



Servitization strategy and financial performance of manufacturing SMEs

Christine TEYSSIER, Sophie PEILLON, Isabelle PRIM-ALLAZ & Laure AMBROISE

Presenting Author: Christine TEYSSIER
COACTIS, University of Lyon / Saint-Etienne
FRANCE

christine.teyssier@univ-st-etienne.fr

Introduction

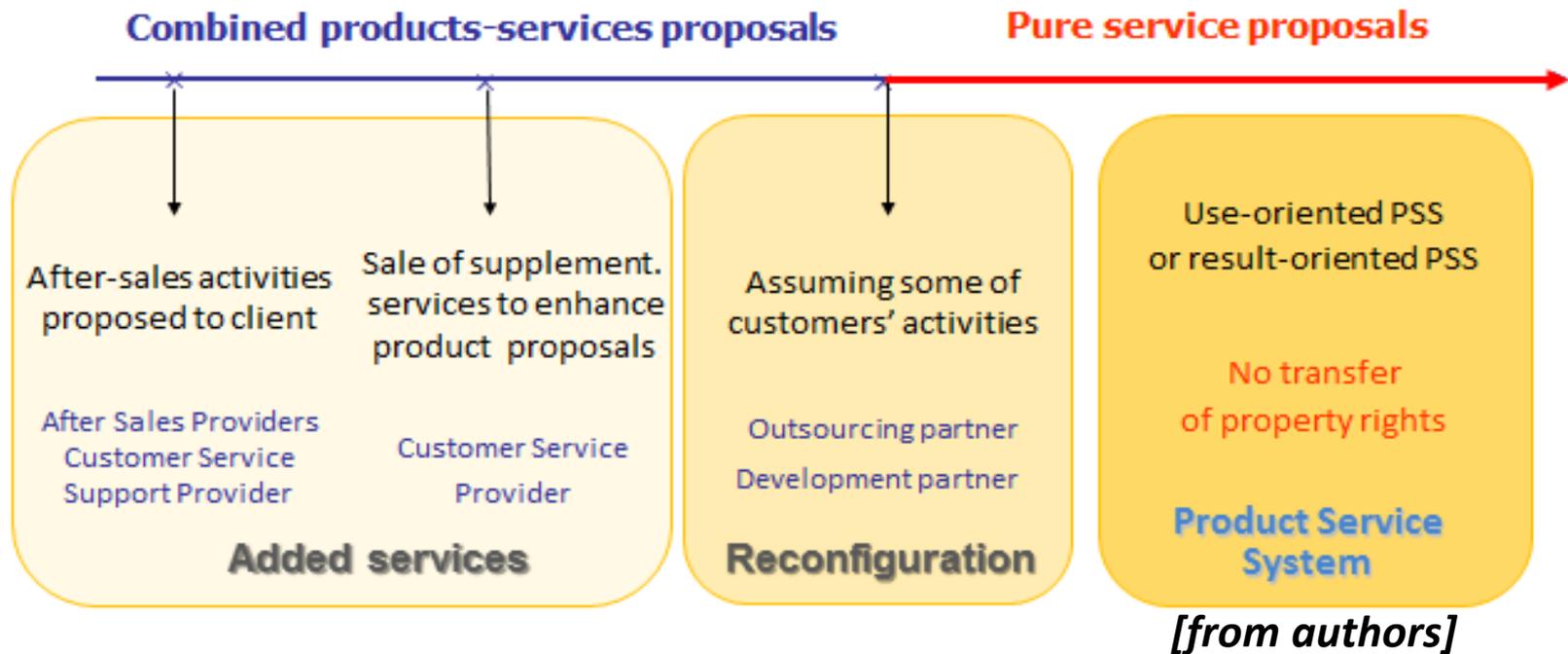
- There is a growing literature on « servitization strategy » in industrial firm, from a competitive and marketing point of view, but in contrast, financial consequences have been little studied.
- An implicit positive relationship is postulated between servitization and the firm's financial performance, but empirical works provide mitigated and divergent results [*Fang et al. 2008; Gebauer et al. 2005, 2012; Neely, 2008; Visnjic and Van Looy 2013; Eggert et al. 2011, 2014*].
- These mitigated results call for a development of theoretical and empirical works [*Gebauer et al. 2012; Jacob and Ulaga, 2008; Evanschitzky et al. 2011; Suarez et al. 2013*].

