good example and lead the change it will definitely fail¹²³. According to Pascale, Millermann and Gioja (1997) the problem is that the change rests on a small number of people, thus making it hard to get more employees taking an active role in the business¹²⁴. Alvesson (1995) agrees managers do have the ability to influence the development of corporate culture to some extent during recruitment processes; however he stresses the importance of the collective in cultures, and means that it is more common that organisations drive managers than the opposite¹²⁵.

4.2 Step-by-Step Methods

Step-by-step methods are innovative methods characterised by a division of the change process into successive steps. Leading an organisation into a new direction implies a carefully worked out strategy¹²⁶. Speeding through the process will only create an illusion of speed and not the desired results¹²⁷. Each step in the process is to be managed by the employees responsible for the transformed area after the transformation. A clear schedule should determine the deadline for each step, including time for communication, decision making, and preparation of the following step. Communication steps and work steps intersect during the step-by-step change process. In the beginning of the process an outline of the organisational structure is made. During the process the details for the different units are set by work groups, and along with the design is training in the new culture. Although as many organisation members as possible should be involved in the change process, top management should make an important role in the initial phase of change to evince their seriousness to the organisation. After that top management should take a more controlling role.¹²⁸

¹²⁰ Kotter (1995) p 59

¹²¹ Wissema (2001) p 333

¹²² Alvesson (1995) pp 82

¹²³ Wissema (2001) p 336

¹²⁴ Pascale, Millermann & Gioja (1997) p 126

¹²⁵ Alvesson (1995) pp 89

¹²⁶ Miller (1998) p 152

¹²⁷ Kotter (1995) p 59

¹²⁸ Wissema (2001) pp 337

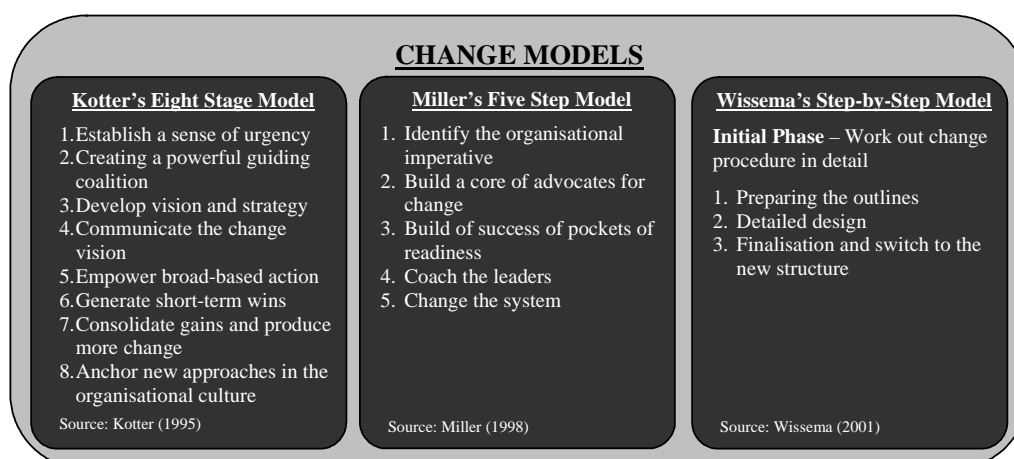


Figure 4.1. The step-by-step models by Kotter, Miller and Wisema form the basis of the three phases for change discussed in this chapter.

Phase I – Establishing vision and strategy

“...parents and teachers influence the behaviour of children”
Wisema (2001)

Common first steps in the three step-by-step models are introduction of the change in the organisation, and creation and communication of the vision for change. Wisema (2001) does not believe people are averse to changes but rather that they do not like to be changed. Leaders should not try to fix or change the people in the organisation¹²⁹. Instead, for the employees to accept the change they need to be informed about the reason for it.¹³⁰ Miller (1998) agrees as he points at the importance of giving the organisation convincing arguments to change. The employees must believe that the company's ability to reach success is interrelated with the company's inclusion effort.¹³¹ Kotter (1995) stresses two-way communication and high involvement of all members in the organisation during change processes. He argues a good way of initiating change is to let individuals or groups look at the company's competitive situation, market position, financial performance, and technological trends. The findings should be communicated to the organisation in a sense of crisis, potential crisis, or opportunity.¹³² Miller (1998) points at the importance of identifying advocates for change and let the existing resources for change be strengthened instead of attacking fields of counteraction. He further suggests the changing organisation builds change teams, acting as change agents to motivate others to follow them. With the expression: “build on the success of pockets of readiness” he means that the change teams should be equipped with skills and resources to show the organisation examples of success, in order to prove that the change works. If needed the leaders should get external training and support from experienced professionals.¹³³ The leaders should have good reputation in the organisation and expertise in order to make

¹²⁹ Miller (1998) p 152

¹³⁰ Wisema (2001) p 339

¹³¹ Miller (1998) p 152

¹³² Kotter (1995) p 62

¹³³ Miller (1998) p 152

intelligent decisions¹³⁴. They must develop a vision which is easy to understand and which shows customers, stakeholders, and employees a good picture of the future. Without a strong vision the transformation process will be confusing and may result in different projects taking different directions.¹³⁵ Corporate culture builds on shared understandings and common experiences, why the history of the organisation plays an important part of the culture concept¹³⁶. Schein (1985) claims corporate culture is: “the outcome of group learning”. He argues that culture is developed when people solve problematic situations together as a group.¹³⁷ Miller (1998) means communicating the reason for change to the organisation, and making sure that everyone understands it, is the first step in order to create cultural change¹³⁸. By using all existing communication channels, repetitive messages will function as a dripping tap in the transformation process¹³⁹.

Phase II – Goal setting and detailed design

Common steps for phase two are a more detailed design of the process and goal settings. The second phase also commonly includes a more hands-on process where more of the employees, not just the management and change team, will be participating in the change work. Wissema (2001) suggests as many employees as possible should be involved in the change process and that managers and workers should be allowed to “make their own bed”. This approach simplifies the training process of new structures, since it is designed by the managers and workers themselves. Further Wissema (2001) recommends leaders to set realistic deadlines, including some encouraging ones that are easy to reach.¹⁴⁰ Rohlin, Skärvad and Nilsson (1998) mean a company can find itself in one of four different acceptance states, depending on its consciousness and competence for change. An *unconscious competent*, or an *unconscious incompetent*, organisation is happy with its situation and averse to change. By communicating a need for change in the organisation, through an understood common vision, the organisation instead becomes *conscious competent* or *conscious incompetent*. In this position the company has a motivation for change as the present conditions are unsatisfactory. The competence of the organisation, meaning the company’s ability to change, can be increased simultaneously with the strategic activity of understanding the vision.¹⁴¹ Wissema (2001) points at the need that the employees understand and accept the strategic plan, as structure should follow strategy. They further need to apprehend why the change is needed in order to implement the strategic plan and how the changes will be performed.¹⁴² Sometimes top management need to go as far as exchanging key persons in order to change the culture and the common values.¹⁴³ Miller (1998) suggests powerful motivators are needed for cultural change¹⁴⁴. Mont (2002b) has

¹³⁴ Kotter (1998) pp 64

¹³⁵ Kotter (1995) p 61

¹³⁶ Alvesson (1995) pp 82

¹³⁷ Schein (1985) p 183

¹³⁸ Miller (1998) pp 151

¹³⁹ Kotter (1998) p 97

¹⁴⁰ Wissema (2001) p 338

¹⁴¹ Rohlin, Skärvad & Nilsson (1998) pp 159

¹⁴² Wissema (2001) p 339

¹⁴³ Kotter (1998) p 163

¹⁴⁴ Miller (1998) p 152

found that a common denominator among companies succeeding in performing this kind of offensive change has been a person acting as a *catalyst* within the organisation by developing an idea, spreading the information, and promoting the change¹⁴⁵. Moreover for a successful transformation it is essential that managers learn to walk-the-talk and incorporate the vision in hour-by-hour activities¹⁴⁶.

Phase III – Implementation plan

Phase three commonly consists of implementation issues which suggest how the change could be implemented and further how to make the change sustainable. Wissema (2001) highlights training in the new systems and culture. He emphasises that first level-managers, instead of external consultants, should be responsible for the training. The training session will be more effective in this way, and in addition it will be instructive even for the managers. Managers must show the employees how the organisation's performance has been improved by the new approaches, behaviours, and attitudes, until the new behaviours and norms are accepted and become "the way we do things around here"¹⁴⁷. Miller (1998) stresses the importance of establishing the new norms, values, practices, and policies, and eliminating everything belonging to old habits. Moreover managers must help to remove obstacles that obstruct the work for the employees.¹⁴⁸ Short-term wins encourage and help keeping the level of urgency in the change process as well as forcing the visions to be analysed, clarified, or revised¹⁴⁹. Change leaders should use the increased credibility afforded by the short-term wins to handle larger change projects¹⁵⁰. However declaring victory too soon is dangerous. Change resisters may see this as a chance to declare the war won and send the troops home to stop the change.¹⁵¹

¹⁴⁵ Mont (2002b) pp 93

¹⁴⁶ Kotter (1995) p 62

¹⁴⁷ Kotter (1998) p 163

¹⁴⁸ Miller (1998) p 153

¹⁴⁹ Kotter (1995) p 63

¹⁵⁰ Kotter (1998) p 149

¹⁵¹ Kotter (1995) p 64

5 ABS Spain

After presenting the theories regarding services and change management, we will now launch into our empirical researches by starting with ABS Spain. This chapter concerns the dewatering pump rental sector of ABS Spain; however we begin this chapter by shortly presenting the ABS Spain corporation as a whole. The chapter is based on an empirical research performed in Madrid, Valencia, and Zaragoza. The focus lies within the fields of market, sales and marketing, services, and future expectations of the pump rental business for the Spanish market. Throughout this chapter ABS refers to ABS Spain.

5.1 Company Description of ABS Spain

ABS Spain is a leading pump manufacturer on its national market, operating within the three areas of pump rental, –services, and –sales. Its product mix contains wastewater- and dewatering pumps, mixers, aerators, and control and monitoring systems. The rental pump fleet includes a large number of pumps, of which 75 per cent are dewatering pumps.¹⁵² Ever since Cardo Pump acquired ABS Spain in 1989, disregarded 1991 to 1993¹⁵³, the ABS' turnover has steadily increased. Pump rental represented 30 per cent of the company turnover.

ABS has developed its pump rental concept since 1994. The rental concept is based on the experience several of ABS' employees had from working at Flygt, the pioneer of pump rental in Spain. ABS differentiated its offers by different customer agreements and price reductions, and believed in gaining the customers' confidence by providing excellent service, good commercial relations, and flexibility. ABS brought innovative ideas into the rental business and was the first actor to offer 24 hours emergency services seven days a week. Services, except services performed on weekends, were free of charge. However ABS experienced that customers perceive services as more serious when charged for, why the company began pricing their services. Regarding rental price ABS was the first company to work with discounts. Due to the present market leadership ABS is the price setting actor today and its price list and concept is copied by the competitors. Many competitors strives for gaining market shares by lowering their prices to levels that ABS cannot and do not want to compete with. Instead ABS wants to win customers by offering professional and reliable services. As former employees, managers and salesmen, have been recruited by competitors, parts of ABS' rental concept have spread to other firms.¹⁵⁴

5.1.1 Organisation

Head office and central warehouse

The ABS head office, together with a branch office and a central warehouse for rental pumps, is located in Madrid. Further ABS has eight branch offices and eight distributors, located mainly along the coast lines where the population density is high, which together supply the whole Spanish market. A national rental coordinator, based

¹⁵² Durango (1-11/2/2005)

¹⁵³ García (7/2/2005)

¹⁵⁴ Durango (1-11/2/2005)

at the head office in Madrid, is responsible for coordination of the rental pumps on the national market.¹⁵⁵

Branch offices

The ABS branch offices are strategically situated in the areas of Spain with the population density is high, see figure 5.1. Each of the eight branch offices has a manager, salesmen, rental salesmen, an administrator, and service engineers, as well as a workshop and a warehouse.¹⁵⁶ Durango frequently stresses the importance building good relations between the branch offices in order to develop a strong rental team. The good and close relation between him and the rental salesmen is noticeable. They seem very happy to meet, they talk uninterruptedly, and they laugh loud and often. Durango has daily contact with the rental salesmen and visits each branch office at least twice a year¹⁵⁷. He appears to give the rental team much attention by frequently praising the team members on their competence and contribution to the success of the rental business.



Figure 5.1. The location of the branch offices (black) and distributors (grey) of ABS Spain¹⁵⁸.

¹⁵⁵ Durango (1-11/2/2005)

¹⁵⁶ Ibid

¹⁵⁷ Ibid

¹⁵⁸ López (9/2/2005)

Distributors

The ABS distributors supplement the branch offices, see figure 5.1. They work by the same processes as the branch offices, with a well equipped workshop and know-how about the dewatering business. However there are two significant differences between the distributors and the branch offices. First, the distributors do not handle their own invoicing, which instead is done from the head office in Madrid. The distributor then receives remuneration from ABS. This is for ABS to keep control over their distributors and establish a direct relation with the end customers. Second, the distributors do not keep spare parts for the pumps in stock but have to order from the central warehouse in Madrid. This is also for ABS to keep control of the distributors.¹⁵⁹ The degree of utilisation is slightly higher among the distributors than at branch offices, due to a smaller rental fleet at the distributors. The central warehouse in Madrid supplies the distributors with more pumps when needed.¹⁶⁰

Corporate culture

The daily activities at ABS are permeated with an ambitious and professional corporate culture, and the rental philosophy seems to be reflected in every part and every action taken in the company. The atmosphere is energetic, in branch offices as well as at distributors. In the workshop the service engineers work energetically to overhaul, repair, and deliver pumps to customers. In the office the employees work hard and focused, bringing their cup of coffee to their desks since there is no time for coffee breaks. All areas are clean and tidy, and customers arriving to the office or workshop find a professional and well organised work place. Although the corporate culture seems strict, the atmosphere seems relaxed and kind, and clerks and service engineers seem to work close together. Moreover the offices close at three o'clock on Fridays to give the employees a few hours more for the weekend.

