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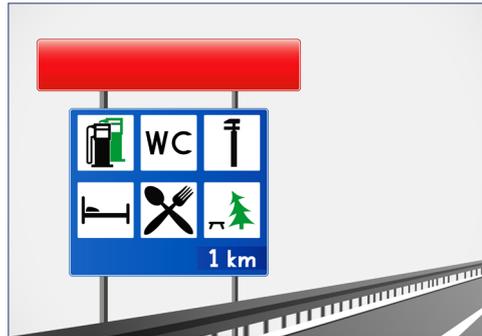
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At an IMD Discovery Event in April 2013, 75 participants reflected on the challenges of building a service-centric organization, discovered some of the best practices of leading companies and networked with their peers. Executives left better equipped to navigate the transition from the increasingly commoditized product landscape to one offering value-added services.

Discovery Events are exclusively available to members of IMD's Corporate Learning Network. To find out more, go to www.imd.org/clin

From Product to Service: Navigating the Transition



Companies today fight tooth and nail to maintain margins and grow their business. As a result, many have embarked on the transformation journey – from pushing boxes to providing true service. The opportunities to earn profits by offering services and customer solutions are greater than ever, and the trend reaches beyond business-to-business (B2B) markets.

The results of a survey completed by participants before the event show a mixed picture. Services can play the role of both an offensive and a defensive strategy – 59% of executives viewed services as a proactive weapon to grow revenues and profits. At the same time, 30% of respondents viewed services as a way to keep existing customers and build barriers to entry (see **Figure 1**). In terms of sales challenges, only 9% of executives thought that salespeople had the right tools to communicate the value of the service to customers, even though 35% thought the sales team understood the value to customers of the service.

The most commonly cited obstacles were internal barriers, such as resistance to change; the high number of stakeholders involved in the decision making process; the skills gap; and the inability to charge a premium and enjoy

high margins when a new service is launched. Reflecting on the above picture and the results of his research on the best practices of more than 240 firms surveyed since 2006,¹ Professor Ulaga emphasized two points:

- Goods manufacturers – unlike pure service providers – do not have to change their business model completely in order to succeed in developing value-added services. They can enrich their current business model by combining goods and services successfully into hybrid offerings.
- Top management commitment is indispensable in order to secure resources and build the necessary skills.

Toward a new business model: Michelin – selling kilometers not tires

The Michelin Fleet Solutions² case study allowed participants to delve into the challenges of selling and implementing complex solutions.

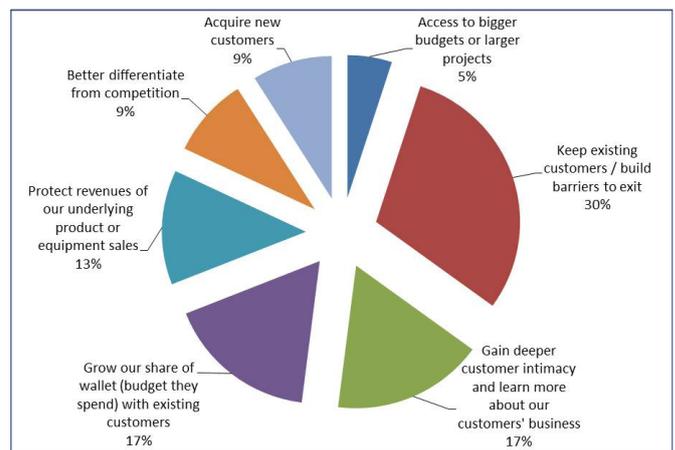


Figure 1: Desired Outcomes of a Successful Services Strategy

¹ Ulaga, Wolfgang and Werner Reinartz. "Hybrid offerings: How manufacturing firms combine goods and services successfully." *Journal of Marketing*, Vol. 75 (6), November 2011: 5–23.

² Renault Chloé, Dalsace Frédéric and Ulaga, Wolfgang. "Michelin Fleet Solutions: From selling tires to selling kilometers." HEC Paris case no. 510-103-1, 2010.

“You can’t protect your know-how, but being the first to start is a big advantage... As soon as you have the idea you need to try it.”
Erik Grab

“Our product is critical to the success of our service solution, because we have tires with four lives, not like our competitors.”
Franck Estoquié

“Launching our service portfolio changed our customers’ perception dramatically. It enabled us to differentiate in a truly unique and sustainable way.”
Hans van der Velden

Franck Estoquié and Erik Grab, two senior Michelin executives, shared the company’s experience in moving from selling a product to selling its expertise via solution contracts to help customers gain more value from Michelin’s know-how. Michelin management emphasized the importance of:

- Targeting the right customer profile – the offering is not equally attractive to all.
- Having a fair and transparent value proposition that tangibly and quantifiably shows the benefits to the customer.
- Aligning the company’s interests with the customer’s.