Presentation framework

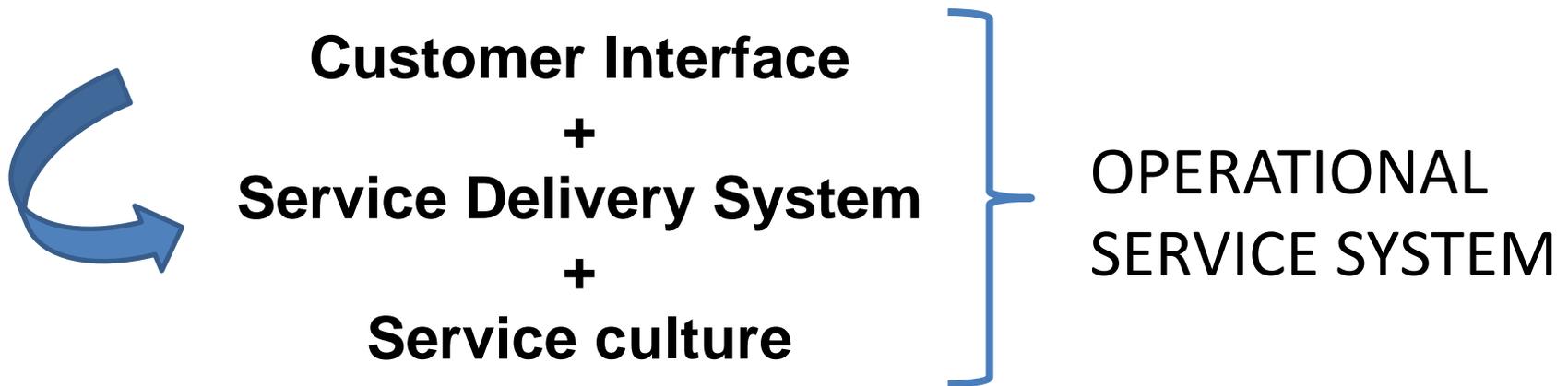
- I. Conceptual framework and literature review on two fields (voluntary limited presentation) :
 - ✓ The servitization strategies, around the two notions of “service concept” (the “WHAT”) and “operational service system” (the “HOW”)
 - ✓ The relationship between servitization strategy and financial performance
- II. Model specification and research methodology
- III. Results and discussion

3 types of services concept

- **Proposition of a continuum of « services concept » :**
 - ✓ Integrating Tukker’s (2004) and Gebauer’s (2010) models
 - ✓ Referring to the maturity level of the manufacturing firm regarding the servitization process



The operational service system



- Literature on the impact of the servitization process on the organizational design of the firm :
 - Customer Interface [*Grönroos, 1990; Gadrey and Gallouj, 1998*].
 - Service Delivery (or realization) System Design » [*Den Hertog, 2000; Roth and Menor, 2003; Baines et al. 2009*].
 - Corporate Culture and human resources management issues [*Homburg et al. 2002, Neu and Brown, 2005; Den Hertog and De Jong, 2007; Gebauer et al. 2005, 2010*]