5.2 Market of the Pump Rental Business in Spain

With a market share of 40 per cent ABS is the market leading pump rental company in Spain, followed by Flygt with 25 per cent. The Madrid market represents 25 per cent of ABS' total national market and is thus the most important area for ABS. Second is Barcelona, where ABS has 30 per cent of the regional market. The competition in this area is very hard and price is used as a competitive advantage by many competitors. Third is the area around Valencia, Alicante, and Murcia where ABS has 50 per cent of the regional market. The market demand for rental pumps in a specific area depends on the season and the level of precipitation, on ground water level and ground conditions, as well as on the amount of infrastructure- and construction projects. As the present government in Spain invests less in infrastructure and construction than the previous did, the pump rental business is affected negatively. However events like the World Exhibition of 2008 in Zaragoza and the possible Olympic Games in Madrid 2012 will affect the business positively. The EU subsidies have played an important role for the investments in public works, but these are decreasing as EU invests in the most recent member states instead.¹⁶¹

¹⁵⁹ Durango (3/2/2005)

¹⁶⁰ Sancho (3/2/2005)

¹⁶¹ Durango (1-11/2/2005)

ABS divides its competitors into two groups: pump manufacturers with rental services, i.e. Flygt and Grindex, and machinery rental companies. Many of the machinery rental companies are smaller, local firms with less service than ABS, but cheaper prices.¹⁶²

ABS has three kinds of rental customers: building constructors, infrastructure constructors, and machinery rental companies for the construction industry. The machinery rental companies offer their customers machinery packages including pumps. When demand exceeds their in-house fleet the machinery rental companies rent pumps from ABS. The machinery rental companies are offered the same price by ABS as the end customers and do not make a profit on the pump when re-renting it, but rather see the pump as a complement to their customers.¹⁶³

The main advantages for pump rental customers are to avoid large machinery investments¹⁶⁴, to receive rental services, i.e. dewatering consultancy, and to get immediate assistance when a pump breaks down¹⁶⁵. Further rental is advantageous as pump capacity needed may fluctuate during a construction process. Customers need different kinds and sizes of pumps during different stages of the construction process¹⁶⁶ and it is economically more advantageous to rent the pumps than invest in a big in-house fleet¹⁶⁷. As precipitation, or water balloons in the ground, urgently may increase the need of pumps in order to keep a work site dry and prevent costly down time at a construction site, many construction companies are willing to pay for a rental offer including fast service in order to guarantee a dry work place.¹⁶⁸ Aldesa, a construction company customer to ABS, are not in habit of buying pumps. De Orbe, project manager at Aldesa, have a long and good relationship with ABS and he appreciates the good solutions and good services ABS offers, as well as the frequent visits by an ABS' rental salesman. ABS offers fast delivery and installation of the pumps.¹⁶⁹

5.3 Sales and Marketing at ABS Spain

“ABS gives the customer the key in his hand”

De Orbe (2/2/2005)

The sales process

A dry construction site facilitates the work within the construction process. Customers who are renting pumps from ABS ask for a dewatering solution, or already know what kind of pump and how many pumps needed.¹⁷⁰ A rental salesman answers the customer calls and discusses the problems, and then visits the customers' sites to make a deeper analysis of the situation. At the customer's site the rental salesman gets

¹⁶² Durango (1-11/2/2005)

¹⁶³ Durango (1-11/2/2005) & Fandos (3/2/2005)

¹⁶⁴ López (9/2/2005)

¹⁶⁵ De Orbe (2/2/2005), Durango (1-11/2/2005), Jimenez (2/2/2005) & Martin (2/2/2005)

¹⁶⁶ Jimenez (2/2/2005)

¹⁶⁷ Martin (2/2/2005)

¹⁶⁸ López (9/2/2005)

¹⁶⁹ De Orbe (2/2/2005)

¹⁷⁰ Ibid

a map of the area, including ground conditions, to make a picture of the water situation. When decided what equipments are needed the rental salesman orders the number of pumps and accessories needed from either the local warehouse or from the central warehouse in Madrid. A service engineer delivers the pumps to the customer and also, for an extra cost, installs the pumps if demanded.¹⁷¹ This process is shown in figure 5.2.

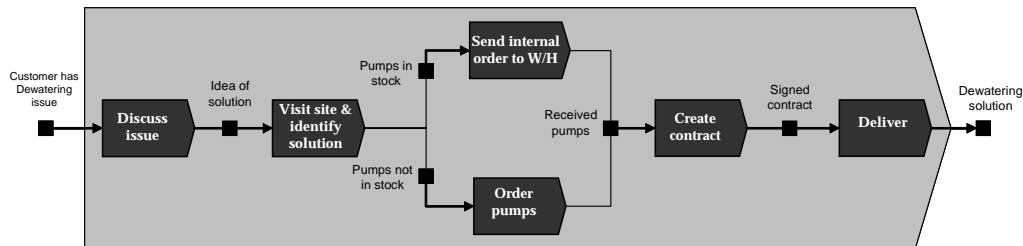


Figure 5.2. The process map shows ABS' sales process of dewatering solutions. This process is mapped by us based on the information we received in our interviews, and confirmed by Durango.

The function of the rental salesmen is to control and follow up public works and building services. It is further to build and take care of customer relations, to give customers rental offers, and to handle the rental business. Rental manager Angel Durango mentions the importance of the rental salesmen's close relations to the customers. It is important for them to frequently visit the customers in order to understand their problems and needs. Since the various areas of the Spanish market are very different considering ground conditions, mentality, precipitation, language, and competition, the rental salesmen's performances are measured by the number of customer visits and not solely by the financial result.¹⁷² The rental salesmen make several customer visits per week¹⁷³.

Marketing

In order to gain new customers it is important for the rental salesmen to be acquainted with the future construction projects in their regions. Contacting project decision makers at an early stage, building good relations from the beginning, and offering the customers the best solution for a competitive price are important acts in winning customer orders. ABS has identified five key positions in the customers' organisation which are important to establish good relations with. The managing director is important, as well as the project manager for a certain construction project who is the most likely to decide what pump supplier to use. Further it is important with good relations with the employees handling the pumps at the construction site, since they will convey their experiences of the pump and the service to the project manager. Finally it is important with good relations with the administrator who handles the invoices, to make sure the invoices are paid in time and the receptionist who takes the telephone calls, to get connected with the right people at the right time.¹⁷⁴ Moreover it

¹⁷¹ Jimenez (2/2/2005)

¹⁷² Durango (1-11/2/2005)

¹⁷³ García (7/2/2005)

¹⁷⁴ Durango (1-11/2/2005)

is important to keep up the overall company image in every part of the business, i.e. by keeping the offices and workshops clean and tidy and by proper ABS work clothes for the service engineers¹⁷⁵.

Pricing strategy

The pricing strategy of ABS is clear. ABS works with a price list and discounts. Every year the company publishes a new price list which usually is adjusted due to the inflation. The price is set from day one at the contract, and will not be increased even though the contract is running over one or more years.¹⁷⁶ In case a customer gets spare pumps as back up they will be charged for it¹⁷⁷.

To be able to know the discount limit Durango stresses that it is really important for every rental salesman to know the exact costs committed to each pump model. This is something Durango believes that ABS does better than its competitors and the reason for the competitors' sometimes very low prices that ABS cannot compete with. The direct costs of a pump are transport, maintenance, spare parts, accessories, labour, and other special costs for i.e. external repairs of the electric engine.¹⁷⁸

Salaries

To stimulate the employees ABS uses variable salaries for both rental salesmen and service engineers. The salary for the rental salesmen is divided into a fixed part plus two variable parts depending on the rental sales and the total result for the current branch office. The reason for the two variable parts is to get the rental salesmen not to focus only on his/her personal results and run the risk of internal competition with the salesmen. The service engineers have a salary which is divided into one fixed part and one variable part depending on the total result for the current branch office. A large part of their salary is variable. This forces the service engineers to become more service minded, customer focused, and effective in their job which often includes customer visits.¹⁷⁹

IT-system

Financial manager López stresses the importance of a well organised IT-system which reflects the philosophy in the rental business. ABS Spain has developed their own rental IT-system under guidance of the IT manager Manuel.¹⁸⁰ The IT-system is used for creating rental contracts, filing historical data from each pump and customer, manage internal repair orders, and moreover for coordinating and ordering pumps between different branch offices. Through the IT-system information about any single pump can be found, i.e. present location of the pump and historical data concerning invoicing and service costs. All branch offices and distributors are using the same IT-system which is of the first magnitude as all pumps are owned by the central warehouse in Madrid.¹⁸¹

¹⁷⁵ López (9/2/2005)

¹⁷⁶ Durango (1-11/2/2005)

¹⁷⁷ Jimenez (2/2/2005)

¹⁷⁸ Durango (1-11/2/2005)

¹⁷⁹ López (9/2/2005)

¹⁸⁰ Ibid

¹⁸¹ Rivera (22-23/11/2004)

All the interviewed ABS employees find the current IT-system very good and easy to use. A common opinion is that the system has got all the relevant modules and functions needed, even though there of course are some minor issues which could be improved. López mentions that the IT-system is continuously improved, even though the main functions work very well¹⁸².

5.3.1 ABS as a Dewatering Consultant

By providing customers with support, good service, and qualitative solutions ABS has become the leading actor on the Spanish pump rental market¹⁸³. Through experience and expertise within the dewatering field the company strives to win confidence from the customers¹⁸⁴. ABS employees commonly seem to find experience as a very important factor for the rental business, and as the rental salesmen are to function as dewatering consultants Durango rather promotes experienced employees to those positions than recruiting outsiders¹⁸⁵. Dewatering consultancy refers to the capability of i.e. suggesting how many pumps that are needed in order to keep a work site dry and marking out where they should be placed to function well without interfering with the construction work by analysing the ground conditions and studying drawings¹⁸⁶. Further the employees point at excellent customer relations as another factor of success. This is obtained by the rental salesmen's frequent visits to customer's construction sites. The strong commercial relationships with the customers contributes to the good overall experience of working with ABS. Informal contact, i.e. a telephone call or a lunch, and informal customer visits are good ways of building good relations.¹⁸⁷

Durango mentions two important things to consider within pump rental business. The first is availability, i.e. rental is always urgent and customers often need pumps with short notice. Therefore it is important to have depots near the customer sites. If the branch office in question has the pumps in stock ABS has a lead time of maximum two hours from the time that the customer calls until the pumps are installed. In case of the branch office is out of stock of the current pump, they always try to give a bigger pump to the customer for the same price. The second is to win customers' confidence in being dewatering consultants. Personnel from ABS visit customers' sites when they call for assistance even though they do not need a pump to solve the problem – this is the idea of being dewatering consultants. There is always at least one service engineer in each branch office and distributor ready to visit customers for changing or repairing of pumps 24 hours per day. A good example of boundary-spanning personnel is Marin, the receptionist and moreover administrator in ABS' branch office in Valencia. Besides these functions she also helps customers with basic questions about what pumps are needed etc. This is a good support for the rental salesmen who are not always available to take the calls and for the customers who get

¹⁸² López (9/2/2005)

¹⁸³ Marin (2/2/2005)

¹⁸⁴ Martin (2/2/2005)

¹⁸⁵ Durango (1-11/2/2005)

¹⁸⁶ Martin (2/2/2005)

¹⁸⁷ Jimenez (2/2/2005)

immediate advice.¹⁸⁸ Other pump rental companies in Spain do not put the same effort in the service concept¹⁸⁹.

5.3.2 Maintenance and Repair

When the pumps return from the customer it is identified by the service engineer and put on the shelf for pumps awaiting overhaul. The pumps are most often full of mud when they return and therefore it is impossible to see the identification number. Due to this every pump has a radio tag to make the identification quick and easy. A service engineer does an overhaul of the pump after it has been cleaned. The electro-mechanic overhaul includes check of the engine, oil system, and hydraulic system. An internal order of repair is printed from the rental IT-system by the rental department and the form is then passed to the workshop. If spare parts need to be ordered the pump will be put on the shelf awaiting repair. Service engineers repair the pumps when they have got all the spare parts needed, and complete the order sheet for repair with the changed spare parts. The pump is painted before it will be transferred to the warehouse ready to be rented out. Personnel in the warehouse put in the information regarding the repair into the IT-system for the historical data of the specific pump. In the warehouse every pump also gets an installation tag with a step by step description of how to install the pump, as a help for the customers. The lead time for the process, shown in figure 5.3, is one to two days in Madrid, and two to three days in the other branch offices due to spare parts often need to be ordered from Madrid.¹⁹⁰

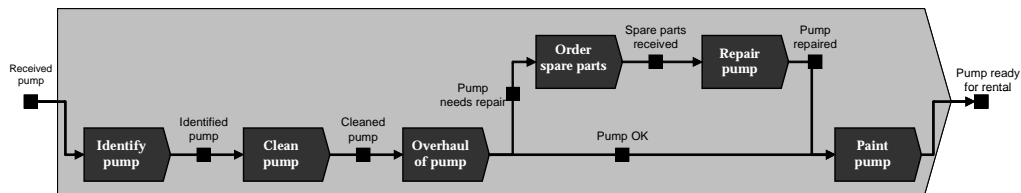


Figure 5.3. The process map shows the overhaul process of rental dewatering pumps at ABS. This process is mapped by us based on with information received in our interviews, and confirmed by Durango.

5.4 Future Expectations for ABS Spain

There are today more than 1,000 machinery rental companies in Spain renting out equipments for the construction industry. Durango believes that many of these companies will merge together and some of the small ones will disappear due to the increasing competition. Moreover Durango guesses that ten to fifteen companies will rule the pump rental market in the near future. The current government has decided to reduce the investments in public works, which of course will have effects on the rental business for ABS and its competitors. Moreover EU will concentrate their subsidies to the new developing countries in the union, which will negatively affect the investments in public works in Spain.¹⁹¹

¹⁸⁸ Marin (2/2/2005)

¹⁸⁹ Durango (1-11/2/2005)

¹⁹⁰ Ibid

¹⁹¹ Ibid

Complete dewatering solution

Due to this situation ABS needs to focus on their core competencies to be able to compete and differentiate from its competitors, especially the machinery rental companies which can offer package solutions with all equipment for the construction site. The core competence of ABS is the know-how about how water works. It is further a very high quality in services and customer relations which differs ABS from its competitors. For dewatering in any area with any ground condition the following equipments are needed: dewatering pumps, hose pipes, wells, Wellpoint, and drainage systems. The Wellpoint system is used in sandy grounds where a regular dewatering pump could not operate. Having all these equipments in-house will make ABS Spain the one and only supplier in Spain who can offer a complete solution for any dewatering project.¹⁹²

In the future ABS Spain will offer its customers a full solution package with a price per day where, ABS takes the full responsibility for keeping the construction site dry. This means that the customer does not have to worry about how many pumps, and what sizes needed. One day seven pumps may be needed and the other day four. No matter what ABS would have the full responsibility and the customer could concentrate on its core activities. In other words – ABS will amplify the concept of being dewatering consultants.¹⁹³

Sale with re-sale

Sometimes the customer finds it more profitable to buy the pump instead of renting it. In this case Durango will introduce a new concept called *sale with re-sale* where the customer buys the pump together with a maintenance agreement and the intention to sell the pump back to ABS when the work is finished. ABS can then use the pump for rental and in that way increase the profit from the pump.¹⁹⁴

How to Handle the Machinery Rental Companies?

Machinery rental companies are customers that ABS does not wish to work with. However ABS is forced to work with this type of customer because otherwise those companies turn to ABS' competitors. The reason why machinery rental companies are not wanted as ABS' customers is because they just function as an intermediary and do not take the same responsibility for the pump as ABS does. It often happens that a pump gets lost from the end customer. The end customer then speaks to its supplier, the machinery rental company, who forward the issue to ABS. In the end ABS needs to pay for the lost pump in order to keep the good relations with its customers.¹⁹⁵

The cooperation with the machinery rental companies needs to be developed. Durango does not see any better alternatives regarding the cooperation for small and medium pumps. However he wants to offer the machinery rental companies a solution for large pumps. Due to the high competence and many resources needed for

¹⁹² Durango (1-11/2/2005)

¹⁹³ Ibid

¹⁹⁴ Ibid

¹⁹⁵ Ibid

maintenance and repair of the large pumps Durango wants a special offering for the machinery rental companies. This would imply that ABS takes care of projects demanding large pumps and gives commission to the machinery rental company who conveyed the project. Moreover, ABS will have the advantage in projects where it is essential that the pump works all the time, and where continuous maintenance is required.¹⁹⁶

5.5 Conclusions of the Rental Business at ABS Spain

The check list below sums up the key success factors of the rental business at ABS Spain:

- **Well coordinated organisation** including a central warehouse, branch offices, and distributors which covers the most important areas in Spain. A rental coordinator based at the head office and central warehouse makes sure every branch office and distributor has enough of pumps for their local rental business.
- **Appropriate corporate culture** which shows a professional and proactive image of the company. The atmosphere is energetic and all areas are clean and tidy in workshops as well as in offices. Even though the corporate culture seems strict, the tone between the employees is relaxed.
- **ABS acts dewatering consultant** with customer focused employees who proactively work very hard for the business. ABS offers i.e. emergency services 24 hours per day. Moreover the company always helps their customers to find the best solution to their dewatering issues, even in situations when pumps cannot solve the problems. In certain cases ABS even takes the full responsibility for keeping a construction site dry.
- **Strong customer relations** including proactive efforts to find new customers. ABS wins customers' confidence i.e. by showing a high level of expertise and establishing personal relations by numerous customer visits. As soon as a larger construction project is coming up, ABS is contacting the potential construction companies and starting to build relations with the five identified key individuals within the company.
- **Strong leader** in the rental manager Durango, who has the ability to communicate the business philosophy and motivate his rental team to work hard for ABS. Durango's commitment to the rental business, and to ABS, makes him a good external as well as internal advocate for the company.
- **Meticulous cost control** which is important for the tendering processes. ABS knows exactly the total cost per day for every pump, and therefore they also know what price and discounts they can offer its customers.
- **Convenient IT-system** that is user friendly and tailor-made for the pump rental business at ABS. Since the same IT-system is used by all branch

¹⁹⁶ Durango (1-11/2/2005)

offices and distributors they are forced to follow more or less the same working procedures which facilitate the coordination.

