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Servitization of Business: Adding Value by Adding Services

Sandra Vandermerwe

Director, MBA Programme and Faculty Member, International Marketing and Services

Juan Rada

Director-General and Faculty Member, International Management Institute (IMI), Geneva

More and more corporations throughout the world are adding value to their core corporate offerings through services. The trend is pervading almost all industries, is customer demand-driven, and perceived by corporations as sharpening their competitive edges.

Modern corporations are increasingly offering fuller market packages or "bundles" of customer-focussed combinations of goods, services, support, self-service, and knowledge. But services are beginning to dominate.

This movement is termed the "servitization of business" by authors Sandra Vandermerwe and Juan Rada, and is clearly a powerful new feature of total market strategy being adopted by the best companies. It is leading to new relationships between them and their customers.

Giving many real-life examples, the authors assess the main motives driving corporations to servitization, and point out that its cumulative effects are changing the competitive dynamics in which managers will have to operate. The special challenge for top managers is how to blend services into the overall strategies of the company.

Services is dominating the economies of the world and much of the strategic thinking of business. We only have to look at the switch in emphasis in computer technology from hardware to software to appreciate that more and more corporations are adding value to their core corporate offerings through services. And in the process many industries and firms are experiencing a shift in their core business and revenue generation.

Services is no longer a separate category for managers to consider, but rather an all pervasive part of their strategic mission and corporate planning. The best companies of the future will be those who find ways of developing services to create and keep customers and thereby sustain a competitive advantage.

Part of the surge in services is a more holistic approach by managers to their businesses and their customers problems. It is no longer valid for either industries or individual corporations to draw simplistic distinctions between goods and services or assume they can do one without the other. Most firms today, are to a lesser or greater extent, in both. Much of this is due to managers looking at their customers needs as a whole, moving from the old and outdated focus on goods or services to integrated "bundles" or systems, as they are sometimes referred to, with services in the lead role.

Not so long ago, many of the executives, who are pushing for extended services in their companies would have said "no" to services outside their traditional business. They would have argued that they did not have the proper skills, that it was too costly – anyway customers would never pay. Today they are part of a wave consciously driving their companies into services to gain competitive ground.

We call this movement the "servitization" of business. We believe it will have a critical impact on the way managers think, act, and do business in the future. It will continue to make the dividing line between traditional manufacturers and service companies less clear and change some of the relationships and competitive dynamics in which business operates.

This article is based on interviews with senior executives of both service and manufacturing companies. Our aim is to emphasize the growing importance of services in corporate strategy and demonstrate some of the key advantages and competitive impacts. The main question we want to leave with readers is this: what can they be doing strategically different around services?

On Definitions and No-Definitions

A lot of energy has gone into trying to define services and already many authors have identified the various definitional problems, an issue outside the scope of this study. For the purposes of this article we take the view that services are performed rather than produced and are essentially intangible.

At the same time we recognize that the relationship between goods and services is a complex one today. Firstly there is a good deal of substitution between goods and services. Yesterday's barber services are today's electronic razor. A diagnosis that previously needed a visit to the doctor now can to an extent, be obtained through medical diagnostic technology.

There is as well total complementarity. It's hardly necessary to say that essentially all products produce services and that companies buy goods in order to produce services – cars, buses, trains, elevators and planes to get people from one place to another and X-ray machines, scanners, instruments, buildings and beds to produce health services.

Many information services are embodied and carried in goods. This "materialization", while not a new phenomenon, is growing and becoming more capital intensive. This is changing the nature of the service, its delivery, potential for internationalization, and almost all aspects in the operations of service providers.

Many services are already built into goods. Photocopiers pioneered the process whereby in the not-too-distant future artificial intelligence (A.I.) will make it possible for firms to anticipate failure and repair the damage without customers knowing that anything went wrong.

The point however is that a larger component of the added value in customer offerings is going into services. And since the primary objectives of business is to create wealth by creating value, "servitization" of business is very much a top management issue. It gets firms beyond "servicing" where a good is repaired or maintained by the manufacturer or "moments of truth" where the firm comes face-to-face with its customer. It involves a different strategic thrust, level of organizational complexity and an order where the old traditional managerial recipes no longer fit.

The Move to "Servitization"

"Servitization" is happening in almost all industries on a global scale. Swept up by the forces of deregulation, technology, globalization and fierce competitive pressure, both service companies and manufacturers are moving more dramatically into services.