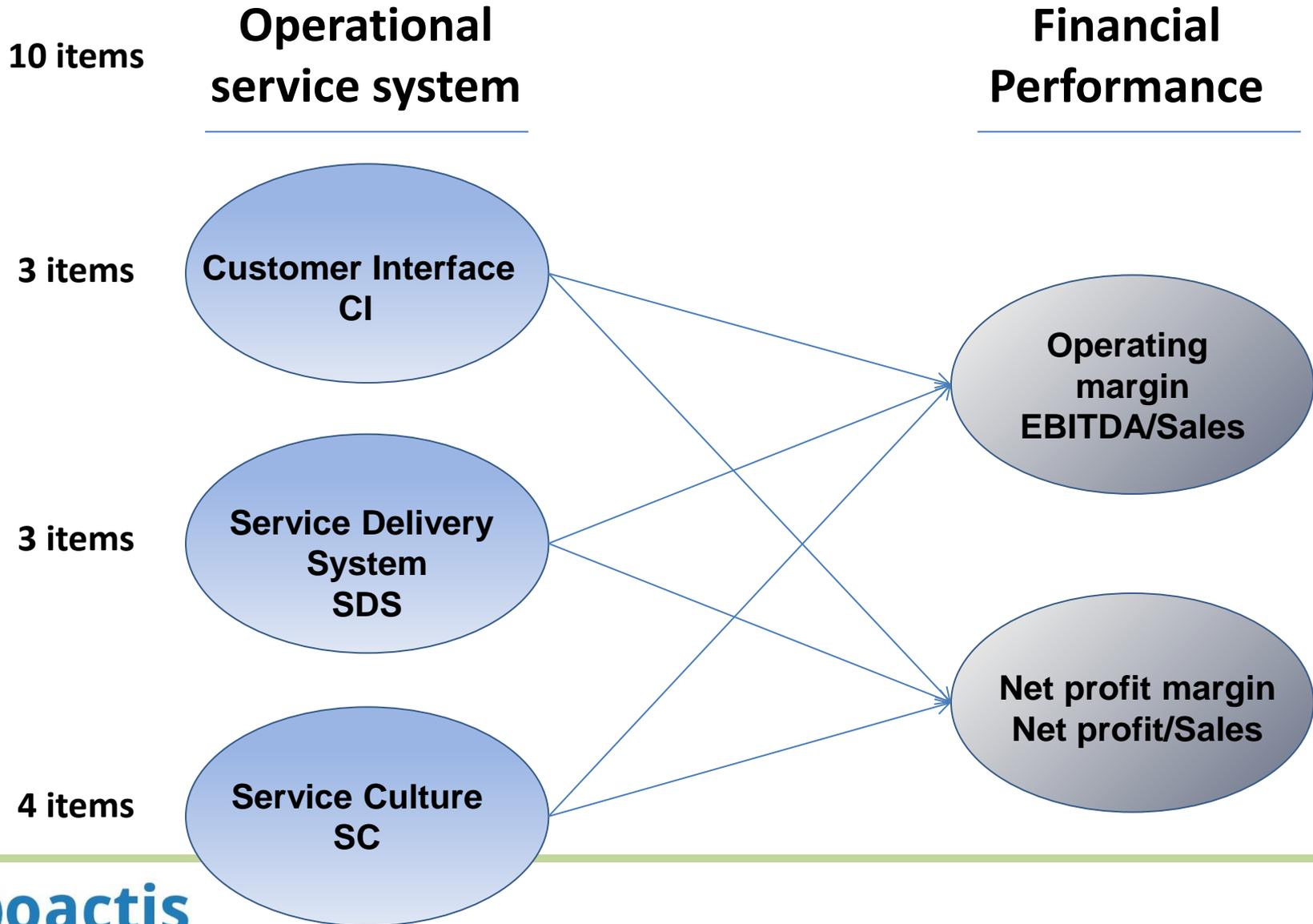
Servitization and financial performance

- Financial objectives, and more precisely the growing need for profit growth, are considered as one of the main factors encouraging companies to enter a servitization strategy [*Gebauer et al, 2012*].
- In theory, a positive postulated relationship [*Frambach et al. 1998; Wise and Baumgartner, 1999; Oliva and Kallenberg, 2003; Gebauer et al., 2005; Sharma and Iyer, 2011; Gebauer and Fleisch, 2007*]...
- ... But in reality, empirical studies provide mitigated results [*Gebauer et al., 2005; Fang et al, 2008; Cusumano, 2008; Neely, 2008; Eggert and al. 2011; Suarez and al., 2013; Visnjic and Van Looy, 2013*]