- **Well structured processes** for sales, marketing, maintenance, and repair. Although we will stress that these processes are not documented and therefore kind of tacit knowledge makes them not as easy to transfer to other ABS organisations as if they were documented.
- **Future plans for improving the concept** show that ABS is doing careful estimates for the future which enable a continuous improvement of the rental business.

6 ABS Sweden

This chapter concerns the dewatering pump rental business of ABS Sweden and is based on empirical studies in Stockholm, Gothenburg, and Nordmaling. The focus lies on ABS Sweden's current rental situation regarding market, sales and marketing, services, and on future expectations of the rental business. To make it convenient for the reader we shorten ABS Sweden to only ABS throughout this chapter.

6.1 Company Description of ABS Sweden

As from the first of January 2005 the three previously separate Swedish subsidiaries of Cardo Pump, ABS, Pumpex, and Swedmeter¹⁹⁷, were merged into one, ABS Pumpex, referred to as ABS Sweden in this master thesis. This was the first step in taking advantage of the synergies between the three subsidiaries, which until now have operated with limited cooperation. ABS and Pumpex were in some aspects even competing with each other.¹⁹⁸ The head office of ABS Sweden is, together with a depot, located in Stockholm, where the one salesman and the one rental coordinator of dewatering pumps on the Swedish market are based. Four additional depots are located in Malmoe, Gothenburg, Karlstad, and Nordmaling. The service manager is based in Gothenburg. At ABS Sweden the pump rental business is fairly new and undeveloped. In 2004 the total rental turnover was about half of the turnover from sales.¹⁹⁹

6.1.1 Organisation

Depots

The five depots of ABS Sweden are situated in construction dense areas, but do not cover the entire Swedish market. This is stressed as a future problem by many employees²⁰⁰. However, as Jonas Bladh, working with product management at ABS, expresses it: "five depots are four more than the closest competitor Grindex has"²⁰¹. Each depot has a supervisor and one to five service engineers, with the operating responsibility of rental and service operations in the certain area. A majority of the depot employees are young and fairly inexperienced in the dewatering business and especially in working with rental.²⁰²

A difference between the depots is noticeable and foremost between the Nordmaling depot and the others. The Nordmaling depot is located right by *Botniabanan*, a railway under construction in northern Sweden, which is estimated to be ready for use in 2010. However Fredrik Rönnbäck, service engineer in Nordmaling, means present circumstances indicate that the project will run late, thus that the need for pumps in the area will continue to be big for a long period of time.²⁰³ Nordmaling is the

¹⁹⁷ Swedmeter develops control systems for wastewater systems

¹⁹⁸ Schwarz (22/11/2004)

¹⁹⁹ Låftman (15/2/2005)

²⁰⁰ Larsson (15/2/2005), Låftman (15/2/2005) & Magander (23/2/2005)

²⁰¹ Bladh (18/2/2005)

²⁰² Johansson (15/2/2005)

²⁰³ Rönnbäck (17/2/2005)

Swedish depot with the most intense rental business to end-customers.²⁰⁴ Johan Låftman, temporary MD of ABS Sweden, points at ABS' opportunity to deliver rental pumps to end-customers during extensive construction works like *Botniabanan*, *Götatunneln* in Gothenburg, the now completed *Södra länken*, a big tunnel in Stockholm, and the coming *City tunnel*, a subway in Malmö. For these large works fast and reliable services are exceedingly important, as down time caused by water leakage would be very costly.²⁰⁵

Corporate culture

The corporate culture at ABS Sweden differs from depot to depot. Our impression of the depot in Nordmaling is that the employees' attitude is customer focused and they work proactively to offer the customers flexible solutions. At the depots in Stockholm and Gothenburg the employees are fairly new to the company and therefore we could not really identify a specific corporate culture. What is obvious is the fact that ABS and Pumpex recently have merged, and the employees from those companies have to work together from now on and create a joint culture. Our impression is that the overall corporate culture is resistant to change, both regarding the change towards the new offensive way of working with rental and regarding the double branding change. Both the depots in Gothenburg and Nordmaling mentioned the importance of managers visiting the operational units to enable both parties to get updated of what is happening at the depots and higher up in the organisation.²⁰⁶ Jordmark highlighted the lack of managers' presence in the Nordmaling depot and means that the employees in Nordmaling do not really know what is going on in the organisation²⁰⁷. However we would like to stress the absence of a driven leader for the rental business at ABS Sweden.

6.2 Market of the Pump Rental Business in Sweden

Machinery rental companies, like Cramo, Ramirent, and Tiderman, are the main providers of rental pumps on the Swedish market. They purchase pumps which they rent out in packages together with other machinery and tools to the construction industry. Grindex is the market leader for pump sales in Sweden and the Grindex brand is the most frequent rental brand as machinery rental companies are its biggest customers. There are no exact numbers but Bo Larsson, temporary supervisor of the depot in Gothenburg, estimates that approximately 60 to 65 per cent of the rental pumps on the market are Grindex pumps. ABS comes as a second player with approximately 30 per cent, followed by Grundfos with roughly five to ten per cent.²⁰⁸ However, ABS is today the only pump manufacturing company renting pumps directly to end-customers, mainly within the construction- and mining industries, on the Swedish market²⁰⁹. This market approach makes ABS both a supplier and a competitor to rental companies²¹⁰. However this ambiguousness is not always a problem, as many rental companies prefer not to rent out pumps to works in harsh environments, since they do not have the resources to repair the pumps. Pumps being

²⁰⁴ Jordmark (17/2/2005)

²⁰⁵ Låftman (17/2/2005)

²⁰⁶ Larsson (15/2/2005) & Jordmark (17/2/2005)

²⁰⁷ Jordmark (17/2/2005)

²⁰⁸ Larsson (15/2/2005)

²⁰⁹ Magander (23/2/2005)

²¹⁰ Låftman (15/2/2005)

used for i.e. tunnel construction operate under rough conditions and need frequent maintenance.²¹¹

6.3 Sales and Marketing at ABS Sweden

*“We can rent out the same pump twice
and still have the pump left on the shelf!”*

Jordmark (17/2/2005)

Marketing

The observations and interviews at the ABS Sweden depots did not show a common, pronounced process for sales and marketing of rental pumps. A proactive way of finding new customers for the rental business does not particularly exist. As the main rental customers are rental companies, already familiar with ABS, the company does not invest in marketing campaigns²¹². Instead the mouth-to-mouth method is considered important, as well as construction fairs, where ABS shows their products and gets to talk to potential customers²¹³. An impression is that the rental offers rather seem to be looked upon as a complement for those customers who do not want to buy pumps.

At the moment Rolf Magander is the only salesman at ABS who actively seeks new customers. He began as a service engineer and therefore has experience and knowledge about the dewatering business. Magander's main task is to sell pumps, but he always tries to find the best solution for the customer, which often is a combination of sale and rental pumps. Further Magander stresses that the business concept is to sell pumps for the basic requirements, to the machinery rental companies, and to rent out the rest. Good relations with the customers are important, especially with the project manager at the construction site²¹⁴ and Magander does around three customer visits per week. Even though the number of visits is important, Magander emphasises the importance of qualitative visits instead of only quantitative. Moreover he mentions the importance of knowing which future projects a customer is going to work with when the current project is moving towards the end.²¹⁵

Delivering process

In Nordmaling and Gothenburg pumps are delivered by own cars, sent by shipping agents, or picked up by the customers themselves if the construction site is close by²¹⁶. In Stockholm most pumps are delivered by shipping agents or picked up by customers themselves²¹⁷.

²¹¹ Magander (23/2/2005)

²¹² Larsson (15/2/2005)

²¹³ Magander (23/2/2005)

²¹⁴ Larsson (15/2/2005)

²¹⁵ Magander (23/2/2005)

²¹⁶ Larsson (15/2/2005) & Rönnbäck (17/2/2005)

²¹⁷ Magander (23/2/2005)

Pricing strategy

The prices and discounts at ABS Sweden follow fixed price lists which include discounts from the basic price. The basic prices are revised yearly.²¹⁸

Salaries

The salaries of the service engineers consist of only a fixed part, and the salaries for the rental salesmen consist of one fixed part plus a sales commission.²¹⁹

Hose pipes

At ABS Sweden hose pipes are generally sold instead of rented out, due to the low purchase price of the hoses and the heavy handling hose pipes require upon return. Especially in the wintertime hose pipes are hard to handle due to freezing water inside the hoses. ABS offers rental hose pipes if the customer insists, but the rental price is relatively high as ABS' personnel are not willing to handle the dirty hose pipes upon return. Compared to ABS Spain, ABS Sweden uses a cheaper hose pipe with lower quality, which further is a reason for selling and not renting out the hose pipes. Normally the customers scrap the hose pipes after use.²²⁰

IT-system

The current IT-system to support the rental administration process is poor, but will be replaced during 2005 by the IT-system developed at ABS Spain. The current system is used to create rental contracts and invoices; however it does not keep track of stock- or statistical data, nor information about the rental pumps²²¹. To get this information the personnel need to go through every single hard copy of the contracts. This makes the planning process time consuming, as ABS does not know when the customers tend to return the pumps or exactly how many pumps available in stock or out with customers.²²² Bo Jordmark, supervisor of the depot in Nordmaling, explains that the current system may show that a pump is rented out even though it is still in the warehouse.

6.3.1 Maintenance and Repair

The customer service concept at ABS Sweden is not particularly developed yet. The amount of service included in the rental price depends on the customer's demands and the distance from the depot to the customer's site²²³. Maintenance and basic repair are performed when the pumps return from the customers in more or less the same way as at ABS Spain. An electro and mechanical overhaul is done, but only at the depot in Gothenburg is the task to paint the pumps pronounced in the overhaul process. Overhaul is included in the rental price, but if a pump is damaged by the customer ABS always charges the customer the repairing costs. Moreover ABS charges customers for emergency services in case of a broken pump at the site. When this happens ABS always replaces the pump with a new one, and takes the broken pump

²¹⁸ Magander (23/2/2005)

²¹⁹ Låftman (15/2/2005)

²²⁰ Lundgren (16/2/2005)

²²¹ Låftman (27/1/2005)

²²² Lundgren (16/2/2005)

²²³ Magander (23/2/2005)

back to the workshop for repair or scrap.²²⁴ There are no guidelines for how the decision of repairing or buying a new pump ought to be taken. In Nordmaling there is a general opinion that it is more convenient to repair a broken pump instead of ordering a new one, even if the repairing cost exceeds the price for a new pump, as ordering a new pump is time consuming.²²⁵ Larsson says that if the repairing cost is more than the price for a new one, the depot in Gothenburg usually scrap the old pump.²²⁶ An issue raised by Jordmark is the lead time for delivery of spare parts from the factory. It often takes too long for the spare parts to be delivered to the depots, which of course affects the availability of the rental fleet.²²⁷

Rönnbäck says that the personnel at the Nordmaling depot have the expertise and competence to recommend the customer what pump to use and where to place it. Different pumps are needed for different occasions, as tunnel work require water moved over a long horizontal distance while pumping from a pit requires water pumped along a vertical distance²²⁸.

The importance of being close to the customer is obvious in Nordmaling. ABS is the rental actor closest to the construction site of *Botniabanan*²²⁹. The constructors go to the depot and exchange pumps or to repair them when needed. Further the service engineers can reach the customer's site within an acceptable amount of time. In the present situation the Nordmaling depot could cover the rental market up to Skellefteå, but a concept with sealed pumps at the customer's site would be needed in order for the customer to quickly exchange broken pumps before ABS' service engineers get to the site. ABS offers customers sealed pumps upon request, a service not charged for.²³⁰

6.4 Future Expectations for ABS Sweden

The future prospects for the dewatering business look good due to the governmental budget of about six billion euros in infrastructure projects until year 2015. Låftman has made a SWOT-analysis for ABS and means a threat is the replacement of the well known Pumpex brand with ABS. He emphasises the current expansion in the dewatering rental business, but at the same time he stresses the lack of marketing resources. Moreover Låftman wishes to set up agreements with all major machinery rental companies this year and to improve the internal routines at ABS.²³¹

²²⁴ Larsson (15/2/2005)

²²⁵ Rönnbäck (17/2/2005)

²²⁶ Larsson (15/2/2005)

²²⁷ Jordmark (17/2/2005)

²²⁸ Rönnbäck (17/2/2005)

²²⁹ Ibid

²³⁰ Jordmark (17/2/2005)

²³¹ Låftman (15/2/2005)

6.5 Conclusions of the Rental Business at ABS Sweden

- **Un-coordinated organisation** which obstruct the total control of the business. However ABS has depots in the most constructive dense areas which are a good starting point for further expansion.
- **The corporate culture** seems to be averse to changes, both regarding the rental business and the double branding strategy. The corporate culture lacks in focus and the employees seem more interested in the products instead of being customer focused and service minded.
- **Poor sales and marketing.** There is an obvious lack in sales and marketing of the rental business. The focus is still too much on the products instead of focusing on adding value to the customers through extended service offerings. First of all ABS needs to set its direction and decides whether sales or rental should be its primary activity. Moreover ABS needs more rental salesmen in order to increase the sales and marketing activities.
- **Lack in cost control** makes it hard for ABS to set prices for the rental offerings. In our opinion ABS needs to carefully calculate the costs to be able to set up a solid pricing strategy for the rental business.
- **Lack in a solid future plan.** ABS has a potential to grow its rental business, but there is an obvious lack in a detailed action plan for how to get there.

7 ABS Poland

This chapter concerns the dewatering pump rental business of ABS Poland and is based on an empirical study at ABS' sales office in Warsaw. The focus lies on ABS Poland's current rental situation regarding market, sales and marketing, service, and on future expectations of the growing rental business. To make it convenient for the reader we shorten ABS Poland to only ABS throughout this chapter.

7.1 Company Description of ABS Poland

In 1997 ABS acquired its Polish pump distributor in Warsaw. The company was founded in the beginning of the 1970's and has been an ABS distributor since 1992. When ABS in 1999 bought and rebuilt a former warehouse building the ABS organisation finally got proper facilities for pump business and the involved services. On the fourth of March 2002 ABS began its dewatering pump rental business and since then the accumulated days of rented dewatering pumps per year have increased considerably. Today ABS Poland has 20 employees and operates within sales and rental of wastewater treatment, drainage, and dewatering. Maciej Lewandowski, sales manager, says that ABS will carefully keep expanding the rental fleet to meet market demand.²³²

7.1.1 Organisation

Except from the Warsaw office and workshop ABS does not have any depots on the Polish market, neither branch offices nor distributors. However, the company has four salesmen working from home, each representing one region of the Polish market. At present these salesmen only work with sales of pumps. Further ABS has 35 sales partners and 14 authorised service partners, with the obligation of repairing and overhauling pumps for ABS' customers.²³³ As most of the construction projects are located by the bigger cities of Poland ABS primarily needs to be present in those areas²³⁴.

