SELLING SERVICES IN THE MANUFACTURING INDUSTRY

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Abstract - The present study uses a case study approach to examine how manufacturers sell advanced services. Data were collected from documents as well as interviews with a director and a senior manager of a manufacturer. The study's findings mainly show that a manufacturer who can sell advanced services practices value-based selling (VBS). This study contributes to servitization research, and it constitutes one of the earliest works that analyzes the effect of VBS on the manufacturing industry.

Index Terms - Servitization, Service Marketing, Customer Value

I. INTRODUCTION

Advanced services that add to products and create customer value are considered a competitive advantage in the manufacturing industry [1]-[4]. Innovation is introduced in a business model since advanced services reconfigure the value proposition [5]. Manufacturers increasingly focus on, develop, and sell advanced services.

Although a few studies have investigated the relationship between servitization and profit, not many have studied how to sell advanced services. Manufacturers mainly develop and sell their products. However, services are considered to play a complementary role in the manufacturing industry [6]-[9]. Therefore, selling advanced services is distinctive in this industry. Moreover, sales representatives often do not understand advanced services.

Adopting a case study of a manufacturer, the present study explores methods to sell advanced services. In addition, the research focuses on customer value recognized by sales representatives.

The remainder of the paper is organized as follows: first, extant literature on servitization and profit and servitization is briefly outlined. Next, based on literature review, a research question is proposed. Then, the case of a manufacturer is described. Finally, the case is discussed from theoretical and managerial viewpoints.

II. THEORETICAL BACKGROUND

A. Servitization

First, this study confirms the definition of servitization. In 1988, Vandermerwe and Rada presented the characteristics of servitization in their study conducted in the United States. Then, the discussion on servitization was developed in the United Kingdom and Eastern Europe through a practical research.

Servitization refers to the process of value creation by adding services to customer-focused products. This concept was examined through a practical research [4] [3]. Vandermerwe and Rada [4] defined servitization as "the increased offering of fuller market packages or 'bundles' of customer-focused combinations of goods, services, support, self-service and knowledge in order to add value to core product offerings." Based on these definitions, the researchers have developed the concept of servitization through a shift from a firm's approach to customer focus on adding value to a process of creating mutual value. In addition, advanced services, and not just the traditional after-sales services, are provided in servitization.

B. Servitization and profit

In earlier research on servitization, some researchers emphasized that manufactures who actively develop services earn profits [10] [3]. On the other hand, Gebauer, Fleisch, and Friedli [11] discuss the "service paradox" and the difficulty that manufacturers face in earning profits. A few researchers also discuss about the problem of service strategy [12] [13] and organization.

Gebauer and Fleisch [12] explored how manufacturers change their service strategy. The authors proposed four service strategies: (1) after-sales service strategy, (2) customer support service strategy, (3) development partner, and (4) outsourcing partner. In addition, they conducted cluster analysis and showed a pattern of migrating service strategy.

Organizational problems are also discussed in the previous research. Gebauer et al. [14] studied the relationships between service providers (after-sales service provider, customer support service provider, development partner, outsourcing partner) and organizational service orientation. They found that service providers, except for customer support service providers, were highly service oriented.

Furthermore, studies exist on managers' behavioral

and psychological factors. Gebauer, Friedli, and Fleisch [13] explored the relationships among behavioral processes, level of managerial motivation, investments in the service business, share of service revenue, and overall profitability. They found that managerial motivation is high when managers actively engage in service business. This leads to increased profit. However, there is paucity of research on selling advanced services.

C. Research question

The present study aims to explore how to sell advanced services in the manufacturing industry. Previous research did not lay emphasis on services selling. Thus, the following research question is proposed:

RQ1: How do manufacturers sell advanced services?

III. METHODOLOGY

A. Research design

This study adopts a single case study method [15]. A case study is an approach by which researchers explore a single entity or phenomenon and collect detailed information using various data collection procedures over time [16]. Yin [15] suggests that a single case study is recognized as an extreme or a unique case. The case of Alpha can be regarded as a unique case, since it is one of the few companies that can sell advanced services to customer. In addition to interview data, documents of Alpha were also used to analyze the case.