Cleaning companies, for instance, are into a kaleidoscope of service activities including; security, energy saving, building repairs and alterations, plumbing, carpet replacement, refurbishing, as well as cleaning and general maintenance. American Express is rapidly becoming more of a merchant. Using direct mail to cardholders, they sell some $500 million a year in electronic gear, furniture, jewelry, luggage, and fur coats.

Manufacturers have of course always been in services, but nowhere near the extent to which they are involved in them today. Mainly, industrial companies provided "servicing". Now there is a trend to create specialist services around the products they make, sell their knowhow, and set up special companies and units for these new service activities.

The "servitization" of business has probably evolved in three overlapping stages.

Stage 1: Goods or Services

In the past we talked about companies being in *goods* or *services*. Fundamentally companies fit into one or other camp and managers were comfortable saying so.

Stage 2: Goods + Services

Then came advanced technology and other converging trends. Conventional definitions no longer stuck. It was obvious that most companies needed both *goods and services*. Manufacturers, in particular the computer companies demonstrated the inseparability of goods and services for once and for all. And the fate of those companies, who like mortal Christians, discover too late that the body and soul can only be separated after death!

Meanwhile, the classic service companies, like banks began to use more product to facilitate and deliver their services and take more control in the design specification of the products used to produce and deliver these services.

Stage 3: Goods + Services + Support + Knowledge + Self Service

We have now moved into another stage. One where firms offer 'bundles' consisting of customer-focused *combinations of goods, services, support, self service, and knowledge*. Services dominate this era.

Let's look at each of the modules in more detail:

Goods – in essence this is the hardware. Sometimes it is made by another manufacturer. For example a chemical manufacturer in milk additives in Europe now offer farmers a detailed proposal on all aspects of running a farm to improve productivity. This includes goods and equipment and techniques to implement their feeding system.

Services – these are the services around the goods or delivered by the goods. Examples range from fashion forecasts offered to retail stores by manufacturers of textile chemical to financial facilities made available by automobile manufacturers to their dealers.

Self-Service – this isn't new but consumers are being encouraged more and more to self-serve. Much of this has to do with having the facilitating technology with the object to deliver a better service. The other reason is to offset some of the costs to the customer. One courier predicts that by the year 1990 nearly half their consumers will monitor their own parcel enquiries through their own electronic mail systems.

Support – support ranges from training to remote maintenance systems. An important part of this is the support given to consumers to use products, produce their own services, co-produce and co-deliver services with the firm, or set up new operations. Many industrial support service systems literally revolve around anything necessary to keep customers operating effectively.

Knowledge – affectionally known as "know-how", "know-why", "know-what", these are the brain-intensive and more creative aspects of the package. It is more than just data or information. It is knowhow – enriched information like individual consumer problem solving activities. It is an accumulation of what is known by individuals within the company.

In looking at the evolution of "servitization" it is obvious that manufacturers have come in from the product end, whereas service companies have come from the service end. Take the examples shown in Figure 1.

It is probably better to illustrate the 'bundle' as we have done in Figure 2, because the ingredients overlap and are interconnectd and the border lines are therefore often fuzzy and indistinct.

Each of the modules within the "bundle" can be free-standing. Some companies recommend it on the basis that customers need to be able to choose what they want and may not want the whole package. Others argue that since the idea is to create an integrated "bundle", although it is not always practical, it is usually desirable to offer everything and knit the elements as tightly together as possible. The obvious advantage is that it sets up barriers to competition. This will however influence pricing strategy as the more closely knit, the more likely that the cost/price will be incorporated into the price of the product or service.

It is however unusual for a company today to only be involved in one aspect of the total package. They may not necessarily offer each separate ingredient themselves, particularly on a worldwide basis, in which case they use alliances and partnerships with third parties. But more so than ever before there is a conscious effort to offer a fuller market package. As one Swedish banker put it: "Transactions today are pretty automatic. Customers can help themselves to money. But when they need advice or support and need to talk we must be there."

In some instances modules within the "bundle" are standardized. In others highly customized. This depends entirely on the individual circumstances. Either way, both service corporations and manufacturing companies are moving toward these "bundles" and this is colouring and shaping their strategies and relationships.