Corporate culture

Our impression of ABS Poland was an organisation with a professional approach to pump rental business. The organisation has clear ideas of the future strategy for the rental business and the few employees are experienced from the pump- and construction industries. Additionally the employees seem focused and expectant on developing and increasing ABS' pump rental business in Poland.

7.2 Market of the Pump Rental Business in Poland

The market for pump rental business in Poland is not particularly developed. Two competitors of ABS have previously tried to introduce rental business, but found it too complicated and put down the business. ABS puts much focus on its rental business and with a dedicated rental department the company looks bright on the future²³⁵. Although Flygt is about to start pump rental business in Poland at the

²³² Lewandowski (17/3/2005)

²³³ Ibid

²³⁴ Prusakiewicz (21/4/2005)

²³⁵ Ibid

moment, ABS' rental business does not have any direct competitors at present. This means that ABS is the rental market leader among pump manufacturers renting to end-customers, although its business is small. Previously Polish construction companies preferred to have their own set of machinery but today rental has become more and more popular. Thus machinery rental companies are gaining footing on the Polish market. However the machinery rental companies on the Polish market do not see pumps as an important business and have not shown any interest in cooperating with ABS.²³⁶

The idea of pump rental business was introduced in the Polish company ten years ago. However, at that time the organisation was small and without the resources needed to start a rental business. Moreover the profitability of sales was larger at the time. In 1997 ABS bought four pumps to use for rental business, but it did not begin to grow until 2002 when they really started to focus on the rental business. By this time ABS had thirteen rental pumps and hired one employee who was dedicated for the rental business. Lewandowski means the dedicated employee was the main reason why the business started to grow. However, the potential is great but rental is still in small scale and ABS cannot expand further without more resources.²³⁷

7.3 Sales and Marketing at ABS Poland

In order to expand ABS' pump rental business in Poland more resources are needed. Piotr Majkowski, service manager, suggests more employees are required to sell and market the rental offers, maintain the customer relationships, and serve the pumps.²³⁸ Further, depots strategically located are needed. Lewandowski suggests increased cooperation with some of the authorised service partners in order for them to become licensed distributors with rental pumps in stock.²³⁹

Marketing

When ABS begun its rental business in 2002, Majkowski visited a considerable part of the Warsaw construction companies, with the aim to promote ABS and its rental business. This was a successful drive which probably contributed to the increase of pump rental business for ABS the following year. However, this was a momentary action. Today ABS does not have the resources for such an intensive and time consuming marketing effort. Instead ABS uses the sales management software *SuperOffice* to quarterly e-mail news and offerings about products and services to potential customers registered in a data base. ABS also advertises in construction industry magazines. According to Lewandowski ABS' most important purpose of marketing is to increase the construction industry's awareness of the advantages of renting instead of buying equipment. The marketing plan for the future is that the newly recruited rental manager works towards big construction projects and important customers at management level, while the rental salesmen work towards smaller, regional projects.²⁴⁰

²³⁶ Lewandowski (17/3/2005)

²³⁷ Ibid

²³⁸ Majkowski (17/3/2005)

²³⁹ Lewandowski (17/3/2005)

²⁴⁰ Ibid

Pricing strategy

ABS pricelist is currently being revised. At present the rental price is based on a price list with price reductions on longer rental contracts.²⁴¹ According to Andrzej Prusakiewicz, rental manager, ABS is aware of the costs for each pump model. The Spanish IT-system will nevertheless facilitate the cost control and accordingly the flexibility in tendering processes.²⁴²

Salaries

The salaries of the service engineers consist of one fixed part and a small part of department bonus. The proposed salaries for the rental salesmen will consist of one fixed part plus one variable part; however the shape of the variable part is not decided yet.²⁴³

Hose pipes

ABS rents out hose pipes, identical to the ones used in Sweden with lower quality. The rental hose pipes are considered a good business.²⁴⁴

IT-system

Currently most of ABS' administration regarding pump rental is made by hand. The Spanish IT-system is planned to be implemented in June 2005 at the Warsaw head office and later on at the service partners projected to be ABS distributors.²⁴⁵

7.3.1 Maintenance and Repair

ABS offers installation of pumps, maintenance, and workshop repair. All maintenance and repair are done in the Warsaw workshop or at any of the fourteen authorised service partners across the country²⁴⁶. Only two of the authorised service partners work exclusively for ABS. Pirate spare parts are common on the Polish market, why ABS needs to control pump repair through service reports, including what work has been done and what spare parts used.²⁴⁷ The selling factors of ABS' service offerings are good service packages and experience of serving pumps. However the distance to the customer furthest away is 600 kilometres, making it hard for ABS' personnel in Warsaw to move out to the customers' sites for service. Therefore it is common that ABS service engineers solve the customers' problems on the phone, why the service engineers need extensive pump service experience to understand what can have caused the customers' problems. New service employees are trained through so called learning-by-doing, by following an experienced worker²⁴⁸. ABS offers their customers different kinds of "do it yourself"-repair kits with spare parts and sectored drawings of how to replace the old parts with the new. They have been popular among customers and further a good way for ABS to reach the market outside the Warsaw area. The overhaul in the workshop, in-between two rental contracts, includes visual and electromechanical overhaul, oil checks, and

²⁴¹ Lewandowski (17/3/2005)

²⁴² Prusakiewicz (18/3/2005)

²⁴³ Lewandowski (17/3/2005)

²⁴⁴ Majkowski (18/3/2005)

²⁴⁵ Lewandowski (17/3/2005)

²⁴⁶ Ibid

²⁴⁷ Majkowski (17/3/2005)

²⁴⁸ Lewandowski (17/3/2005)

painting. However, when working with rental Majkowski says it is important to extend the service offerings. The service engineers should come to the customers instead of opposite.²⁴⁹

Until today ABS has not been in the situation of replacing an old pump with a new one, since the rental business is rather new and all procured pumps still are part of the fleet. However ABS' directions for the future are that when the costs of spare parts for a broken pump, labour costs excluded, exceed 70 per cent of the cost for a new pump the pump should be replaced.²⁵⁰

7.4 Future Expectations for ABS Poland

"Hey, we have a chance to be number one and set the standard!"

Lewandowski (17/3/2005)

Poland entered the European Union in 2004. The membership entails subsidies i.e. for construction works to improve the infrastructure. Between 2004 and 2006 Poland will obtain close to 14 billion US dollars in EU subsidies which will be used for different construction works²⁵¹. Lewandowski believes that it will take around seven years for Poland to adjust to the EU standard level of living.²⁵² This transformation will imply increased investment in construction. Further the EU membership will stimulate growth in investment and construction works in Poland, improved quality of construction works, and increased income among the Polish population, which will increase the demand of apartments, thus favour the construction industry. At present there is a shortage of one million apartments in Poland.²⁵³

There seems to be a growing trend in Poland to rent machinery instead investing in it. While doing so the customers of ABS Poland do not particularly expect to receive services according to Lewandowski. Thus ABS has the possibility to set the industry standards for rental business and create a service demand by offering high-end quality services that will increase the entry barriers to the industry. Lewandowski stresses that ABS must do something unique, not something the customers can do for themselves or something everybody else does.²⁵⁴ Prusakiewicz is aiming to rent a large number of pumps to the big construction companies in Poland, which can be used in many of their projects. Moreover he means that the voluntary fire brigade organisations around Poland are willing to rent pumps for dewatering of cellars etc. in private residences. The potential is rather big since there are about 1000 local communities in Poland with these kinds of fire brigade organisation.²⁵⁵ The plan is to set up an organisation of depots by starting with some of the authorised service partners. When expanding the business Prusakiewicz, the rental manager, has an idea of recruiting people with experience.²⁵⁶ Lewandowski means that about a week of

²⁴⁹ Majkowski (18/3/2005)

²⁵⁰ Ibid

²⁵¹ Klimek (21/4/2005)

²⁵² Lewandowski (17/3/2005)

²⁵³ Klimek (21/4/2005)

²⁵⁴ Lewandowski (17/3/2005)

²⁵⁵ Prusakiewicz (18/3/2005)

²⁵⁶ Ibid

training is usually enough as the product knowledge is rather easy to acquire, but it is important that the new employee has experience from the construction business and market knowledge.²⁵⁷

There are challenges facing ABS when implementing the rental business on the Polish market. ABS is not an as strong brand in Poland as in other countries and the market does not yet understand the rental offering, nor has the organisation any extensive rental experience. Further there will be challenges in controlling the distributors, since it is already a problem today with the service partners and there is a risk of competitors following ABS' move.²⁵⁸

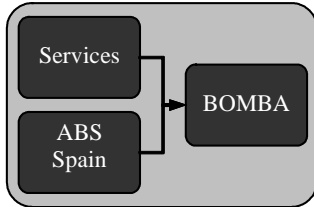
7.5 Conclusions of the Rental Business at ABS Poland

- **Small organisation** consisting of the head office together with the Warsaw depot and a number of authorised service partners all over the country. These service partners are a good platform when ABS is to expand its rental organisation.
- **Pirate spare parts** with poor quality are a problem among service partners, which forces ABS to set up a control system in order to handle this issue. ABS Spain's IT-system, which is about to be implemented at ABS Poland, should facilitate the control of the service partners.
- **The corporate culture** seems to be customer focused and the employees we met have a constructive attitude to the rental business.
- **Need for increase of sales and marketing activities**, which require more recourses.
- **ABS has the chance to be the first mover** on the Polish rental market for dewatering pumps. No other pump manufacturing company has a rental business on the Polish market and the machinery rental companies do not see dewatering pumps as an important business.
- **Goal oriented management** with a dedicated rental manager in Prusakiewicz who gives a professional impression with clear ideas for how to develop the rental business.
- **The future expectations** for ABS are good due to that Poland recently entered the EU. Management has clear ideas of how to develop the business, and ABS has a good network of service partners from whom a rental organisation could be built.

²⁵⁷ Lewandowski (17/3/2005)

²⁵⁸ Ibid

8 B.O.M.B.A. – The ABS Rental Concept



Inspired by ABS Spain Schwarz' goal is to transfer the Spanish concept to other ABS organisations in Europe. Therefore we will in this chapter describe B.O.M.B.A., a full scale concept for pump rental at ABS. B.O.M.B.A. is based on the rental business at ABS Spain, and in addition on our knowledge obtained from the service theories. We begin the chapter by describing the basis

on which we have developed B.O.M.B.A.. We continue by stating the Rental Offering for ABS. Further on we describe the Rental Organisation, Rental Team, Sales and Marketing, and Continuous Improvement Rental Team, which are needed to obtain the Rental Offering. However, it would not be doable to run the rental business full scale at all markets, why we will suggest different levels of rental business for ABS Sweden and ABS Poland in the following chapter. We would like to emphasize that B.O.M.B.A. is based on our theoretical and empirical findings to a large extent, and as external circumstances change the concept will most likely need to be modified.

8.1 Development of B.O.M.B.A.

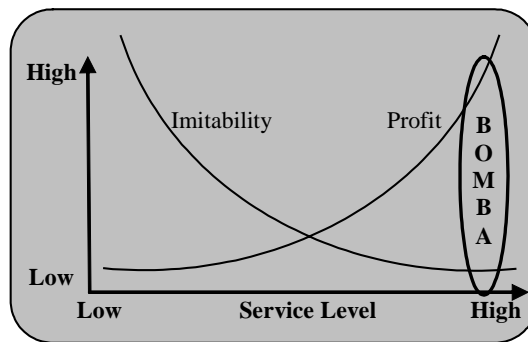


Figure 8.2. The graph shows how the profit increases concurrently with the service level. A higher service level increases the value for the customers. Simultaneously the services become less imitable as the offer gets more and more complex when the service level increases. The concept of B.O.M.B.A. includes a high service level, thus high profitability and low imitability.²⁵⁹

The inspiration when developing B.O.M.B.A. has been ABS Spain's rental business and the service management theories. There are several advantages with letting the rental business at ABS Spain form the basis for B.O.M.B.A.. First, ABS Spain has a relatively long experience of pump rental. The employees at ABS Spain have built a rental concept from scratch and have modified the concept as their experiences have increased. We believe their learning is meaningful to other organisations developing rental services. However, ABS Spain has developed its rental business to fit their external and internal conditions, why we believe it has to be modified to fit other markets. Second, ABS Spain is an ABS organisation, meaning that other ABS organisations can get full insight in ABS Spain's activities and get support from the Spanish rental team. It is good with the same concept in the whole corporation due to possible synergies. Third, ABS Spain has developed the convenient and user-friendly

²⁵⁹ Schwarz (22/4/2005) thus modified

IT-system, which Cardo Pump intends to implement in the other European ABS organisations. As the IT-system is based on the logic of the Spanish rental concept we believe it is appropriate to let the new rental organisations be influenced by it. The main lack in the Spanish rental business, identified in our research study, is the absence of documented processes. Documented processes for the rental business would not only be an advantage when transforming the concept to other organisations, it would also be advantageous for ABS Spain in order to streamline working methods and become more effective. With a cooperative European rental organisation we further believe there are opportunities for improvement for ABS Spain, as the degree of utilisation of larger pumps would increase due to increased exchange between the different organisations. We also believe in the opportunities of service development, which we will discuss further on in this chapter.

The service management theories point out the importance of service mind and customer focus in service oriented organisations. We believe this is true; however we believe that these factors are important in any relation between supplier and customer, even in product oriented companies. We would like to emphasize that all ABS organisations already work with customer relations and are aware of the importance of customer focus, but that in a qualitative service oriented organisation this focus will need to increase. In other words we would like to stress that the focus should be moved forward in the value chain.

8.2 The Rental Offering

In the rental offering for ABS the basic service package consists of any kind of dewatering services and any products needed to perform these services. The core service should be to move water. This should be performed together with the supporting service of consulting the customers how to dewater a site and providing the service channels needed to move the water. We follow Durango, the rental manager at ABS Spain, and suggest that the following service channels are needed to be able to offer dewatering solutions in any ground condition: dewatering pumps, hose pipes, wells, Wellpoint, and drainage systems. By supporting services like installation, 24-hours emergency services, and continuously monitoring of the dewatering situation on the site, ABS could differentiate from its competitors by taking the full responsibility for dewatering at the customer's site. Through this ABS has the chance of being a strong player on the dewatering market. To be able to obtain this rental offering ABS needs a clear strategy and guidelines for how to set up the organisation, what kind of people that are needed, how to approach the sales and marketing, and how to continuously improve the concept in order to keep up the competitiveness. Price to be charged for the core services could be price per pump and day. If a full dewatering consultancy is offered, and ABS takes the full responsibility for keeping the site dry, a total price per day should be charged no matter how many and which pumps are needed from day to day.

8.3 The Rental Organisation

For the rental business in each country we believe in a combination of centralisation and decentralisation. To optimise the degree of utilisation of the pumps a central warehouse would be appropriate to share the pumps between the branch offices. Moreover a joint IT-system is vital to facilitate the administration, coordination, and control of the business. Even though the branch offices should be controlled they

need some liberty of action and a feeling that it is their own business in order to create motivation among the employees. To achieve this feeling we suggest that the branch offices themselves plan and structure their operative business. Further a bonus system, depending on the result of the branch office, could be set up. It is still important that the decentralisation is not taken to such an extent that it is an obstacle for the organisation as a whole. There must not be a competition between branch offices in a way that they spoil for each other. The internal relations between head office and branch offices, and in between branch offices, should be good and close. We suggest i.e. team building activities for the whole rental team to exchange experiences.

