

Servitization in the Construction Equipment Industry

What it takes to become a world leading service provider

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Introduction & Background

Manufacturing companies increasingly adopt the strategy of adding services to their product offerings to differentiate themselves and overcome product commoditization. The bundling of products and services in product-service systems has the potential of high value creation and superior customer experiences. However, this shift requires business model innovation and acquisition of capabilities and resources that manufacturing firms traditionally lack.

Understanding what service solutions the customers demands and requests, as well as how firms must innovate their business models to deliver these offerings, is essential for firms to succeed in the market. By employing a value-focused approach and using the business model as a basis, we conducted this research to understand what it takes to become a leading service provider in the construction equipment industry.

The study

When collecting data from three research groups: firms within the construction equipment industry, customers, and firms in industries with higher levels of servitization, we found no significant results indicating that a service offering with advanced features alone leads to success. This suggests that the strategy of simply adding more services to the offering is insufficient. Instead, the data pointed to the importance of innovating the business model across all aspects of the business model: value proposition, value capturing, and value delivery. From the interviews, we summarized our findings in three insights on what manufacturing firms must consider when developing their service offering.

Insights

Firstly, successful firms must effectively manage and develop the customer relations by tailoring both the service offering and the service marketing according to the customer's maturity level, willingness to engage, and different roles within their organization. This approach enables providers to offer solutions that best suit the customer's current needs while gradually building their competence and openness to more advanced services that deliver greater values. This will minimize the organizational resources wastage on customers unwilling to participate in the relationships while strengthening ties with the engaged ones. Additionally, tailoring the service marketing approach to different roles within the customer

organization helps address the different mindsets, thereby increasing the ability to convince the customer of the value that can be co created through services.

Secondly, the data highlighted the importance of an independent and skilled service organization. To effectively sell and perform services, manufacturing companies must dedicate resources to build a robust service organization. In contrast to the value customers experience from purchasing a product, the value of the services provided is directly linked to the proficiency of the service personnel executing them. Therefore, to maximize customer value, the service organization must be well educated, equipped with the right resources, and motivated. To incentivize the service organization, which may sometimes be a separate company such as a dealership, providers should adopt a flexible value-based pricing model, thereby aligning the interests of the service providers with the value they create for customers.

Finally, the importance of an offering based on core expertise was evident. By developing more services, further away from the company's core business focus, manufacturing firms risk damaging relationships with important customers. Instead, OEMs have a higher capacity for creating value when providing services which are closely connected to their core expertise. In the construction equipment industry this often entails providing machine expertise such as capacity planning or fleet configuration. It is in this area of services where manufacturing firms differentiate themselves from third party service providers. Providing expertise services may also entail supporting customer's first instead of performing basic maintenance for them. While hands-on service must be offered to customers needing it, OEMs can create superior customer value by supporting customers in helping themselves first.

Conclusion

To conclude, the study of servitization in the construction equipment industry revealed that simply expanding service offerings is not enough, manufacturing firms must innovate their entire business model. This involves enhancing their value proposition, discovering new methods to capture value, and building an organization adept at selling and delivering these services. Three key insights emerged for manufacturing firms aiming to develop a leading service offering, managing and developing customer relationships, developing an independent and skilled service organization and focusing the service offering on core expertise. By considering these factors, manufacturing firms have the chance to provide superior customer value.