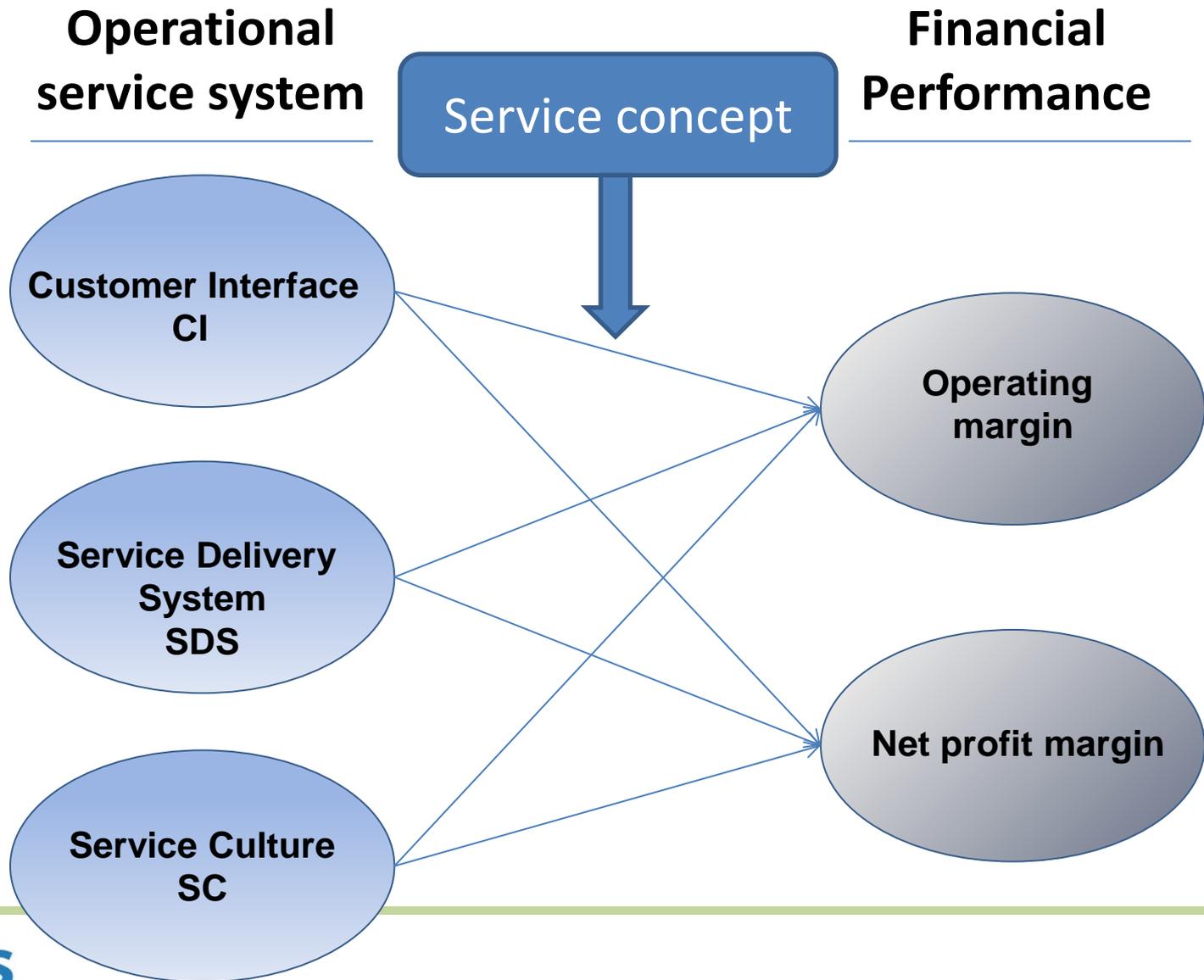
Model assumptions

- In this study, we consider that an adequate alignment between the firm's operational service system and its service strategy is likely to create profitability [*Eggert and al. 2011, 2014*]
 - ✓ Success of a servitization strategy requires not only managerial motivation, but also **organizational arrangements** [Gebauer et al. 2005, 2012; Malleret, 2006]
- The relationship between the firm's operational service system and its financial performance is influenced by the type of services concept (as they have been previously defined, in three groups).