8.3.1 Head Office

A pump rental organisation should, as a suggestion, have a head office in each country of operation. Each ABS organisation should have a rental manager and a rental coordinator. The main responsibilities of the rental manager would be to control the rental business and to develop the future strategies for pump rental within the country. However the rental manager should also coordinate future strategies and develop new rental services together with rental managers of other European countries.

8.3.2 Central Warehouse

The rental coordinator should handle the national pump demand by coordinating pumps between branch offices. Further the rental coordinator should make sure each branch office has an appropriate pump fleet to meet the average demand of a specific regional market. One of the incentives for rental business is to maximise the degree of utilisation for each pump. To keep a high degree of utilisation within a country it is needed to exchange pumps between the branch offices, thus being able to cover temporary high demand in a region without increasing the pump fleet. In order to streamline the sharing of pumps it is convenient to keep excess pumps in a central warehouse strategically located in the country.

8.3.3 Branch Offices

Each country should have regional branch offices, in order for ABS to cover the entire market and operate close to the customers. The number of branch offices, where they should be located, and how big they should be need to be analysed for each country. The national market demand and the concentration of construction projects in the country need to be regarded in the analysis. With the purpose of consolidating the organisation and keeping the rental manager and coordinator close to the operative organisation, we suggest that one branch office should be united with the head office and also with the central warehouse.

To deliver attractive services within the pump rental process each branch office needs personnel who sell the service offerings, repair, deliver and organise the pumps and moreover handle the administration related to the pump rental business. We suggest a full scale branch office to have a supervisor/manager, who has the outermost responsibility of the branch office. Further the full scale branch office should have at least one rental salesman, whose main task is to build customer relations and sell rental offers through being an expert on pumps and dewatering solutions. We believe it is convenient that the rental salesmen cover areas they are familiar with and in

which they have the capacity to actively promote the service offerings to all possible construction and building projects. The rental salesmen further need to have time to look after the relations with customer and potential customers. Our empirical study shows that personal relations are essential factors in the rental business.

The full scale branch office needs a receptionist, who works in the office to assist phone calls and customers visiting the office. It further needs an administrator, who handles the administrative work, including contracts and invoices. In a full scale rental organisation administrative tasks are time consuming, although the Spanish IT-system is convenient and easy to use. Each branch office further needs a workshop and a warehouse.

It may not always be appropriate to have one employee at each of the proposed positions. In smaller branch offices the branch office supervisor may take the role as both the rental salesman and administrator. Further the receptionist and administrator tasks may be performed by the same person.

8.3.4 Distributors

For areas where the market is too small for a full scale branch office but there is a need for rental pumps, it could be appropriate to have a distributor. Moreover, for the smaller ABS-organisations, like ABS Poland, expanding the organisation through distributors would inquire less investment than in-house branch offices. We mean that the relation between ABS and its distributors should be as the relation at ABS Spain, where the distributors ought to follow ABS' rules and regulations. This means that distributors work according to the same guidelines and processes as ABS, and preferably use the ABS logo on pick-up trucks, work wear, and business cards. We believe it is important for the whole ABS-organisation, including distributors, to offer the same equipment to the market and give the customers a conformed view of the company. Further the distributors need their own workshop and warehouse with spare pumps in order to offer the same good service as ABS does. However, like at ABS Spain, we suggest the distributors keep a smaller stock of pumps than the average branch office, since ABS does not have the same operative control of the distributors as of the branch offices. When a distributor during certain periods needs more pumps the coordinator should send the required amount of pumps to the distributor. The distributors should preferably use the same IT-system as the rest of the ABS organisation to facilitate the administration and control the business. In order to keep control of the distributors' businesses all invoicing should be done from ABS head office in the country.

8.3.5 European Rental Hub

The idea of using a central European rental hub for sharing pumps between the different ABS organisations seems interesting for the future. In case a specific ABS organisation needs pumps for a large project which it cannot provide itself, these pumps could be provided from the European hub. Since the utilisation of the rental fleet is low, i.e. at ABS Sweden, it could be an idea to collect a number of these pumps in a European hub. The main idea of this hub would be to provide the different ABS organisations with pumps for larger projects when the single organisations do not have a sufficient number of pumps. The European hub should also take care of all the larger pumps, which are expensive for the single organisations to keep in stock

due to the high initial cost and low utilisation. All ABS workshops do not have the facilities to repair large pumps, why it seems logic that this maintenance and repair should be performed by a workshop in the European rental hub. Of course the emergency services at the customer's site should be performed by the local ABS company as far as possible.

8.4 The Rental Team

The augmented service offering includes service interaction, customer participation, and service accessibility. Nordström and Ridderstråle (2000) say that the employees of a service organisation are the factor making the service offering of the firm unique, and Gummesson (2002) implies happy customers are the best marketers of the service offering. The empirical study of this master thesis shows that an important factor in service offerings is the relation and interactions between the service provider and the service receiver, the moments of truth. We believe a service organisation has employees working effectively and taking their own initiatives to meet the needs and desires of the customers. In order to achieve this we suggest the positions within the company to be boundary-spanning, which means that the personnel are competent within other than their main field. This can be obtained through internal training and close cooperation between departments. A good example of boundary-spanning personnel is Carmen Marin, the administrator of the Valencia branch office at ABS Spain. Within the rental process her main task is to manage the administration and receptionist tasks; however she also possesses the competence to consult customers regarding their choice of pumps.

Like Lovelock (2000) we believe in the importance of interpersonal skills, selling capabilities, and skills in co-production for the boundary-spanning personnel. ABS is a service provider with service engineers who deliver, install, and repair the pumps and rental salesmen who provide the dewatering consultancy. However, the administrator who has a supporting function is also responsible for interactions with customers. Thus all three positions affect the moments of truth and should all possess selling capabilities, as they all sell and market the service offering to the customers. In order to obtain the right personnel within the organisation we mean the recruitment process is extremely important, and EQ²⁶⁰ qualities should be just as important as IQ²⁶¹ qualities in the judgement of applicants. However the employees must believe in the service concept in order to be good sellers of it. Thus a combination of recruiting the right people together with a good internal education and marketing is important when building a service minded and competent service organisation.

An idea would be to utilise the competence at ABS Spain and let them train employees from other ABS companies. A training program could be set up to train, in the first place rental salesmen. We think the training should include both practical and theoretical training, where the trainees get the chance to follow a rental salesman at ABS Spain when working live with customers. The training program should be well planned and structured to make sure the training process becomes effective. A problem could be the language. However, this is something that could be overcome if the training is well prepared and the trainers speak English. The problem may be

²⁶⁰ EQ stands for Emotional Quotient

²⁶¹ IQ stands for Intelligence Quotient

bigger for training of service engineers, since most of the service engineers at ABS Spain only speak Spanish. Nevertheless we do not think a training program for the service engineers is needed, since the maintenance and repairs are simple enough. The rental salesmen should be showed the full rental concept including getting to know how the operative work processes should be coordinated.

8.5 The Sales and Marketing

Ford et al. (2003) discuss the complexity of relations with business customers and imply offerings to business customers include services, advices, logistics, and adaptation to the customer. Gummesson further (2002) points at the importance of cooperation, commitment, and trust in these kinds of relationships. The case studies show that good customer relationships are crucial in winning customers in the rental business and this is where the rental salesmen have a vital mission. We stress the importance of numerous customer visits to follow up the ongoing works and to keep a good social relation with the customers. It is not only about keeping up the present relation, but also a proactive action for future works with the same customer. Moreover the word goes around and ABS' good reputation spreads to other companies within the industry. The Swedish salesman Magander means that focus should lie on qualitative visits instead of quantitative. Obviously qualitative visits are important, but we imply that an informal social relation is best established with a lot of social gathering. Informal social relations are as essential as professional relations.

The main function of the salesmen should be to act as dewatering consultants and provide customers with professional advices in technical dewatering issues and economical concerns. They need to possess the ability to find solutions to any matter of customers' dewatering problems. It is essential that the added value of the rental concept, compared to the sales offering, is guaranteed and that ABS offering something the customers could not do on their own.

Another essential task for the rental salesmen is to act proactive and keep updated of upcoming big public works and building constructions. As early as possible ABS should contact the current construction companies for the identified projects to market its offerings. At this stage, in an ideal world, ABS has collected information about the current construction site and can therefore act skilled and professional in the meetings with the potential customer.

As mentioned in the theoretical section it is important to keep a good relation with persons at different positions at the customer company. Durango, rental manager at ABS Spain, has identified five key positions to focus on when establishing new customer relations. The key positions are both workers at the construction sites and managers who make the decisions and have the financial responsibilities. This is a professional and well structured way of work, which seems logic for other ABS companies to adapt. The key positions are: MD, project manager, construction workers, administrator, and receptionist. Logically the rental salesmen should take care of project managers and workers, but the managers at ABS are proposed to handle the relations with the managers of the customers.

Salesmen must to some extent have liberty of action in tendering processes. Durango stresses the importance of flexibility in the contracts, but we would rather say

controlled flexibility. By controlled flexibility we mean that the salesmen must be able to customise the solutions for each customer, but at the same time there needs to be a framework which cannot be extended. The most important variable which sets this framework are the daily costs of the different pumps. To be able to give customers a decent price it is vital for the salesmen to know the exact cost including spare parts, accessories, transport, workshop, and labour costs for each pump. These costs need to be carefully calculated at each ABS company since the costs will differ from country to country.

According to Tomiyama (2001) services cannot be stored. We do not fully agree on this and mean that services can be stored in some way. Obviously a specific service delivery situation cannot be stored as a product, but the ideas of the specific service can be stored in terms of well mapped and documented processes. It is therefore important for each ABS company to have their processes, operational as well as administrative, documented. The operational processes include mainly well structured ways to handle pump delivery, overhaul, and emergency services. The administrative processes include mainly handling of contracts, invoicing, and well structured marketing processes. We believe that these processes need to be adjusted and suited according to the current conditions in each ABS company. Again we would stress the importance of the processes being documented to make sure that everything can be forwarded to new employees. Moreover it is easier to streamline the processes and eliminate redundant activities if they are mapped and analysed in detail.

To give a professional image of the company we think it is important to show a clean and tidy workplace in the workshop as well as the office. Service engineers should wear nice and clean ABS working clothes including helmets for visiting construction sites. The cars used for delivering pumps should look new and professional with ABS' logo. Even more important is that the equipment ABS provides are clean and painted when delivered to customers.

8.6 The CIR Team

Services as well as products need to be improved continuously. In the theories of service engineering a number of service development models are discussed. According to ABS' fairly small national organisations we do not think it is appropriate to set up a service development team for each country. However the services and the rental concept in total will have to be improved continuously in order to remain competitive. Our suggestion for ABS is to set up a *Continuous Improvement Rental (CIR) Team* with the rental managers, or equivalent, from each country together with a central service engineering coordinator from Cardo Pump as the team leader. The tasks for the team would be to meet once or twice a year to discuss and come up with suggestions for improvement of the rental concept. Moreover some pressure should be put on each rental manager to implement these changes and improvements to make sure they really happen. By this team the various ABS companies can learn and take advantages of each others experiences and knowledge.

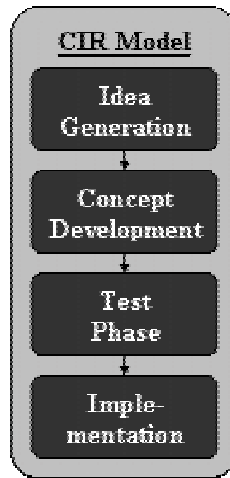


Figure 8.2. The figure shows the CIR waterfall model for the continuous improvement of B.O.M.B.A.. The model includes the four phases: idea generation, which occurs continuously in the national organisations, concept development, which takes place at the CIR team meetings, the test phase, which is performed with a few customers, and implementation, which takes place at the ABS companies where the service is applicable.

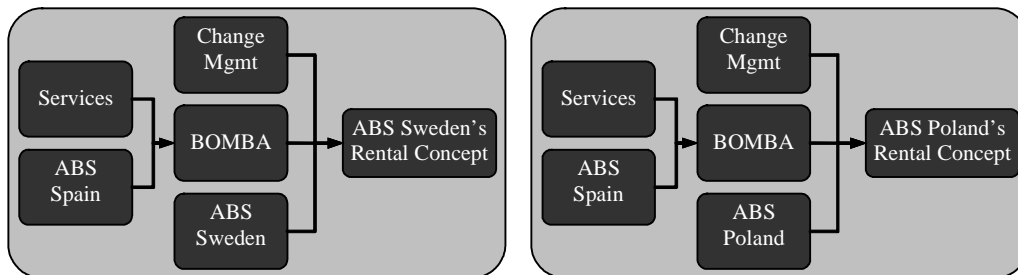
From the service engineering theories we have learned that formalised work models are an effective way to improve and develop services. We suggest that the CIR team should work after a waterfall model, with distinct phases. This makes the development process easier and clearer as the team is split over many countries. Even though the work process should be formalised with a model we believe in a simple model with four phases which we call the CIR model, see figure 8.2. The four suggested phases are: idea generation, concept development, testing, and implementation. *Idea generation* is done continuously by everyone working with rental. The rental managers collect the ideas through communicating with employees and customers and choose the best ones to bring to the CIR team meetings. In the meeting the team decides what ideas to bring forward to the next phase which is the concept development phase. In the *concept development* phase the ideas are conceptualised, which describes more in detail how the new improvements should be carried out. This phase could be done either in the meeting or in between the meetings, due to the scope of the improvement. Also depending on the scope of the improvement the *test phase* should be performed with one or a few customers, maybe in different countries. If the tests come out well the ABS companies, where the service is applicable, should go into the *implementation* phase which includes marketing and roll out of the new or improved service.

8.7 Conclusions of B.O.M.B.A.

- **The rental offering** includes supplying the services of dewatering and keeping the customer's construction site dry. The equipment needed would be dewatering pumps, hose pipes, wells, Wellpoint, and drainage systems. The supporting services could include dewatering consultancy, installation of pumps, 24 hours emergency services, and for ABS to continuously monitor the pump- and water situation at the customer's site.
- **The rental organisation** includes a head office and a central warehouse, and in addition regional branch offices and distributors. A European hub should be set up to provide pumps for the larger projects.
- **The rental team** includes boundary-spanning personnel who are customer focused, proactive, and service minded. To utilise the competence at ABS Spain a training program could be set up to train in the first hand the rental salesmen from other ABS companies.
- **Sales & marketing** includes mainly creating new and maintaining the present customer relations, keeping control of the costs for each pump model, and mapping the processes in order to streamline the business.
- **The CIR team** should continuously improve the rental business at ABS through continuous idea generation and European CIR team meetings.

9 The Transformation Processes

In this chapter we elucidate the drivers for implementing pump rental business, both in general and at the specific Swedish and Polish markets. We discuss, for ABS Sweden and ABS Poland respectively, how the concept, due to the various barriers, can be implemented and how far the concept should be taken in each country due to the internal and external circumstances. Finally we suggest a three-phase process for each organisation in how the change should continue. Our discussion is based on our empirical findings from ABS Sweden and ABS Poland respectively and further B.O.M.B.A. and change management.