Michelin’s promise to customers is peace of mind (it takes care of all tire-related issues at a fixed cost). Along the way, the company has adapted to customer needs. It helps them to understand their costs better with monthly reporting and ensures they have the right tires for efficient fuel consumption and a lower carbon footprint. Customer churn is minimal – services based solutions are a powerful way to maximize customer loyalty over time.

Asked whether Michelin is happy to service rival brands, Grab replied, “You bet we are! It is a great way to get our foot in the door, plus we gain valuable intelligence about the quality and performance of competitors’ brands so we can see where Michelin has an edge and where it is behind and we then work with R&D to change this.” Michelin ensures that the 800 service people have the passion and discipline for such impressive service delivery and customer intimacy by providing constant training and development. It took Michelin a long time to reach the current state of delivering profit and high margins with its innovative solution offer. It had to fight against internal barriers and resistance to change, while at the same time experimenting and taking risks and constantly fine-tuning the model.

Professor Ulaga noted that the Michelin story is about business model innovation. Typically, managers focus on the front end of innovation (the customer-facing and money-generating activities), but often neglect the back end. His research has

shown that success in service delivery depends on industrializing the back office too.³ Companies find that unless they standardize the processes entailed in delivering a service, costs spiral out of control and margins suffer.

Service: The key to differentiating screws and nuts

Hans van der Velden of Bossard, a seventh-generation Swiss family business and a worldwide market leader in fastening technology, shared his company’s experience. Faced with an increasingly competitive and globalizing business landscape, Bossard wondered how it could expand its customer offering, which until then consisted of standard and custom-made screws, nuts and bolts, costing only a few cents each. It began by sending senior and middle managers to visit, interview and survey customers. They discovered that they did not have one type of customer but several: the user of the product, the buyer and the payer.

Bossard decided to create services to meet two unsatisfied customer needs: the need for technical advice and the need to reduce the complexity of managing commodity parts. Its launch strategy focused on total cost of ownership (TCO) savings and targeted segments that would recognize the cost savings and increased productivity benefits and would therefore be willing to “buy value.” Step by step, starting with a few pilot projects, it developed a network of partners including key accounts, external experts and service-oriented employees. Today, Bossard provides a range of operational, tactical and strategic services that range from inventory management, technical assistance and quality assurance certification to design optimization and R&D support at the early stages of a project. According to Van der Velden, “It was a revelation for both us and our clients. We realized how little we knew about their needs and they realized how little they knew about our capabilities. Suddenly, we had more access to the influencers.”

³ Reinartz, Werner and Wolfgang Ulaga. “How to Sell Services More Profitably.” *Harvard Business Review*, May 2008: 90–96.

Mastering the transition from free to fee

How do you get customers to pay for a new service that did not exist before or for one that used to be free? Patrick Soler, a service expert with 35 years of experience, shared his personal story at Linde Material Handling GmbH, one of the world's leading makers of forklift trucks and warehouse equipment.

Changes at board level were the trigger that encouraged Soler and his colleagues to launch the *Service Up* initiative, designed to increase customer loyalty and combat declining product margins. First, they created an internal network of service experts – a group of ten experienced and innovative leaders from seven different countries – who met for a two-day workshop to set the strategy for this service initiative. They agreed on a three-stage approach (short, medium and long term) and developed strategies for each stage. For example, short-term action items included finding the “money killers” (existing services that are given to customers for free or not sold correctly), improving the processes of field staff, and analyzing costs. The medium-term strategy had two components: training field staff, with a focus on professionalism and selling skills; and developing truly new services, including a “vehicle health” diagnostic service and a mobile truck cleaning service.

The biggest challenge of the shift from free to fee came from the sales force for new machines. So Soler and his team created a task force of *service salespeople* responsible for developing a concise set of arguments that, together with data, demonstrated the cost savings and benefits of each service for customers. Today, the service sales people play a crucial role and visit every new customer as soon as a machine is purchased. In the last five years these initiatives have generated significant revenue, improved customer loyalty and helped develop a customer-centric spirit within the company. Efforts today are focused on phase three, which includes five-year planning for futuristic

service concepts, the advancement of electronic data processing tools and the development of the HR practices in the services division.

Another guest contributor, Dr Heiko Gebauer of EAWAG, pointed out that B2B executives have a tougher task than their B2C colleagues. For example, in the market of coffee consumers, adding a convenience element can increase customers' willingness to pay for a cup of coffee by a factor of 6 (8 cents to buy it from a supermarket, but 50 cents for a cup of Nespresso). Providing a service element in a café ups the factor to 50; going a step further and offering a complete customer experience increases willingness to pay by a factor of 80 (consumers are happy to pay €7 for a Starbucks coffee). In B2B, by contrast, the return on investment tends to be of lower magnitude, and many companies struggle to turn their service unit into a profitable business. The challenge is even greater in developing markets where the ASP (average selling price) of both product and service offerings is generally low, which makes the service undertaking less attractive to top management. Successful companies recognize that pricing a service is a complicated task. For example, the price anchor for products is competitors' products, but for services it is a complex landscape, involving customers, service specialists and suppliers. Dr Gebauer is a big advocate of service contracts, since they are relatively easy to set up, they enhance pricing transparency and provide excellent cross-selling opportunities.