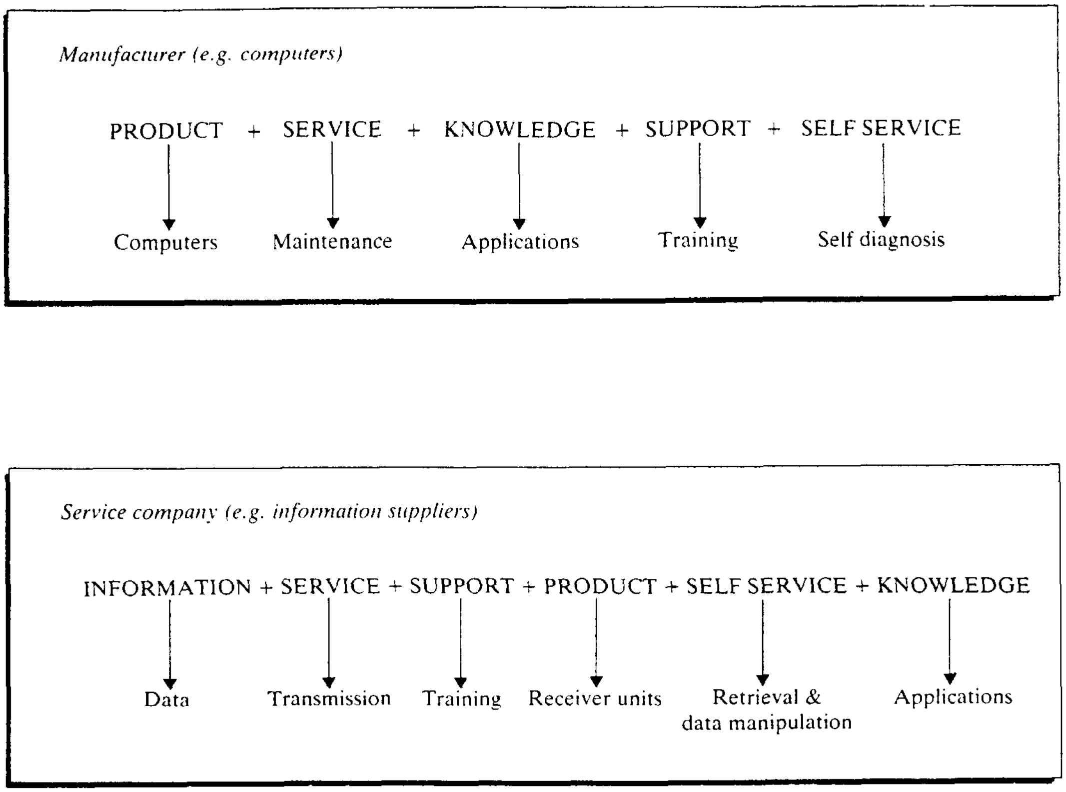

Figure 1

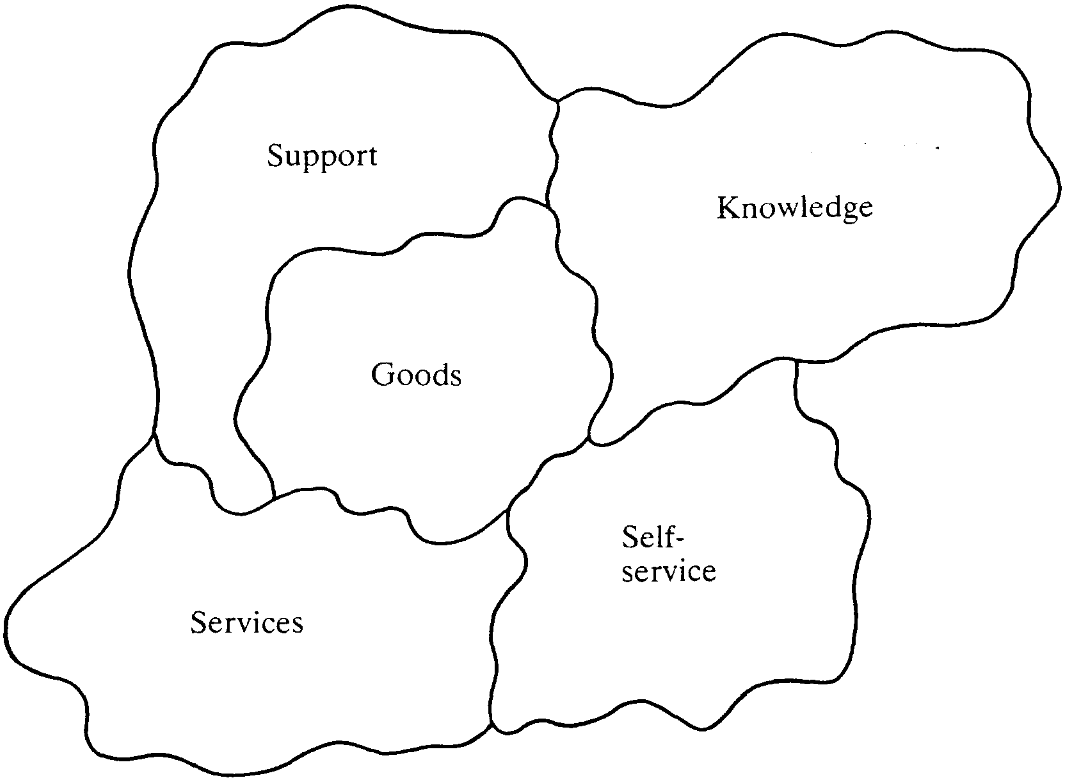

Figure 2

Customers are Driving Servitization

"Servitization" is largely being driven by customers. In that sense its no different from any other market-driven approach to corporate strategy. Previously though, the focus was on customers needs and satisfying these needs mainly through core business activities. Now the emphasis is more on establishing and maintaining a relationship between the corporations and their customer base through broader offerings.

The difference is subtle (and sometimes not so subtle). Volvo for example essentially manufactured cars. Today they are in the entire gamut of activities associated with the automobile transportation experiences of their customers from finance and insurance to gas stations and roadside assistance networks, including towaway and other emergency systems. One executive from an international accounting firm points out that: "Of the (so-called) big 8 accounting firms in the UK, only 3 call themselves accountants. We are international business advisors."

The other discernable trend is that through services firms are moving further down the distribution chain. Instead of only concentrating on distributors and other middlemen they are giving increasing attention to end users, actively seeking opportunities to get to know their problems and provide services to create derived goodwill and demand.

There's no doubt that today's customers demand more services. They don't want less products, but they do want the services that assist them make the right decisions, get the product when and where they want it, utilize what they've bought to its full potential and cope when things go wrong. Customers are also more critical and more difficult to please. They want things more quickly and more conveniently. This too pushes firms towards "servitization".

Customers have a better bargaining base. More informed than ever before, consumers know their options and are exercising them more vigorously. Technology is largely responsible for this as now services are more transparent. Comparative information is more easily available on what firms offer, to whom and at what price. This too has given consumers more clout.