9.1 The Main Drivers for Pump Rental Business

The main driver for ABS to implement pump rental business on either market is the opportunity of increased profits. A dewatering rental and consultancy business is a profitable business, on small as well as on large scale. Further a service focused company is not as sensitive for the product as a pure product oriented company is. Renting is valuable for customers as they avoid the responsibility and investment in the physical product. This makes it a win-win situation. Rental business also gives ABS an opportunity to emphasize an environmental aspect of its business. Environmental issues are getting more and more focus and as the PSS concept suggests rental increases the utilisation of equipment, which is an environmental advantage. Thus ABS could stress the environmental factor in their advertising. Further, there are specific drivers for pump rental business for the Swedish and Polish markets respectively.

The main drivers for the Swedish market are the opportunities of expanding a business that has reached maturity and, in addition, the large ongoing and upcoming infrastructure projects on the Swedish market. It would be a good opportunity for ABS to perform an offensive change by introducing a solid rental concept in order to add more value for the customers. This would give ABS the chance to position itself on the market as a service provider, thus differentiating from its competitors, the other pump manufacturers. In order to do this ABS must offer its customers extensive services and a more complete and attractive rental solution. The flexibility needs to be high and ABS must proactively market itself as a service provider with customised solutions. With extended customer focus ABS should offer its service receivers professional advice and trust, while increasing the gross margin, thus improving ABS' results. The large infrastructure projects in Sweden, such as *Citytunneln*, *Botniabanan*, and *Norra Länken* increase the overall potential for the construction

business and therefore also the dewatering business. ABS has a good position for these kinds of large construction projects. Pumps are only a small part of machinery rental companies' businesses and they may not have resources to provide big amounts of pumps for larger construction works. Further the construction site environment at tunnel constructions is usually rough, why the pumps require frequent repair. We believe ABS has better resources than the machinery rental companies to handle this, thus this means upcoming opportunities for ABS.

One of the main drivers for implementing rental business at ABS Poland is the opportunity to set the standards on the Polish pump rental market. As no particular pump rental actor is present on the Polish market, ABS has the chance to show the market what a professional and qualitative pump rental company has to offer and why its offerings are advantageous. Not only will this give ABS a first mover advantage, it will also increase the entrance barriers on the pump rental market, giving ABS even bigger advantages. Another driver for the pump rental business on the Polish market is the expected growth in construction and infrastructure projects due to the entrance in the European Union. The living standard in Poland is still below EU standard and will thus be subsidised in order to reach an EU standard level of living including infrastructure. There are further opportunities for even more construction projects helped by other EU subsidies. The overall machinery rental business in Poland is growing. ABS Poland possesses good experience and knowledge of the pump business as well as the construction industry, and therefore the potential of growing the company and its rental business seems good. Finally ABS Poland is a small organisation without a rental history, why there will be no former corporate culture to change in setting up a rental organisation. However we would like to stress the importance of creating an appropriate, service minded, and dynamic corporate culture from the beginning.

9.2 ABS Sweden's Rental Concept

9.2.1 The Rental Offering

Many of the employees from the former Pumpex company do not agree with the double-branding strategy and think that it is a bad idea to exchange the well-known Pumpex brand with ABS for rental. We definitely disagree with this opinion. The new ABS company has changed strategies to become more service oriented than Pumpex was and we think ABS Sweden now has a great chance to show their customers what values the *new* ABS brand offers. Before the new strategy is supported internally in the organisation, it will be tough to show the customers a united view. This forces a need for change in the corporate culture and will be one of the main barriers for ABS, which quickly must be overcome in order to not send an ambiguous message to the market. The mentality and focus of the organisation needs to be modified. A barrier related to this could be a conflict between the sales- and rental functions. Increasing the rental business may to some extent decrease sales, thus the rental strategy may be counteracted by the sales function. Further, having the two functions competing about the same customers would give the market an ambiguous message of ABS' strategy. To overcome this barrier ABS needs to develop a clear strategy for the rental business, decide whether sales or rental should be the company's primary activity, and which markets that should be targeted by which function. Due to the increasing need for resources a crucial point will be how much top management is willing to

invest in the rental concept. Another challenge is ABS' future relation with the machinery rental companies. It would be hard for ABS to win customers if their offering was identical to the rental companies', but without the whole machinery package. To master this barrier ABS' offer must be clearly defined and differentiated from the rental companies'. ABS should be a dewatering solution provider with offerings including extensive professional services and consulting.

When ABS has identified the target markets for the rental offering the company should identify the needs of the customers. The rental offering should be based on what the customers request and value. With the customer needs in mind we suggest the core service should be developed to primarily include dewatering consultancy for construction sites with the most suitable equipment for the current situation. We suggest ABS Sweden to use dewatering pumps, hose pipes, and wells as the service channels in their rental offerings. Other equipment may be supplemented in the future, but we believe it is better to make the business running with the service channels already available in the organisation. Wells are not offered today but they are rather uncomplicated and would allow dewatering at lower ground levels and thus be appropriate when ABS has to solve more complex dewatering problems. As supporting services we suggest ABS Sweden, from start, to offer installation and 24-hours emergency services. In the following sections we describe what changes are needed for ABS Sweden to be able to offer such a rental offering.

9.2.2 The Rental Organisation

The rental organisation in Sweden is fairly well developed, with a head office in Stockholm and five depots in Stockholm, Gothenburg, Malmoe, Karlstad, and Nordmaling. However the lack of geographical presence in many parts of Sweden is stressed as a problem for the future by a number of ABS employees. We do not see this as a big problem. ABS is available in the most urbanised areas and in addition in the region of the extensive railway project *Botniabanan* in northern Sweden. We believe this geographical presence is a good start for expanding the rental business. By beginning the expansion of the rental business in the mentioned regions ABS will catch important large infrastructure projects, in which they can compete as a service provider by adding more value than its competitors in sense of better service, selection, and know-how. Until the organisation has expanded further we suggest the rental manager and the rental coordinator to be the same person, situated at the head office. It seems logistically logic to use the depot in Stockholm as a central warehouse. Through this ABS can keep investments down and let the organisation grow along with increased demand for the rental services. A way of expanding the organisation while keeping investments low is to use ABS' 28 service partners as local distributors under similar conditions as ABS Spain's distributors.

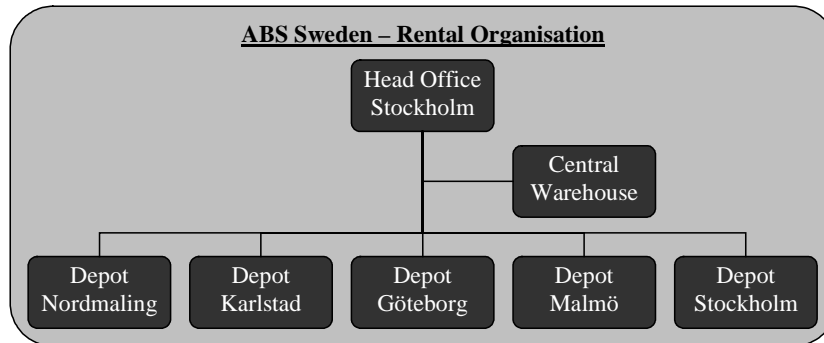


Figure 9.2. The organisation chart shows the suggested rental organisation of ABS Sweden. It includes the already existing depots and in addition a central warehouse, which preferably should be situated by the depot in Stockholm.

9.2.3 The Rental Team

More resources in terms of workshop personnel and rental salesmen are needed to intensify and fully adapt to the rental concept. ABS needs to intensify the marketing activities and proactively contact potential customers. One rental salesman for the entire Swedish market is not enough. To cover the areas where ABS is present today we would suggest that at least two rental salesmen, one in Stockholm and one in Malmoe, are needed to build and keep good customer relations. Our understanding, when talking to the Swedish salesman Magander, is that it is easier to make good offers and seems more professional if the salesman has knowledge about the geographic area when dealing with customers. Malmoe is a vital area, why we suggest this area should get its own dedicated rental salesman with the duty of handling the large project of *Citytunneln*. Moreover this salesman could cooperate with ABS Denmark. The Malmoe salesman could also be responsible for the Gothenburg area. We suggest the salesman in Stockholm takes care of the other areas where ABS is present. For the close future, when the business has started to grow, we propose ABS recruits one rental salesman at each depot. The rental salesmen should work actively towards relations with existing and new customers. To keep investments low we further suggest that the rental salesmen handle the duties of a branch office supervisor and receptionist and preferably have local knowledge and experience from the construction industry and/or the dewatering business. If ABS follows our suggestion and rents out hose pipes, both personnel and equipment are needed to clean and handle the hose pipes upon return to the workshops.

To obtain this team and rental offering ABS Sweden needs a strong leader, which they do not have today in our opinion. Our suggestion is for ABS Sweden to recruit a rental manager who is a strong leader with commanding presence, the ability to motivate people, and lead the change convincingly. Moreover the rental manager should have a solid experience of the construction industry in order to lead the team in the right direction. We also think ABS Sweden needs to extend the overall competence of the service engineers. The service engineers are important in rental organisations with a higher service level. These are the employees who will meet the customers and deliver the services which must be done in a professional way. Customer focus, service mind, and competence are key words for the service engineers. The rental team needs a deep understanding of the customers' processes in order to catch the rental concept. To be able to give professional advice and act as a

dewatering consultant it is crucial to know how the customers' businesses work. In order to adapt this understanding a higher competence level must be employed to ABS. The salesmen need to be experts in the dewatering function and moreover have knowledge about the construction industry. To pose as a dewatering consultant it will not be enough to know the technical specifications of the pumps. It will be of higher importance to have knowledge of how water works and what needs to be done to keep a construction site dry in the most effective way. This task will require boundary-spanning personnel, who can handle customer relations, consultancy, and installations of pumps as well as marketing of ABS dewatering business. For these activities it is an advantage for the salesmen with good interpersonal skills and an outgoing attitude. The employees represent ABS in anything they do and in the moments of truth the personnel's efforts must correspond to the customers' demands. If ABS' personnel act unprofessionally and lack in competence it will definitely have negative impact on the customers, and further it will be tough to put the ABS brand on the market as a dewatering consultant.

An appropriate core rental team should, as a suggestion, consist of a rental manager, at least two dedicated rental salesmen, and a sufficient number of service engineers to handle the equipments, maintenance, and repairs. As we suggested above, initially the rental salesmen should be based in Malmoe and Stockholm. We believe the change to work more service oriented implies new ways of approaching the market and new opportunities of where to add value. The employees working within the rental function needs to believe that the rental offer is great in order to convince the customers. We believe the change of becoming a full scale rental and service oriented company takes time, as it inquires both a mentality change and increased resources. However many employees at ABS Sweden were hired rather recently and may therefore be more adaptable as they do not have any history to refer to within the company. At the same time our overall impression of the people in the organisation is that they are resistant to such a change.

9.2.4 Sales and Marketing

Customer relations

We believe customer relations are crucial if ABS Sweden shall be able to expand its rental offering. The rental offering must guarantee added value in comparison to the regular sales offering and therefore ABS needs to win confidence from the market through building good relations with both existing and new customers. ABS needs to proactively look for new potential customers, and at an early stage contact potential construction companies for new large projects. It seems logic to identify which persons in the construction company to focus the relationship building on, and allocate the responsibility within ABS for whom to manage the relations with which persons. A danger lies within the fact that relations are between persons and thus that employees leaving ABS may bring their relations along. Due to this we think it is important that not only the rental salesmen keep relations with the customers, but higher positions within ABS also need to keep contact with the customers to penetrate the relation between the companies instead of only between the persons. We suggest the rental manager should have personal discussions on progress with each of the rental salesmen, with measurements of customer visits and sales results as a ground for the discussion. At these discussions yearly targets should be set for each salesman

and plans should be made for how the rental salesman should target new customers and projects.

We strongly recommend ABS to carefully clean and paint the pumps before providing them to the customers. Tidiness is a good way of gaining trust and giving a good impression. Moreover offices as well as workshops should be clean and tidy to show visitors an overall professional image of the company. Included in the overall professional image should be for service engineers to use working-cloths and cars with ABS logo.

Pricing strategy

Each one of the rental salesmen needs to know the discounts limits for tendering procedures. In order to do so, ABS needs to keep control of the costs for each pump model and be able to calculate the costs for each pump. Presently ABS Sweden does not know the cost for each pump, which makes it hard for the rental salesmen to know how flexible to be with discounts. We suggest ABS Sweden to follow ABS Spain and calculate the costs per day including transport, maintenance, spare parts, accessories, labour, and other special costs for each pump model. By introducing these calculations ABS gets the chance to adapt the controlled flexibility in their rental offering. These calculations will be much easier with the implementation of the IT-system.

We suggest ABS Sweden prepares one single price list and that the rental salesmen work with discounts from the pricelist in the tendering processes. We stress the conception of controlled flexibility, with which we mean control of costs in order to become flexible with discounts towards the specific customer. We further stress the importance of ABS daring to charge the customers for services beyond the core service. To be able to keep the quality of the services high the services must bring in money. Our opinion is that ABS should charge its customers for sealed spare pumps, even if they end up being unused, as the service of offering spare pumps requires ABS to keep a larger rental fleet. The final price to the customers should depend on the kinds and number of equipment, the supporting services, and of course the size of the project.

Process mapping

When implementing the rental concept we think that it is important to carefully map and document at least the main processes for sales, marketing, logistics, and overhaul. It is important as it visualises the different processes and makes it easier to streamline and rationalise them. With documented processes it is easier to measure the efficiency of the processes and guarantee the quality of the work. Moreover the documentations may be a tool of introduction for new employees in the company.

Machinery rental companies

Neither ABS nor Pumpex have any considerable sales or rental contracts with any of the big, influential machinery rental companies today²⁶², why we would suggest ABS to fully compete with the machinery rental companies. To be able to win customers from the rental companies it is essential for ABS to clearly show and market an

²⁶² Schwarz (22/4/2005)

extended service offering. We think ABS must be patient in this process, keep contacting potential customers and convince them about ABS' added value compare to the machinery rental companies. Our suggestion for ABS is to aim at being good enough at providing dewatering services so the machinery rental companies in the future are willing to outsource their pump rental business to ABS.

9.2.5 How to Get There?

Phase I – Establishing vision and strategy

First of all we think it is important for management to clearly set and communicate the strategy to the organisation regarding the rental and sales business of dewatering pumps. There must not be a conflict between these functions and we believe this is important to make clear to everyone before starting to expand the rental concept. Who will be the targeted rental customers and who will be the targeted sales customers? Will ABS target some customers for both rental and sales? In that case, we think there must be guidelines for the salesmen how to approach these customers.

To really emphasise the change process we suggest ABS to set up a dedicated change team that is responsible for the operational change process. The members in this team should come from different functions and levels in the organisation, to enlarge the competence base of the team, and moreover for the organisation to feel confidence and trust in the team. Leader for this team should preferably be the rental manager, who in that case must be recruited.

Phase II –Goal setting and detailed design

The change team should be totally responsible for phase two which includes goal setting and detailed design of the transformation process. Below we are discussing suggestions for the change team to deal with.

At least one more salesman should be recruited to increase the sales and marketing activities. If the strategy is clear and communicated to everyone, the marketing activities could start directly to prepare the customers for what services ABS will offer. To prepare for effective working methods the processes of i.e. sales, marketing, and services need to be mapped and streamlined. With documented processes it will likely be easier for ABS to identify how much personnel needed for the different processes and therefore also for the whole business.

If the central warehouse will be located by the depot in Stockholm it will need to be prepared for storing of a large number of pumps. Moreover the warehouse must be well organised for pumps to be coordinated and sent to other depots in a convenient and fast way. This means there must be a structure of how to arrange the pumps according to if they are waiting for overhaul, under repair, ready to be shipped etc. If ABS follows our suggestion and offers hose pipes for rent more equipment is needed to handle dirty and messy hose pipes. Machines to clean and coil up the hose pipes would be suggested.