Global model



Global model



Data sources

184 manufacturing SMEs from the Rhône-Alpes area, (proposing services),
out of a sample of 690 SMEs

« Added services »
(45 firms)

« Reconfiguration »
(98 firms)

« PSS » (41 firms)

No significant difference between groups on control variables :

- Global turnover
- Global turnover growth rate
- % of services on global turnover
- Number of employees

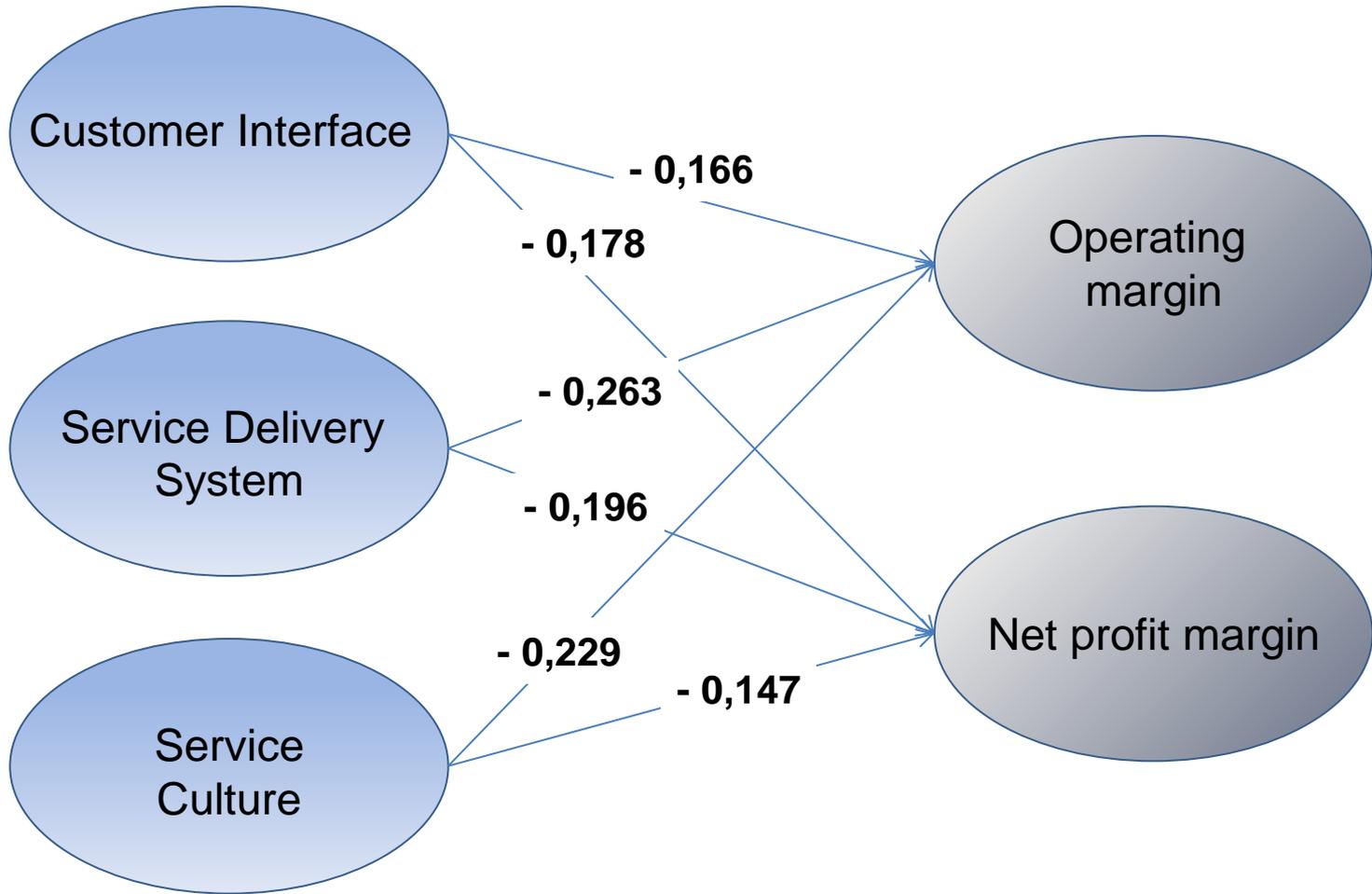
Financial Database (DIANE NEO) :