New generation airplanes for instance, once in airports, can now hook up to computers to get prices on fuel and exchange rates. Decisions can be made, there and then, on where to fill up next. Increasingly, domestic energy companies are giving customers services to get fuel into their homes. They clean the tank, maintain the furnace and organize group deliveries – they attend to the entire process.

Then there is the fact that customers demand more customization. The more information customers get, the more customization they want. Facilitated by technology, client specific services and services to deliver custom-tailored goods are becoming the norm.

Users are becoming more powerful in decisions. In some industries customers are using their application knowledge and taking a lead role in the specification of suppliers market offerings. This is likely to happen in three dimensional standards for Computer Added Design (CAD), as it did with Manufacturing Automation Protocol (MAP), which was specified by both General Motors and a group of users (although rival groups are now emerging.)

Customers are more receptive to technology. This increases the potential for providing services. By 1989, its expected that a total of 40% of all UK medical practices will be linked to computer systems, which will radically change the way doctors work and the services they can provide their patients. Already about 30% of the consumers in France are involved in some form of medical self diagnosis. Electronic-Point-of-Sale technology is diffusing rapidly and becoming more sophisticated. In Switzerland, most customers go to self-serve gas stations. In Britain, petrol pumps "talk" to customers to warn them that they are putting diesel into their cars. Travellers will be seen using automatic ticketing and boarding machines more often at airports.

These are only some examples to illustrate the huge potential for firms to deliver new services and deliver services differently.

Technology enables firms to transport services in "real-time". New computerized communication systems in the USA mean that retailers and auto-dealers can get credit approval and insurance cover within minutes. With integrated digital networks and voice, data, image and photographic transmission, estate agents will bring three-dimensional pictures of homes into the living rooms of their customers.