With respect to the calculated cost per day and pump, the work processes, market price, and added value from ABS compared to its customer, a new price list should be

created. From this price list a clear policy and strategy regarding discounts should be set up. Salesmen must have guidelines to work after in tendering processes and in the same manner be able to be flexible against the customers. This would be the ground for our suggested controlled flexibility.

Finally a clear strategy should be set for how to handle the machinery rental companies. We think this strategy should be set in cooperation between management and salesmen in order to catch the best solution.

Phase III – Implementation plan

The change team should set up an action plan for the implementation phase, to know when to implement what, in order to reach a high performing rental organisation. Moreover the action plan should include training sessions to make sure everyone is familiar with the new processes, tools, and the new corporate culture.

It will be of outermost importance for the change team as well as for management to anchor the new culture in the organisation. Old values must be reconsidered and the focus should be put on the future. To reach this new culture we think both middle and top management need to show their participation and assistance in removing obstacles to prove the new ideas. Moreover it will be up to management to show the organisation how it progresses due to the changes.

9.3 ABS Poland's Rental Concept

9.3.1 The Rental Offering

In order for ABS to set the standards on the Polish pump rental market, the rental offering needs to be convincing. The rental offering should add value to the customers' processes through competence, services, and good relations. However ABS Poland is in the very beginning of their rental business and does not have all the required resources. We suggest the core service should be dewatering consultancy in addition to providing and maintaining the service channels: dewatering pumps, hose pipes, and wells. The supporting services should be trustworthy and fast deliveries, and maintenance and repair of pumps. In order to offer pump delivery and installation the Polish organisation needs to expand, as the employers work with maximum work load today.

9.3.2 The Rental Organisation

The main barrier for ABS Poland is the implied work and risk of setting up a national rental organisation from scratch. Previous attempts for pump rental business in Poland have failed, maybe because of insufficient knowledge or addiction to the business. However we believe it is important for the organisation to grow slowly but steadily and reduce the risk by keeping the investments low. At the present moment ABS Poland has 14 authorised service partners with the potential of being rental distributors for ABS. Starting to expand the organisation through these service partners would be a good way of building the rental organisation with a rather low initial investment. A good start would be to set up distributors in the four next big cities after Warsaw, since this is where there are most construction and infrastructure works. However a good plan for how to control and motivate the distributors has to

be developed. ABS experiences problems with pirate spare parts and black market sales among its service partners. ABS needs to set up a system that controls the distributors to avoid bad reputation of the ABS brand, due to poor quality in pirate spare parts and irresponsible customer relations. We suggest that ABS Poland should learn from ABS Spain how to handle the distributors, and moreover use their own experience in setting up such a control system. The employees at ABS Poland do not seem to bother too much about the changes in their organisation, but they rather seem full of expectations for the growing business. To keep the employees motivated along the transformation process it is important to keep the whole organisation informed about the coming changes and implementations. Information meetings with open discussions are recommendable to make sure that everyone will be involved in the process.

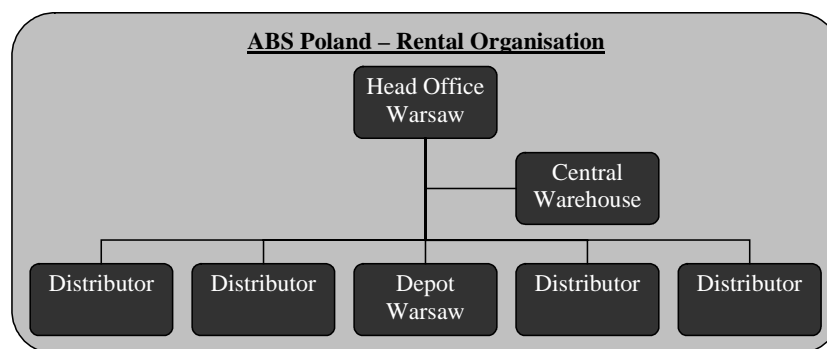


Figure 9.4. The suggested rental organisation of ABS Poland includes the existing depot and head office in Warsaw and in addition a central warehouse, which preferably will be situated by the depot in Warsaw. The four unnamed distributors are suggested to be located in the next four largest cities in Poland.

Another barrier regarding building the rental organisation is the need for a substantial resource base. The base should consist of human- as well as technical resources, such as rental fleet, service workshops with proper equipments, and a comprehensive IT-system to enable a smooth administration. As the Polish organisation administrates much by hand, the administrative situation will be very different after the implementation of the Spanish IT-system. The implementation is urgent and suggested to take place during 2005 since the employees at ABS Poland work with maximum workload and need the effectiveness associated with the IT-system. The sooner the system is implemented the sooner the employees will feel comfortable working with it. Further it should be easier to implement the system while the rental organisation is as small as possible. We suggest a central warehouse should be located in Warsaw. As the distributors should have a slightly lower buffer of pumps in the warehouse there needs to be a buffer in Warsaw big enough to manage peaks in the distributors' regions.

9.3.3 The Rental Team

The rental team at ABS Poland needs to be expanded in order to handle the pump rental business proactively. We believe the rental manager should be responsible for the Polish rental market and keep control of the distributors. The organisation needs to be expanded by a rental salesman, who actively works to promote the rental business and find new customers. Majkowski visited plenty of construction

companies during 2002. These contacts need to be taken care of by a new salesman, to be able to build relations and set up a customer base. The service manager needs to coordinate services between different workshops and also logistics between the warehouses. The personnel need to be boundary-spanning and prepared to help each other with various tasks in order to build up the rental business in the most effective way.

As for ABS Sweden it is important for ABS Poland to recruit persons with knowledge and experience from the construction industry. We think these skills are important, not least in the start-up of the rental business. Experienced persons can bring good valuable ideas for the rental business. We would further like to emphasize the importance of a relationship building rental team with heterogeneous skills, who can develop lasting customer relations and complement each other.

9.3.4 Sales and Marketing

Sales manager Lewandowski believes that the business pick-up related to the EU subsidies will not be noticeable until the year 2007²⁶³. This may be a threat as the desired increase in the construction industry may be delayed. The slack in new infrastructure projects does not mean that ABS can relax. To make it difficult for up coming competitors trying to follow ABS' move, ABS needs to be quick, guarantee the first mover advantage and make it hard for competitors to follow. This is especially important as ABS is a brand with a rather small market share in Poland. ABS should take the chance to build its rental organisation and customer relations to be well prepared when the number of infrastructure projects increases.

Customer relations

From earlier efforts ABS Poland has a directory of potential customers, used for e-mailing advertisements. We strongly recommend that ABS as soon as possible recruit a rental salesman with focus on customer relationships, who can start visiting and building stronger relations with these potential customers. The rental manager Prusakiewicz has started to deal with big construction companies in order to rent out a large number of pumps to the same company, to be used in different projects. We believe this is a good start, but we will also stress the importance of the relations with the construction workers who are the actual users of the pumps. This will probably be an objective for the new salesman.

As at ABS Sweden we strongly recommend ABS Poland to carefully clean and paint the pumps before providing to customers. Moreover an overall professional image of the company should be shown by keeping the ABS workplaces clean and tidy and using ABS working clothes and cars.

Pricing strategy

ABS Poland is in progress to develop a new pricing strategy. We suggest the pricing strategy to be in accordance with the Spanish one, a price list with a basic price and flexible discounts. Through cost control of each pump, which will be easier with the IT-system, the rental salesman will be able to know at what level to put the discount.

²⁶³ Lewandowski (17/3/2005)

Process mapping

Since the rental business is not yet particularly developed at ABS Poland, the company has the chance to set up effective processes and even try different ways of working and then select the best ones. It would be a good idea to first document the best theoretical processes, test and adjusted them.

Machinery rental companies

The machinery rental business in Poland is growing, but pumps are not a big business for these companies. Due to this fact we do not see any reason for ABS Poland to cooperate with the machinery rental companies. Instead ABS has the chance to build up its own business, win its customers and set the standard on the Polish market. Our suggestion is to ruthlessly enter into competition with the machinery rental companies.

9.3.5 How to Get There?

Increasing the rental business at ABS Poland is not a change process in the same way as at ABS Sweden. ABS Poland starts more or less from scratch in developing a rental organisation and therefore they do not have to change a confirmed corporate culture. However it will be as important for ABS Poland as for ABS Sweden to build a suitable service minded and customer focused corporate culture for the rental business.

Phase I – Establishing vision and strategy

ABS Poland needs to set and communicate a clear vision and strategy for rental and sales of dewatering pumps. As at ABS Sweden the targeted rental and sales customers must be identified and a strategy for how to approach and handle them must be set.

Since the organisation is still small, it is not a good idea to set up a change team in the same way as at ABS Sweden. At ABS Poland it would be appropriate that the rental manager Prusakiewicz takes the full responsibility for the developing process of the rental business. However it is important that he keeps a continuous two-way communication with the rest of the organisation.

Phase II –Goal setting and detailed design

It is crucial to get the new IT-system implemented to facilitate the administration and record keeping of documents. The IT-system will further simplify the control and coordination of the pumps, as well as it will assist the progress of a careful cost control.

We would suggest the rental manager to set up a plan including how to build and locate the organisation and the rental team, including salesmen, service engineers, coordinators etc. Both more depots and personnel are needed to expand the rental business. The identification and recruitment of the new employees are important in order to build the wanted corporate culture. We also think ABS Poland should act rather rapidly, in order to be the first mover on the Polish market and set barriers for up coming competitors.

As for ABS Sweden we stress the importance of mapping all the processes related to the rental business at ABS Poland, including sales, marketing, and services to streamline the activities. We know that a new pricing strategy is under construction at the time of writing. However we advise ABS to take it slow and first map the processes in order to identify the costs and work load more in detail.

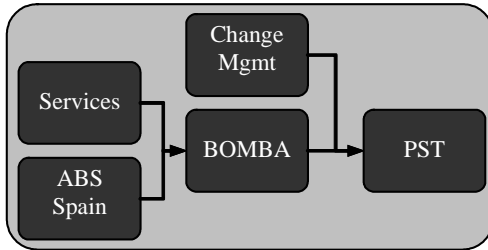
Phase III – Implementation plan

The rental manager should set up an action plan for the implementation phase, to know when to implement what in order to reach a rental organisation. Moreover the action plan should include training sessions to make sure everyone is familiar with the new processes and tools. Moreover it will be up to management to show the organisation how it progresses due to the changes.

9.4 Conclusions of the Transformation Processes

- **The main drivers for pump rental business** include mainly the opportunities of increased profits. The Swedish pump business at ABS has reached maturity, why rental business is an offensive way to change the company with the aim of increasing market shares. ABS Poland has the opportunity to create a market and set the standards, and through this increase the entrance barriers for potential competitors.
- **ABS Sweden's rental concept** is mainly threatened by the internal resistance to change. Management must set and communicate a clear vision and strategy for the future. If management decides to focus on pump rental the corporate culture must be changed and the customers needs put in focus. The employees must believe in the new concept of being a dewatering consultant to be able to sell the offering to customers. We suggest ABS recruits an experienced rental manager who is able to lead the change process and implement and maintain the new rental concept.
- **ABS Poland's rental concept** has a great potential and the challenge lies in building and developing the physical organisation, including central warehouse, depots, and distributors. We suggest ABS Poland expands its rental organisation through their authorised service partners. Another challenge is to set up a control system in order to control that the service partners and distributors do not use pirate spare parts for repair, as this gives the ABS brand a bad reputation. Further ABS Poland needs to market its rental business and work hard on building relations to potential customers.

10 The PST Model



This chapter concerns the factors needed to transform a product oriented organisation into a service oriented. Our model is inspired by both theoretical change methods and our own experience from the empirical research of this master thesis. We have developed the Product to Service Transformation (PST)

model, which is a suggested generic step-by-step method for transforming product oriented companies into service oriented. The PST model consists of three phases, each with a number of steps. Our division of phases is inspired by the common phases we identified among step-by-step models for change and which we presented in Chapter 4.

10.1 What is needed to Become Service Oriented?

Adding services to product offerings has become a common way of differentiating product offerings when seeking new business opportunities and meeting declining profits in mature industries. Service orientation requires increased customer focus, increased competence in order to consult customers, and a positive attitude in the organisation towards the service offering. However, service orientation is not only about increasing services to be competitive; it is also a way to protect environmental issues as resource utilisation is increased at the expense of production volumes. When a company transforms from product- to service orientation, a clear vision needs to be developed and communicated within the organisation. The vision should be based on the service perspective and regard services as the main provider of value for customers. It is not enough for top management to state that the company competes with services, but instead define the attractive characteristics of the services, position the company towards its customers, and focus the company's efforts. Service oriented companies may still compete with more product oriented companies within the same industry. In order to make profit of the services the service offerings need to be clearly differentiated from regular product offerings in order for the customers to see the surplus value of the service offering. Further the top management team needs to believe in the service orientation, be dedicated to launch the new strategy in the organisation, and support the change through the entire process. Together with the chosen leaders of change, the top management team needs to make an overall strategy for the change process with clear phases and deadlines to prevent the process from coming to nothing. Organisational changes may be hard to implement as the organisation may lack confidence in the change. Therefore the leaders must promote the change intensely and continuously. The vision must engage the employees during the change and carry more weight than doubt regarding the future. The employees should be engaged in the change process and frequently informed about what has happened and what is about to happen. Through communicating with the organisation the leaders may learn about the employees' attitude towards the change and why the attitudes are the way they are. Being aware of this facilitates the process of changing the organisation's attitude towards the change. Through involvement in the change process we further believe the employees' opportunity to affect the direction of the change will increase their motivation to change.

10.2 The Three Phases for Change

Although a step-by-step method for change is time consuming we believe it is the most efficient way to create accepted and lasting change, since it is a well-planned process involving not only the leaders but everyone who will be affected by the change. We think it is enormously important that the whole organisation accepts the change in order for the change to be implemented for real and not only on the paper. However we think the step-by-step method may lose its efficiency if the planned deadlines keep being moved forward. If the organisation stops believing in the importance of deadlines and the whole change process is prolonged, the organisation may never reach the final phase. The transition of a product oriented company moving towards service orientation is an offensive change which must be carefully performed to make sure the new ideas and processes become well rooted in the organisation. We suggest a three phase model for these kinds of changes. We call this model the *Product to Service Transformation (PST)* model, see figure 10.2, and it includes *change initiation*, *concept development*, and *implementation*.

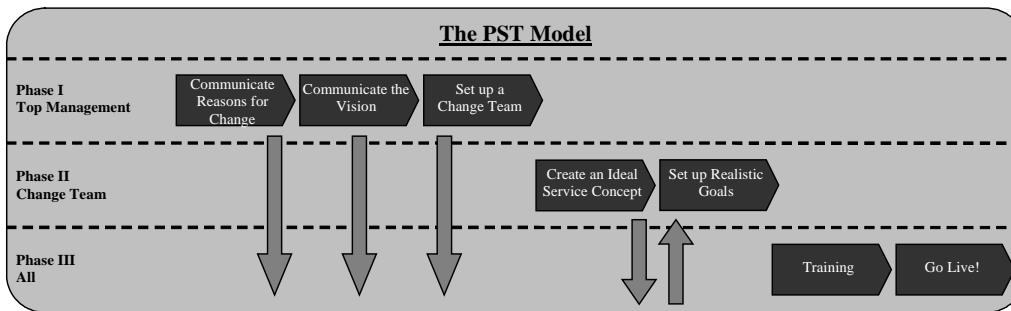


Figure 10.2. The PST model visualises our suggestion of how a transformation process from a product- to a service oriented company should be performed. The three “swim lanes” represent the three different phases. The figure shows the groups responsible for each phase. The arrows show the directions of communication in the different phases.