Operating Margin (EBITDA / Sales) + Net Profit Margin (Net Profit / Sales)

Statistical methodology

- Structural equations model conducted with XLSTAT [*Bagozzi and Yi, 1989; Yi et al. 1991*]
 - ✓ Method used to estimate a series of dependency relationships incorporated into an integrative model between :
 - ✓ on the one hand **a set of concepts or constructs** (latent variables, here the three components of operational service system : CI, SDS and SC) represented by **manifest variables** (10 items extracted from the survey)
 - ✓ on the other hand **explained variables** (here the two financial variables)
- Statistical results on compiled data confirm that a multi group analysis is necessary, which is therefore conducted for each group of service concept.

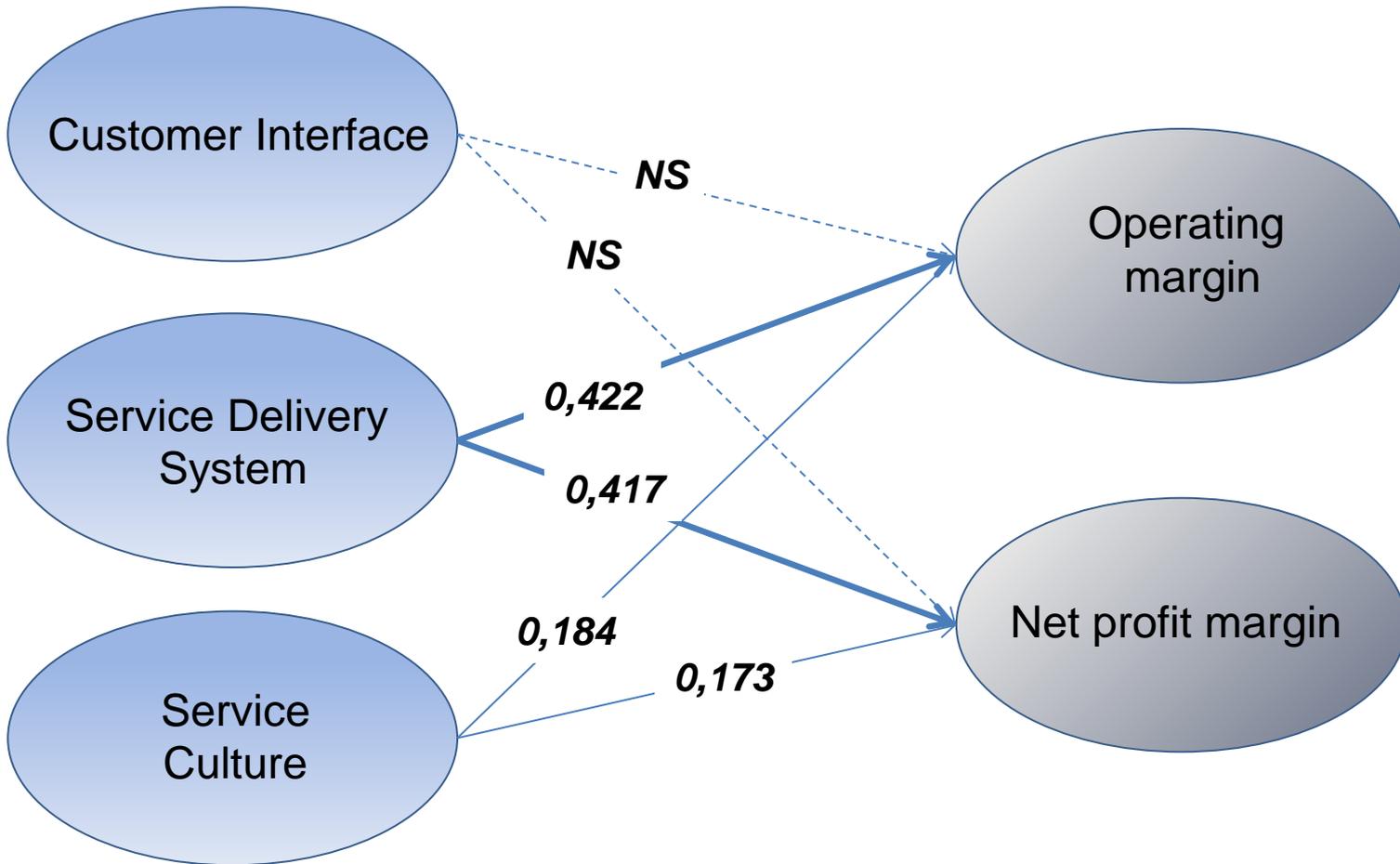
Group 1: Added Services



Group 1: Added Services

- Investing in a complex operational service system is not relevant in the Added Services strategy :
 - ✓ High costs generated, which are generally not totally integrated in invoiced prices
 - ✓ Financial performance stems mainly from the core product
 - ✓ In this case, firm should rather integrate the service activity into the product organization [*Gebauer et al. 2008*]