Minitel, which operates in France and is expanding into Canada and Germany, has over three million consumers in France, who not only have, but also use their terminals to buy from over 2000 services –cars to theater tickets, business conferencing to household goods, information ranging from the weather, train, bus and plane schedules to university courses. In the future they plan through A.I. for users to be able to communicate with the system from portable Minitels in their cars.

"Servitization" has enormous strategic implications for the firm and for others. Take the Minitel phenomenon. Instead of retailers spending effort getting customers into stores, their energy must now be directed into getting the goods to their homes. This involves, amongst other things: new transportation systems, which some automobile companies are already working on, delivery units to get the goods into the homes (probably with freeze and heating facilities), electronic banking hookups, new merchandising and packaging from the manufacturers, to say nothing of the mechanics of allocating space in catalogues and distribution of information. Of course many retailers will not go that route. However they will not be unaffected. They will have to adapt to the changed competitive environment and find alternate ways to reposition themselves.

Let's first examine some of the advantages executives have experienced moving into more services. Then we can look at some of the competitive implications.

Servitization as a Competitive Tool

It's not easy to make one general statement about why firms are servitizing so vigorously. Many find that the natural progression of their business takes them into services. Some executives see services as an obvious way to create new opportunities. For others, in more mature industries it's a differentiation tool, to extend their product's life cycle and keep business from dying off.

Either way, opportunities are increasingly coming from services. Take Guiness Peat Aviation based in Ireland. They buy planes from the major manufacturers, who prefer not to provide financial facilities and lease them to the small regional and commuter airlines. They go one step further by adding a fully trained flight and maintenance crew.

Not surprisingly though, the overriding motive driving "servitization" is to gain a competitive edge. Here are the main reasons executives themselves offer, a list, by no means mutually exclusive.

Setting Up Barriers To Competitors

Services can minimize the risk of customers being wooed by competitors. The earlier on in the client's decision process services are offered, the better. This way a dialogue and relationship builds up, which adds leverage to influence decisions and maintain customer loyalty.

"Knowing first" that a customer wants something or has bought something, is causing unprecedented channel warfare and reaction. For instance, some banks in the UK and Germany are taking over estate agencies to protet their mortgage business – these agencies have begun to offer the financing.

The principle of using extended services to block out competition, making entry too costly and complex, is being used by a variety of industries. An American oil company for example now has 4000 dealer stations on line. They intend to offer them accounting functions, information on price changes, travel services and mechanical fault diagnostic services, an array of services designed to benefit the customer and keep competition for their core business out.

Setting Up Barriers To Third-Parties

Third parties are mushrooming, between companies and their customers. Particularly in complex and highly specialized and customized markets. The computer, pharmaceutical, and insurance industries are examples.

These intermediaries are perceived as objective consultants close to customers and with specialized know-how about a wide range of suppliers. They are therefore potentially powerful. Technology makes it easy to get, customize and deliver information. But it's easier for everyone. Traditional barriers are therefore less difficult to break down. In Europe, for example, six doctors got together and collected a massive database on the therapeutic effects of relevant drugs on the market.

A number of companies work closely with these intermediaries. Others respond by selling knowledge and know-how that they have accumulated in-house or from multiple sources.

Setting Up Barriers To Customers

Companies use services to block out competition from their own customers. Or put differently they offer "bundles" with a high input of services either so efficiently, due to an accumulation of their experience, or so economically, due to the economies they have built up so that it simply doesn't pay their customers to do it themselves.

Every time a non-bank goes into financial services, banking loses a customer and gains a competitor. Some banks have coped with this by offering services so that customers use the corporation in a different way. J.P. Morgan runs an advertisement which says, "Some might say encouraging clients to be competitors is the height of folly. We feel otherwise." They, like many other banks, have actively assisted their international customers in setting up their own in-house banks to become better treasury managers. Others take on a new role, like wholesaling, which Bankers Trust have done, or offer specialized market information to select groups.

Offering more services may make it unnecessary for customers to move in. Lexitech, an international linguistic service company now goes beyond translation for their customers. For their pharmaceutical clients, they have a data bank on agreed translations of all the technical words being used in medicine worldwide. Their next step is to connect their global translation network to an electronic mail service.

The Society for Worldwide Interbank Financial Telecommunication (S.W.I.F.T.), the Belgian transaction cooperative operating in 64 countries was conceived as a system for transferring banking instructions between banks worldwide. They then expanded into interbranch message transfer. They have continued to add state-of-the-art hardware and software to discourage customers from growing their own private interbank and interbranch networks – from a banking school to global risk management, cash management, information distribution and payment systems.