B. Data collection

Semi-structured interviews were conducted with a director and a senior manager at Alpha. In the first phase of the interview, the interviewees presented an overview of Alpha's advanced services. They were then asked to give the details of the services. The second phase of the interviews included questions on how to sell advanced services, the difficulty faced in selling the services, and customer value that Alpha recognizes. After the interview, additional questions on Alpha's practices in detail were emailed to the interviewees for detailed response.

IV. THE CASE OF ALPHA

A. Company overview

Alpha manufactures and sells machinery for food industry and food products. As of February 2017, the sales were about 38 billion yen, and number of employees was about 1,000. Alpha provides drying, storage, rice milling, rice processing system, and large scale storage and processing facilities for various agricultural products. It engages in some group businesses as well as in overseas business.

Alpha continues to develop cutting-edge technology for machinery for food industry. While making use of unique and enormous knowhow accumulated in all fields of business, Alpha produces new products one at a time not only in the field of rice and wheat milling but also in the new fields of industrial machinery, environmental device, and food.

Alpha provides a network service system as an advanced service. The service system includes five services:

(1) receiving data processing system,
(2) usage fee adjustment system,
(3) stocked rice processing system,
(4) reservation of facility system, and
(5) grain thermal monitor.

These services are provided on the Internet. Users can avail these services from a web browser without installing any special software on a personal computer. The cloud type service offering is the first of its kind in the industry.

Originally, a part of the services was provided through software installed on personal computers. Users were unhappy as the special software needed to replace every time the operating system (OS) was upgraded. In addition, the users had to back up the data by themselves. Thus the software had inherent risks of damage and burning up. Services through cloud computing replaced the special software that needed replacement every few years.

The networking service system is available in an environment in which users could access through multiple online devices such as personal computers and mobile devices, including tablet terminals and smartphones. The burden on the users was significant since the software was always kept up to date. The data are protected even if the device is damaged and burning up because the data is preserved in a server that is backed up collectively. Moreover, the stored data are browsed and processed from remote places. Therefore, it is possible to effectively collect and analyze new information without visiting the actual locations when the users possess some facilities.

B. How to sell advanced services

This section notes how Alpha sells the network service system to customers. Beta, a subsidiary company of Alpha, has developed the system. Sales representatives from Alpha and Beta sell the system. They recognize customer value as unified information management, visualization of same information, stabilization and improvement of quality, production and profit management, and disaster risk management.

Sales representatives from Alpha and Beta aim to explain in depth the content of services to customers. In addition, they clearly and carefully propose the value that customers gain when they use the services.

V. FINDINGS AND ANALYSIS

The present study explores how manufacturers sell services. It introduces a method of selling services using Alpha's case study. This study found that Alpha aims to explain the content of services to customers in detail. Moreover, it clearly and carefully proposes the values that customers get when they use the services. This implies that that Alpha practices value-based selling (VBS). VBS is referred to as a sales representative's efforts to advance customer value-in-use jointly with the customer by demonstrating the vendor's contribution to customer's business profitability [17]. Individual sales representatives implement value-based marketing and Alpha clearly explains the merit that customers acquire when it sells advanced services.

Further, this study examines the effectiveness of VBS. In business-to-business marketing, companies conduct business rationally [18], because companies, and not individual persons, conduct business and the transaction amount is greater compared to business-to-consumer marketing. Manufacturers need to clearly propose value to do business with rational customers, especially those who often buy services from manufacturers. Manufacturers have to mention the merit of services that customers gain when they sell advanced services. This leads to customers recognizing the value of services and decide to buy them. The finding shows that VBS is effective.

CONCLUSION

This study contributes to the existing research on servitization by clarifying the role of VBS in selling services in the manufacturing industry. In the previous research, researchers discussed the challenges to profitability for the manufacturers. However, there is a paucity of research on how to sell advanced services. The present study found that VBS is an effective selling style in the manufacturing industry. Hence, this study contributes to servitization research.

Next, the managerial implication of this study is that manufacturers that try to sell advanced services should practice VBS. While selling advanced services to customers, manufacturers clearly and carefully explain the value of advanced services that customers acquire when they use the services to consider rationality.

Finally, the limitation of this study is that it adopts single case study. Therefore, other manufacturers have to be explored to confirm the effectiveness of VBS in the future research. Second, this study focuses on a Japanese company. Further research needs to be expanded overseas.

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