Growing the service portfolio: Which direction to go?

Professor Ulaga explained that product manufacturers need to address two questions when contemplating their service strategy: What is the nature of the value proposition? And what is the target of the offer? According to this model (see Figure 2), most companies start in the bottom left quadrant by offering a service related to the product life cycle, as many manufacturers do with after-sales services such as repair and maintenance. As sales grow and

“Do not be afraid if at first customers complain or your satisfaction scores decline. It takes time to get the pricing and delivery of a new service right.”
Heiko Gebauer

“For the salespeople it was a big change, going from cost center to profit center.”
Patrick Soler

“If you want to grow in service, separate the businesses, but watch out for the risk of silos (jealousy, finger pointing, profit & costs allocation, remuneration...).”
Stephan März

management considers the next step, there are two alternatives: Either move up and offer *asset efficiency* (which involves access to customers’ usage data) or enter consulting and training territory (bottom right), where the customer job to be done is *process efficiency*, which requires mapping the customer process and the ability to create value at each stage. The last – and probably the most difficult – route to growth is the top right quadrant, which combines deep process know-how with performance-based commitment, as Michelin does with its Fleet Solutions offering. So far, Professor Ulaga has not seen any companies move straight from the product life cycle offering quadrant to the process delegation one. True process delegation services remain limited in many business markets and are often provided only by the leaders. In his words, “You cannot become a solution provider from one day to the next.”

Bobst’s one-brand strategy, in a multinational with several customer-facing teams and hundreds of product families, poses a serious challenge: Customers expect the same high level of professionalism, quality, performance and service ethos across all the divisions and departments. Having listened to customers, März and his colleagues developed a service navigator to describe each element in the service offering. It is organized in four groups: core services assistance (where e-services solutions are a priority); maintenance solutions (ensuring full efficiency of Bobst machines); “Boost my Bobst” (improving productivity and reducing environmental impact); and expert solutions (offering training, coaching and process improvement consulting). Bobst sells services through two main channels: regional service managers, or trusted advisers; and service key account managers for big customers. Currently the machine sales force sells a few services, but the company would like to limit this.

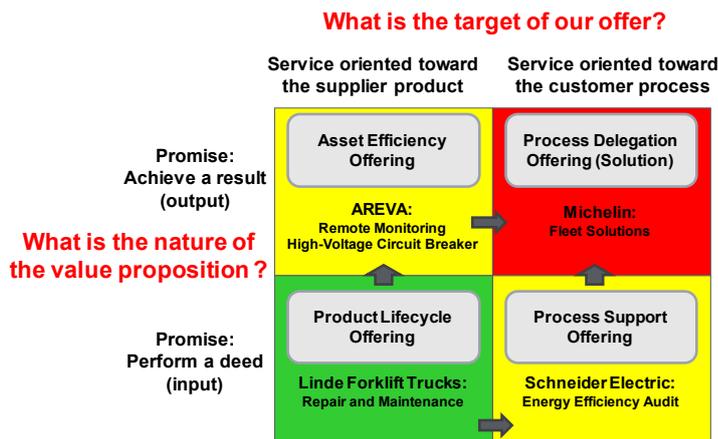


Figure 2: Growing the service portfolio: Which direction to go?
 Source: Ulaga & Reinartz. “Hybrid offerings.” *Journal of Marketing* 75(6), 2011.

A comprehensive education program – delivered through face-to-face and online modules – covers sales skills, service product skills and finance basics. Bobst did not hesitate to look outside for help in standardizing processes and training its people. In several instances it had to consult experts and coaches. Today, it has an independent service sales force, with its own identity and the ability to explain more complex solutions to customers. A collateral benefit of this endeavor is the emergence of a network of experts and an impressive bank of service product knowledge and capabilities that is captured in a service competencies database.

Moving from a product-centric to a service-savvy sales force

If companies want to move away from product-related services into more complex customer solutions, managers must take a new look at the sales force. Stephan März, head of the services business unit at Bobst, shared his experience in creating a separate unit dedicated to services. Bobst is a Swiss multinational that makes machines that serve half of the global packaging industry. It is organized into two product business units, with a third service unit working across the two product units; the latter consists of 800 technicians and 50 staff who sell services.

The road ahead

Companies in many industries face growing competitive pressures and customer expectations to take on more complex jobs. To differentiate and continue to grow, B2B companies must leverage the right resources and develop new capabilities in order to understand, (co-)create, communicate, and deliver value to the customer. During the event, we discovered that many manufacturers have successfully embarked on the transition journey. Is your company next?

“The nature of the sales process is different between products and services. For the former, it is ‘giving the specs,’ for the latter, it is more like how to help the customer.”
Participant