Creating Dependency

Many executives express this in different ways. The suggestion is that it is difficult to create dependency with product-intensive offerings, and that the more firms can offer "bundles" as we described the greater the chances of a high dependency between the company and its customers. American Hospital Supply set the classic example with their electronic order-entry system. They demonstrated that they could do a better job of inventory control and purchasing than their customers could. Through their rich information system, they have a purchasing and inventory system setup for hospitals who are now dependent on it.

Some executives in industrial or business-to-business situations warn that customers may resent overdependency if it reduces their freedom and they don't readily see the benefits. Scandinavian Airline Systems (SAS) had this experience when they bought into the largest travel agency in Sweden. They have sold the major portion of this off and replaced it with a collaborative "help desk" arrangement with travel agents and a SAS team at head office offering help to the travel agents and their clients with complicated trips and costs. The most important lesson to be learnt from this is that the object should be to create dependency through a partnership between the company and its customers rather than try to control customers.

Differentiating The Market Offering

SAS use an array of services to differentiate itself. They focus on the chain of travel events, beginning with a person's initial inquiry about a trip all the way through to the time they get back home, and have created what they call the "total travel package" which consists of everything from limousines through to check-in counters in hotels. Recently on their Intercontinental flights they introduced a new Euroclass concept: "sleepclass" for sleeping with plenty of food, drink, and entertainment, and "work-class" where there is more privacy, lighter meals, workroom, portable computers and so on.

DHL, the Hong Kong based courier business, are pushing ahead into services to distinguish themselves from competitors. In addition to core services, they offer a high quality telex and laser printing bureau out of London. They also do bulk remailing for "letters in a hurry", where costs prohibit courier treatment. Bulk bags of mail are sent by air and posted in countries where the postal process is efficient and cheap, as close to destination as possible.

The result, is of course, a snowball effect. Postal administrations are now poised to go into the small parcel and letter courier business. Those who haven't already moved in. In Europe, more than a hundred have linked into an Express Mail Service, and more countries are coming in, including the USSR, a feat no other couriers have managed.

Diffusing New Innovations

Services are also being used by industrial and consumer companies to diffuse innovations. Multitech (now called Acer) a Taiwanese computer manufacturer used this technique to get their personal computers accepted in Taiwan. They went into publishing and education activities from school children to business enterpreneurs. The net result – 50% market share.

Many industrial companies do the same. DSM RIM Nylon, in the Netherlands, use services to assist nylon manufacturers to convert to a new chemical product innovation which requires a change in their injection moulding process. Their services now range from assessing the feasibility of the system through to training personnel although their core business is the chemical itself.

R&D and Market Research

Many companies report that by offering companies services they in fact are able to get a better understanding of whether they themselves are on the right track. Many companies are for instance sending teams into their customer corporations for long periods of time at the R&D phase in order to work jointly on a project.

Whereas the object is to find solutions to customers problems, very often they find solutions to their own. One executive had this to say: "When we were able through out new services to get that close to the customer and see the workings of their business and production process in more detail we found that we had probably been making the wrong products for 15 years!"

Servitization Is Changing the Competitive Dynamics

The cumulative effects of "servitization" is changing the competitive dynamics in which managers will have to operate.

The Dividing Line Between Traditional Manufacturers And Classic Service Companies Is Becoming Less Clear

Manufacturers and service companies are thinking and behaving like one another. They are also becoming closer rivals. Let's look at some reasons why this is happening:

1. Service companies have been industrializing their processes for some time. Macdonalds is famous for it, but is by no means unique. The aim is to get consistency and maintain quality control especially where the services are highly labour intensive. This reflects on image, especially if the company is offering services worldwide and has to rely on third parties. Then there is whole question of creating economies through processes that are highly structured and repetitive.
2. Service companies are now doing their own R&D and specifications and many are manufacturing or subcontracting out the goods that deliver their services. Union Bank of Switzerland (UBS) was respoonsible for the technology for the first fully automated bank. Reuters designs its own technology for its visual display units and screens, and manufactures as well. DHL designs its own computer and telecom network in order to track the movement of parcels it carries.
3. Service corporations are also borrowing and adapting engineering and operation research techniques. Since services are essentially a process the emphasis is on finding ways to improve productivity throughout the service process in much the same way as the traditional manufacturing model does. For instance, an oil company offering a wide range of services to customers when they arrive at the gas station location, in order firstly to differentiate its stations, and, secondly, to make full use of its customer base, has done a lot of time-and-motion research to figure out how the logistics can be improved.
4. Because services are increasingly being embodied in and delivered by goods, it is easy to standardize core elements of services. It is also possible to trade these services without either the customer or the company having to leave home in the typical manufacturing export mode. Take McGraw Hill, who are now selling diskettes internationally through mail order.
5. Manufacturers are selling more services and in the process having to reconstruct their organizations and create service-centered models. This is a huge subject area in itself. Suffice here to say that for many manufacturers the experience can be a difficult one, since there is both resistance from inside the company and a re-education job to be done with customers.
6. Manufacturers are also finding that they are selling (and exporting) their know-how to affiliate companies abroad and in some instances to non-affiliated firms both locally and abroad. In essence they therefore become a service corporation.
7. Some manufacturers, as they move into a consulting mode, offering a more comprehensive portfolio of services to provide solutions to problems, find that they have to get to know competitive products and some executives talk of a time, when, in addition to recommending their own products, they may have to recommend others as well, and even supply them.

Companies Are Competing With New And Unusual Rivals

The "servitization" phenomenon has added to a whole lot of other trends impacting on business today all of which are contributing to a much more complex competitive environment. Companies are indeed competing with new and unusual rivals to a greater extent and adjusting their strategic thrust accordingly. Here are some of the main trends:

Sometimes they compete with themselves. What is happening here is that traditional goods manufacturers are finding that the products they have been making for decades are being replaced by "bundles" of which ever-larger portions are services. For instance a lock manufacturer found that customers wanted more than just protection – they really needed information on the comings-and-goings of personnel. The company is now in a sophisticated array of goods and services, marketing electronic safety and access systems.

Sometimes they compete with their own customers. Johnson Wax, who make floor wax products, decided that they could clean floors better than the building service contractors. So they went into the international cleaning business. When a global publisher went into the electronic information business, they found they were not so much competing with other data processing companies, as their own customers and they had to adjust their strategy accordingly.

Sometimes they compete with their suppliers. This can sometimes lead to schizophrenic relationships. Pacific Bell relies on AT&T as their largest supplier of equipment and technology. Yet AT&T is also their customer and competitor, as they use Pacific's network and compete on long distance services and communication networks for large multinationals.

Sometimes they compete with other industries. By getting into extended services corporations and industries begin to spill over into businesses and sectors outside their usual domain. This we refer to as "intergeneric" competition – a blurring between traditional industries and companies making competing more complex. Take banks. For a start it's almost impossible today to define a bank. Sears Roebuck, in the USA, and Marks & Spencer have taken a chunk of retail banking. In Europe, some of the top manufacturers like ASEA, British Petroleum, General Electric Company, Peugeot, Renault and Volvo, are also the top banks. Benneton, the Italian clothing manufacturer, is now in banking and in the USA there are firms like, Westinghouse Electric, Xerox, Philip Morris, Eastman Kodak, IBM, Caterpillar and AT&T. The Japanese Post Office is reputed to have the largest consumer deposit base in the world.

Sometimes they compete with families of industries or companies. As companies seek ways to offer more services to the market, they search for networks partnerships or alliances to assist. The lock company we mentioned earlier went into the systems business with an insurance company, an important stakeholder in the security business. Airlines in Europe, in theory competitors, now offer a joint credit card and in Europe there are two groups presently undertaking reservation and information network projects: one called Amadeus, the other Gallileo. Both are said to be destined to be the most sophisticated in the world.

Here is another case to illustrate the point:

A joint venture between a well known German automobile manufacturer and a large American credit corporation, has created what they call a top-to-bottom finance system for dealers throughout the country. This system includes: finance for land acquisition, building construction, working capital, long term leasing and retail sales and inventory management.

This blurring effect we have described means as well that knowledge and experience in one industry becomes a springboard to another, again complicating the competitive dynamics. The computer, telecommunications and consumer electronics industries are merging. Will for example some of the Japanese based companies use their knowledge and network in consumer electronics to go into computer or telecommunication services?