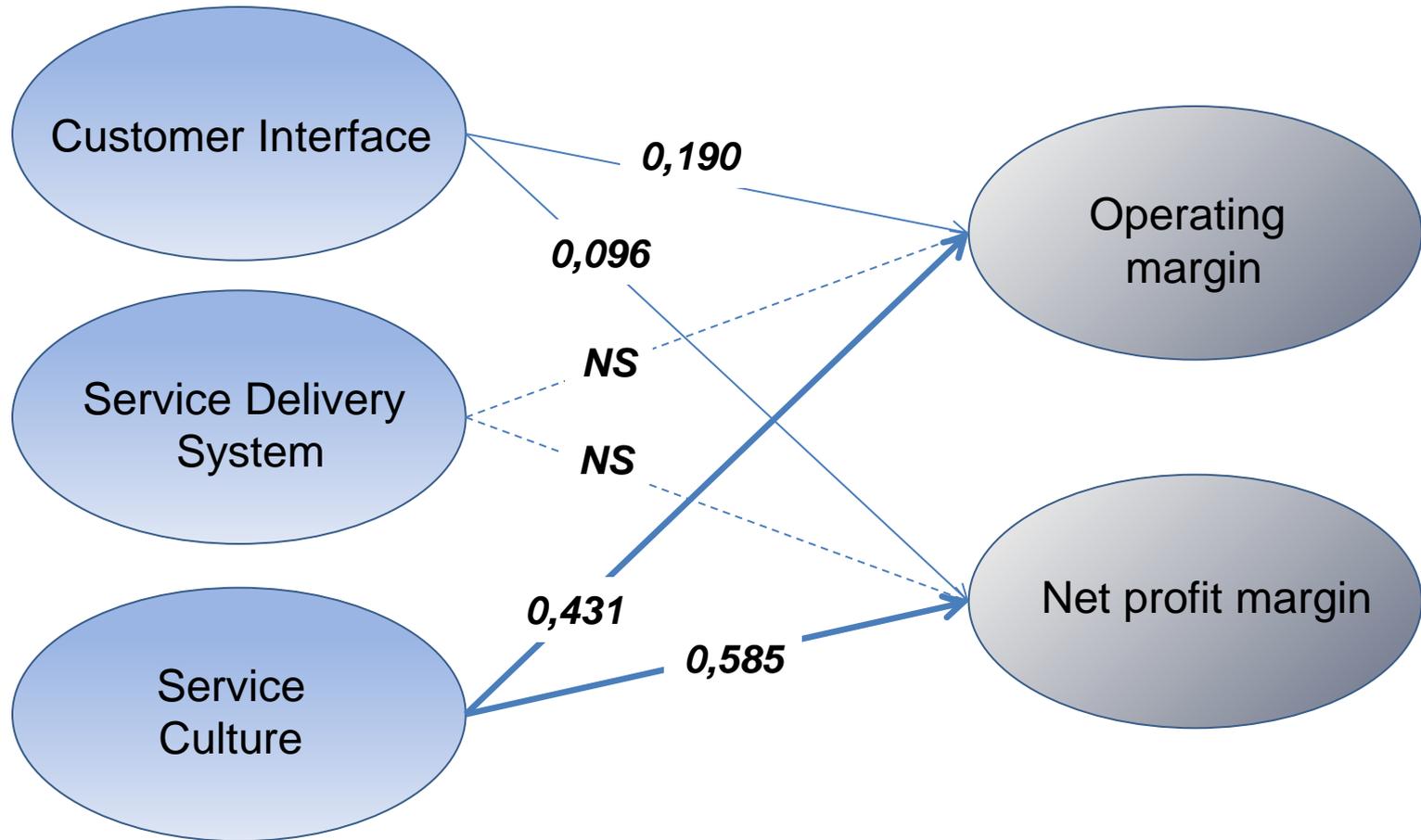
Group 2 : Reconfiguration



Group 2 : Reconfiguration

- Firms adopting a Reconfiguration - strategy should focus on the Service Delivery System :
 - ✓ Once the provider and the customer (together) built their partnership (in terms of processes and expected outputs), the operations are performed internally to the provider and he works on his own on a quite autonomous way. This could explain the importance of the SDS [*Gebauer et al. 2012*].
 - ✓ Challenges at this stage consist to “valorize, deliver and invoice” the services offerings [*Oliva and Kallenberg, 2003*]
 - ✓ The provider also enters in a hard-to-imitate competency position [*Davies, 2004*], customers become captive and loyal, which could explain why there is no need for strong customer interactions
 - ✓ The value-proposition of the provider lies mainly in his “savoir-faire”.

Group 3 : PSS (Product Service System)



Group 3 : PSS (Product Service System)

- In firms adopting a PSS – strategy, profitability is related to Service Culture (i.e. the “savoir-être” of the firm and its employees) and, to a lesser extent, to Customer Interface :
 - ✓ The firm has to move from a traditional manufacturing culture to a new service-oriented culture.
 - ✓ The provider’s employees need to be autonomous (because generally present within the customer’s firm in order to directly participate to its activities), highly qualified, and able to communicate with customer, to gather information. They have to be in a real relational mode of exchanges.
 - ✓ Price competition is not a priority, there is a lower sensitivity to price competition : PSS offerings are likely to provide higher rates of returns comparatively to pure products [*Frambach et al. 1998*]

Conclusion

- Our results confirm the assumption that SMEs have to adapt their operational service system to the services strategy, because this alignment has probably positive impacts on firm's profitability.
- Our results represent a challenge from a practical point of view : understanding the impact of service strategy on financial performance can help managers better prepare and effectively manage their transition.
- Potential benefits in developing services really exist, mostly within the most advanced types of services.