Phase I – Change initiation

The first phase in the change process is to be managed by top management, who takes responsibility for communicating the reasons for change, setting up and communicating a clear vision and an attractive service offering, and setting up a change team which will be responsible for the change process. Top management influence the rest of the organisation to a large extent, and their attitudes towards the change largely affect the organisation’s attitude towards the change. Even though top management only are directly involved in the first phase, we recommend top management to continuously show their support and participation even through phase two and three.

Step 1 – Communicate the reasons for change

In order to get the organisation to accept a change and a new focus within the organisation, top management must be able to clearly communicate and show obvious reasons for changing the company. This could be done by simple hard facts including i.e. market position, financial performance, and technological trends together with future scenarios showing that the company will stay behind its competitors if they do not change in advance. The reasons should also include the expected opportunities

with a value creating, service oriented offering, to convince the organisation about the advantages of the change.

Step 2 – Communicate the vision

The vision should communicate a desirable situation for the company and its employees. However, at this stage it may not be possible to know exactly how far the organisation can go in the change process, but the vision should be seen as a dream state which shows a perfect future situation for the company. Although the vision is a dream state, it must be clear and understandable to everyone in the organisation to ensure that it appears serious. Further the vision should build a feeling of solidarity, which brings the team together and makes it work in a common direction towards the service orientation. Important is that the vision not only inspires the employees, but also is attractive to other stakeholders such as owners and especially customers, who in the end should be the ones buying the service offering.

Step 3 – Set up a change team

Change leaders, with good reputation within the organisation and preferably with experience from service oriented organisations should be identified, involved, and trained to lead the change process. These change leaders will then constitute the change team and take the operative responsibility for the change process. It is important that the change team has members from all levels and different units of the organisation, to get different perspectives of the change and to facilitate the two-way communication with every part of the organisation. As Wissema (2001) means, people are not averse to changes, but rather averse being forced to change, why the two-way communication is crucial. It is also important that the change leaders are familiar with possible barriers that may arise and how to handle them.

Phase II – Concept development

From this phase and onwards we emphasize the importance of high involvement within the organisation, meaning a two-way communication between the change team and the rest of the organisation. The high involvement is important in order to make everyone feel participating in the change which affects their future, but also to receive important ideas from employees at all levels of the organisation. However, high involvement may be difficult and time consuming in bigger organisations. We suggest ideas and experiences should be shared at department meetings and workshops during the change process. Another way may be a communication forum on the intranet. The concept development phase includes the change team identifying an ideal service concept for the company to strive for, like B.O.M.B.A. which we developed for ABS. In our case the concept was inspired by ABS Spain, which is a company acting on a different market but belonging to the same group. If the concept is inspired by a successful organisation on the same market we would like to emphasize the importance of a differentiated concept. The ideal concept could be the basis of discussion for workshops during the change process. From the concept the change team will set up realistic goals with respect to the current situation.

The execution of the change process should depend on the organisation's averseness to change. For an effective change process the change team should be able to handle the organisation in sense of corporate culture, lack of trust for change, little teamwork, faltering leadership etc. By analysing the organisation with respect to these

factors and in addition the influences and power of the employees, the change team has a chance to customise the change process. First of all the question is whether the organisation is conscious or unconscious about its need to change. Second is whether the organisation is competent or incompetent to change. An unconscious and/or incompetent organisation needs more conviction and help through the change process. The change team must act with respect to this degree of averseness to change. A crucial factor in such a change will be the organisational culture that needs to change and focus must be put on the customers and its processes instead of the internal processes.

Step 4 – Create an ideal service concept

The first mission for the change team is to create an ideal service concept that corresponds to the vision communicated by top management. A first step in creating the concept should be to develop a positioning strategy through identification of customer needs. The positioning strategy should provide a clear focus which should be differentiated from the customers'. Moreover an important part is to involve and speak to employees in the own organisation to get as much input as possible. By doing so, the change team can get a good picture of the situation and be able to set up an ideal service concept. An ideal service concept could also be described by studying another company which is successful with service management, and then pick the good parts from their concept.

Inspired by Bullinger, Fänrich and Meiren (2003) we propose that the change team considers structures, processes, and outcomes, and lets these dimensions result in resource-, process-, and product models. In the ideal service concept various parts should be identified such as the service offering, core services, supporting services, facilitating services, and service channels. In a transformation from product oriented to service oriented the service channels are supposed to be known, since the services are based on these products. Anyway the service channels should be taken in consideration as they may need to be modified or complemented with other service channels to fulfil the ideal concept. The resource model regards and identifies the resources needed to fulfil the concept. Further the process model should identify the desired outcomes of the service. The working processes should be identified and developed, in order to prepare for an effective organisation. In relation to this the team should identify the ideal structure of the organisation, with respect to geographical locations, physical and human resources, and the coordination between the different units. The product model should describe what the services do. Moreover a crucial point in service oriented companies is how the relations to customers should be built. In the ideal service concept a process for continuous improvement of the concept and working processes should be set up. Even though the concept is ideal, there is always room for improvements in order to stay competitive and not getting behind its competitors. Even though the ideal concept responds to the vision and is therefore kind of a dream state, it should be something to strive for. Therefore the continuous improvement process is important to guarantee the organisation has an improvement process aiming for the ideal concept.

Step 5 – Set up realistic goals

The vision should be a dream state, but the goals of the change process need to be realistic to be worth striving towards in a foreseeable future. The change team should

identify how far it is realistic to take the concept, with respect to the current organisation and to the provision needed for the transformation. Moreover the team should look at every part of the ideal concept with regard to the organisation, to identify what parts of the ideal concept being appropriate. Important is to have high employee involvement, which implies that the change team enables a two-way communication with the organisation and make everyone feel participating in the goal setting and the transformation process. Involving employees does not only increase their support for the change, it also gives the change team a chance to learn from the organisation. Employees hold much knowledge, thoughts, and experience valuable to share during changes.

Phase III - Implementation

The implementation phase includes necessary training for the employees to be able to work after the new concept and processes before the new service concept goes live.

Step 6 – Training

The organisation's attitude towards the training programme is hopefully positive if the change team continuously has involved and communicated with the organisation during the change process. In that case the employees are familiar with what will happen and what new processes that will be implemented. Ideally many of the employees have participated in the development process.

Training should include both training of practical skills and of interpersonal awareness, that is to say how to behave towards the customers to build trustworthy and lasting relationships. Education within this field is important as value today is immaterial and lies within i.e. relationships. The training session further is an opportunity for the change team to internally market the service offering. By understanding and feeling competent in a professional role it will be easier for the employees to sell the service offering and win the customers' confidence. Although every employee should be trained within his/her professional field it is important with some general education to strengthen the boundary spanning competence of the personnel and to build service knowledge and service mind within the whole organisation. We emphasize the importance of management support during the training phase to show that the training phase is something that brings the organisation together and stress the importance of the training for the success of the new working methods.

Step 7 – Go live!

When the organisation is ready to go live with the new service oriented concept there should be an action plan for the order of implementation and when to implement what. Presumably everything cannot be implemented at once, and moreover we do not think that would be appropriate. We believe the implementation process should be allowed to take its time in order to get the whole organisation to adapt the new procedures in the right way.

From now on top and middle management should take the responsibility and show the employees how the organisation improves due to the change. It is important that managers keep showing their support and encouragement in the every day work, and participate in the new procedures to make sure the organisation does not fall back into

old habits. As Kotter (1998) puts it: “Change sticks when it becomes the way we do things around here”²⁶⁴.

10.3 Conclusions of the PST Model

- **The PST model consists of three phases.** Top management is responsible for the change initiation phase, a change team for the concept development phase, and the whole organisation is involved in the implementation of the change.
- **Each phase consists of a few steps** in order to perform the change carefully, without skipping important aspects. Within all steps we stress the importance of informing the organisation about the change in order for the employees to understand what is about to happen.
- **A reason for change and a clear vision**, which is understandable and inspiring for the employees, should be communicated to the organisation.
- **The concept development phase**, which includes creating an ideal concept for the service organisation, is an important part of the PST model. Creating the ideal concept is important to thoroughly consider all aspects of the service organisation, but also a way of communicating a success story to the organisation. Based on the ideal concept realistic goals for the specific organisation should be set.
- **During the concept development phase we stress high involvement** in the organisation. We believe the two-way communication during the transformation process is important in order for the employees to feel participating in the change, thus easier accept it. Further the two-way communication enables idea transfer from all levels in the organisation to the change team.
- **The whole organisation should be involved in the implementation phase.** When getting to this phase the organisation should understand and accept the reasons for new strategy. For everybody to be skilled professionals and good marketers of the service offerings all employees need training, both regarding practical skills and interpersonal awareness.

²⁶⁴ Kotter (1998) p 163

11 Conclusions

In this final chapter we present our conclusions of this master thesis. Our main purpose was to identify the issues concerning the transformation process of a product oriented company into a service oriented company, and suggest how these issues could be overcome. By highlighting our most important findings and giving our recommendations to ABS of how to implement pump rental business in Sweden and Poland, we attempt to answer our purpose. At the end of the chapter we identify interesting fields for further research.

11.1 Findings

A popular way to meet descending profits in mature industries has been to increase the amount of services in product offerings. Through this the value creation is moved forward in the value chain. ABS is a pump manufacturing company increasing its service focus by offering pump rental. By studying ABS we have learned about the drivers for service orientation and also about the barriers towards pump rental business and a more service oriented organisation, which need to be overcome in order to create the change.

The barriers include a corporate culture averse to changes. Change often increases the employees' feeling of insecurity regarding the future. Thus it is important to involve the organisation in the change process and keep the employees informed about what is about to happen. The barriers further include a possible conflict between product oriented departments and service oriented departments of the organisation. At ABS Sweden this conflict is between the sales department and the rental department. In order to overcome this barrier top management must set a clear strategy and vision, for the organisation to work in same direction. A financial barrier is the investment required to increase the service degree of the organisation. Supporting services include i.e. emergency services, which require investments in regional presence and a flexible workforce.

Step-by-step methods are effective for transformation processes. They include the important steps to take when performing change and are thus good methods for thoroughly dealing with change aversion. The *Product to Service Transformation (PST) Model* is a step-by-step model for companies transforming from product oriented into service oriented. The PST model includes three phases: *change initiation*, *concept development*, and *implementation*. Although a change team is responsible for the second phase we stress the importance of high involvement of all employees from this phase and onwards, in order to reach understanding and acceptance of the new strategy.

To reinforce the vision for change and to thoroughly consider the service orientation we suggest *creation of an ideal service concept* as an important step in the PST model. The advantages of developing an ideal concept, like B.O.M.B.A. for ABS, are to identify all important parts associated with service orientation and the service organisation, and to show the organisation a well thought-out idea preferably based on a success story. By doing this we believe the organisation is better prepared to overcome the internal barriers towards the transformation. Based on the ideal service concept realistic goals for the organisation should be set.

To obtain service mind and a deep customer focus in an organisation we believe it is important with *boundary-spanning* personnel and employees with authority to take initiatives, within terms of reference, to solve customer problems. We call this *controlled flexibility*. Further we use this term regarding service pricing. We stress the importance of knowing the costs related to the provision of services, in order to set the right prices and know how flexible to be within tendering processes.

Our findings are based on the knowledge we obtained from services- and change management theories, and our empirical findings from ABS. However our models have not been tested and verified, thus it is relevant to question the method we have used to develop these models. We have been coloured by ABS' business, the organisation's way of working, and its future goals in our reasoning. Another way of approaching our task could have been to base discussions and models solely on theory and then compare them to the reality at ABS. However we believe it is important with experiences from reality in discussions and theoretical models. With origin solely in theory the risk is to interpret reality so that it agrees with the model. We could also have proceeded from solely empirical findings; however we believe it is important to learn from previous research. Further the reliability would have been much higher if additional empirical research had been made in more organisations in different industries. Due to the time aspect this approach has been beyond our delimitations.

11.2 Recommendations to ABS

We recommend ABS to set a clear strategic direction of whether to focus on rental or sales of dewatering pumps. One direction does not have to exclude the other, but it is important for the whole organisation to know where the organisational focus lies, which the main target markets are, and what the offerings provided to the market imply.

If ABS focuses on pump rental we suggest that ABS recruits a dedicated rental manager for each national ABS company working with pump rental. The purpose of a rental manager is not only to manage the national organisation and participate at the CIR team meetings. Above all the rental manager should be a driving force and strong leader who inspires and motivates the rental organisation.

We think the rental businesses of the national ABS companies should be built slowly but surely. It takes time to build a rental organisation like the one in Spain and it is important to get a feeling of the opportunities for rental growth for ABS in each country before making too big investments. The rental business can be taken to different levels. It does not need to be as extensive as B.O.M.B.A. in order to be profitable.

It is important for ABS to position itself and differentiate its offerings from the machinery rental companies' and other pump manufacturing companies' offerings. The experienced value of ABS' offering must exceed the value the customers experience when renting all machinery in a package from one distributor.

We have proposed two rental concepts for ABS Sweden and ABS Poland respectively. These concepts are based on B.O.M.B.A. and on the empirical findings

in these countries. As a service concept is built on existing circumstances we mean it needs to be revised and developed frequently in order to create new competitive advantage. We suggest the future rental managers of the ABS organisations in Europe form a *Continuous Improvement Rental (CIR) Team*, with the aim of exchanging ideas and developing the rental service offerings of ABS. Continuous improvement is crucial for keeping competitive advantage. The CIR model is a service engineering model, created to improve the development of services. It is shaped as a waterfall model, with distinct phases, which we believe is appropriate as the CIR team is split over many countries.

11.3 Further Research

- The PST model is based on theoretical studies and empirical research at ABS in Spain, Sweden, and Poland, but it has not been tested. We think it would be interesting to apply the model at other companies transforming from product- to service oriented, in order to test and improve the model.
- We believe there is an opportunity for ABS and machinery rental companies to cooperate in the future. Research regarding a concept for a win-win relationship between ABS and machinery rental companies, in which the machinery rental companies outsource pump provision and services to ABS, would be interesting.

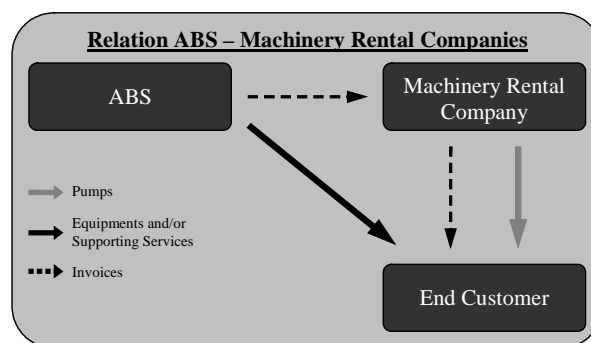


Figure 11.1. The figure shows a possible cooperation between ABS and machinery rental companies in the future.

- Service engineering is a relatively new concept. In this master thesis we have considered the advantages of a formal development method for services and suggested the CIR model for service development at ABS. It would be relevant to test this model with a CIR team in order to study the applicability at ABS and hopefully be able to improve the continuous improvement processes.
- Factors such as customer relations and service mind are important in service oriented organisations. Thus it would be interesting with a *Balanced Score Card (BSC)* developed for service oriented organisations, i.e. the rental business of ABS, in order to measure and improve the processes and not just the financial performance.

- Our discussions and conclusions of this master thesis do not consider the life cycle costs of dewatering pumps. However life cycle cost is an important aspect within rental business. We suggest the development of a concept for rental business, with focus on life cycle cost, would be an interesting field for further research.

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