Back to Strategic Basics

"Servitization" poses its own special challenges for top management. Mainly how to blend services into the overall strategies of the company. Up to now, services have not been sufficiently integrated into corporate competitive analysis and strategy design. It has been seen as part of the marketing effort and often an unpaid and expensive activity.

This is changing, at a different pace depending on the industry and the corporation, the perceived need and risk, and whether top management takes a proactive or reactive stand.

The real question is this. Once top management recognizes the need to get into services how do they make decisions like: how far to go? What services to choose? When is more services too much?

The answers we believe can be found if we revert back to the basics and answer these fundamental questions:

What Business Are We In?

The world has changed but most of the principles have not. Still the assumption holds, that the company who has the broadest, but most realistic view of its business is best attuned to what its customer wants and therefore best able to offer the most appropriate goods and services. Even if it means moving out of traditional areas, learning new skills and shaking the existing order.

What are the boundaries of a business? They are the boundaries the customer defines. How far should a company extend the limits of its business? As far (perhaps only as far) as customers needs go.

The point is that to understand the nature of these needs in today's environment, modern managers must switch gears mentally and anticipate that services will play an increasingly important role in their business.

What Business Could We Be In?

Today with service infrastructure like data highways, teleports or satellites communication centres, Local Area Networks (LANS), value added networks (VANS), ISDNs, service zones and service parks, the answer to this question in theory is "anything". Operations are spanning all corners of the globe and technology makes the transportation of services easier. With increased liberalization, opportunities for adding scope and value through services will continue to increase on a worldwide scale.

Some companies have been in services for decades, but in a marginal way. Today, these self-same corporations find that it is the service end of the business accounting for increasing amounts of revenue and profits.

An interesting paradox: while companies are eagerly moving into services they are simultaneously dispensing with many internal services, like cleaning, catering and maintenance. This closes the loop and leaves opportunities free for outsiders. The overall effect is a shift to where efficiencies and economies can create the most overall value.

What Business Should We Be In?

This question has to do with the objectives and resources of a company and whether firms have the capabilities and facilities to forge into services. Some executives believe firmly in sticking to what they know best and leaving the rest to other companies. The advantage they argue is that resources and energies are left free to focus and do what they can do better than anyone else.

This of course can and does work, provided customers are ultimately getting the services from someone. If not, the danger is that companies and whole industries can lose out. Some services are so fundamental to products or services today, they cannot be ignored. Can they be handled externally or through some alliance? Or must the company take a lead role?

How the service is delivered should be considered here. When companies don't control services vital to their own business they become vulnerable. Firms may try to overcome this by maintaining a close working relationship with the service supplier or go into a different operating mode like franchising. Similarly when customers don't use services to their full potential because they don't know how or why, the manufacturer becomes vulnerable. Hence the need to create a service-centred business philosophy.

Who Else Could Be In It?

There is an idea that it is easier to go into services than manufacturing, or rather that it is cheaper. This of course is changing as the service business becomes more technology intensive. But still this notion plus the fact that there are huge spillovers and synergistic opportunities today, means that competition in services can come from almost anyone. With barriers to trade in services steadily breaking down, they can also come from anywhere.

Managers need to assess who is likely to offer services and the impact this could have on their competitive position. Pioneers will have to figure out how to differentiate their "bundles" and creative barriers. Where competitors are already offering key services, companies will have to find a way to add value.

What Business Do We Want To Be In?

The ongoing corporate struggle to satisfy customers better than competitors, continues worldwide. But something is different. Managers are giving much more attention to solving their customers' problems. They find that it's no longer enough to do better than what they already do. Cost and quality differences are becoming more difficult to sustain. Besides, customers are demanding more.

It is the companies with the know-how and the ability to capture and transmit this know-how in a competitive and profitable way who will win because it is from there that the higher value added is more likely to come.

Something is missing though. There is still one more question, What business do we want to be in?

Is teleconferencing a natural extension of business for an airline? Should a business catering company go into computer and audiovisual services or spend their energy finding new markets to whom to sell more catering? Perhaps, they too should seriously look at teleconferencing? Different individuals will answer this question differently. More significantly different executives from the airline and catering industry will answer it differently based on their own reality of what they want for themselves and their corporations.

We know from experience that the introduction of one innovation doesn't automatically lead to total substitution. We also know that as a general rule companies should probably stick to what they know and do best. In the end, how quickly a company responds to the "servitization" trend and to what extent is their own free choice. Or is it?

Notes

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