

10

Service business development for small and medium suppliers

This chapter takes the previous discussion of the exploitation and exploration approaches pertaining to the development of service business and applies them to small and medium suppliers. The primary goal is to provide insight into how such suppliers can apply these approaches pragmatically. Following the structure of the previous chapters, the dynamic and operational capabilities necessary for developing service business are discussed herewith.

10.1 Approaches for service business development

At the supplier level, there are three approaches that may be pursued (see Table 10.1), namely:

1. Enhancing the relational value of existing supplier–buyer relationships.
2. Applying financial value-seeking behaviour to existing and new supplier–buyer relationships.
3. Taking a radical leap towards a new value constellation downstream in the value chain.

10.1.1 Enhancing the relational value of existing supplier–buyer relationships

The enhancement of relational value of existing supplier–buyer relationships is the most dominant approach used in service business development. The strategic intention is that of exploiting service opportunities in order to improve the supplier–buyer relationship (Ulaga and Eggert, 2006). The business logic with existing customers in the next value-added step changes incrementally from being transaction-orientated to being relationship-orientated. These changes rely on the fact that more intensive co-producing relational competencies are expected to

be generated between suppliers and buyers. This approach embarks on paths of value addition (Matthyssens and Vandembemt, 2008; Möller, 2006); the co-produced competencies act as a resource barrier that wards off competitors. The service offering is extended to include logistic services, design and construction services as well as services supporting product sales. The service offerings and co-produced competencies confirm the existing value constellation in providing reliable products and services at reasonable prices.

Enhancing the relational value of existing supplier–buyer relationships experiences less direct competition as far as price is concerned, which enhances profitability. The services support suppliers in differentiating their offering, creating sustainable competitive advantages and allowing a price premium of about 5–10 per cent over their competitors. However, the price premium for services surrounding the product offering does not really change the perception held by customers: they still recognise suppliers as being product-orientated, with services being offered as add-ons in the supplier–buyer relationship. The resource position is not an integral part of the service competence but originates instead from the relational competence.

The service offering integrates the resources of suppliers and customers; it affects the logistic and design processes as well as the sales processes inherent in the supplier–buyer relationships (Wouters, 2004). As customers do not pay for services, companies find it difficult to quantify the value enhancements that the services generate. They merely argue that services are used to enhance the general quality of the supplier–buyer relationship. Enhancing the relational value to existing supplier–buyer relationships thus substantiates the existing value constellation of providing reliable products and services as add-ons to products at reasonable prices.

10.1.2 Financial value-seeking behaviour in existing and new supplier–buyer relationships

A second approach that may be used is financial value-seeking behaviour in existing and new supplier–buyer relationships: it is, however, used less frequently than the first approach, i.e. enhancing the relational value. It does not follow the path of value addition but aims, instead, at enhancing financial opportunities. The business logic changes incrementally from being transaction-orientated to products to being

transaction-orientated to both products and services with existing customers in the next value-added step, along with new customers in adjacent value-added steps. Products and service offerings are separated: the result is an increase in the revenue that is generated.

Separating the prices of products from those of services has three side effects:

1. Few existing customers reconsider their demand for services when confronted with separate service prices. They may decide not to use the services, thus reducing the internal costs and resources of the supplier, who can then redirect resources to customers who are willing to pay for services and appreciate their real value.
2. The price of current products can be reduced. This opens up new, if more price-sensitive, customer segments which, although they are less profitable than existing customers, have an important stabilising effect on otherwise volatile demands. They help the supplier make more efficient use of their capacity and thereby reduce costs.
3. Selling and charging for service separately attracts new service-only customers. This approach seeks beyond the existing customer base and has the potential of reaching new customers. Logistics and repair services may be offered to other suppliers of components or sub-modules. Design services are offered to engineering companies seeking out design and manufacturing competencies.

These three results of charging for services do not change the value constellation. This approach enhances the existing value constellation in providing reliable products and services at reasonable prices. The services could create, on average, around 15 per cent of the supplier's total revenue and achieve a margin leverage of two when compared to product revenue.

10.1.3 Taking a radical leap towards a new value constellation downstream in the value chain

The first two approaches involve suppliers adapting the exploitation approach (Chapter 6) whereas the third approach is close to the exploration of service opportunities (Chapter 4). Suppliers that apply this third approach embark initially on the path of value-addition but subsequently leave it. Their energies are redirected towards strategic

opportunities for exploring untested service markets downstream or upstream in the value chain.

Exhibit 10.1: The radical leap taken by Fraisa towards a new value constellation downstream in the value chain

Fraisa, a manufacturer of precision cutting tools with about 500 employees, rendered the previous form of competition obsolete. Originally they produced precision cutting tools that were then sold via distributors to manufacturers of machine tools. Fraisa soon learnt that the handling and application costs associated with the precision cutting tools of machine tool users exceeded the existing costs of the actual cutting tools. Handling activities (storing, ordering, administering and controlling) did not, of course, constitute a part of the service offering of the machine tool manufacturer (i.e. provision of spare parts and repairing or maintaining the machine tools). It did, however, represent an attractive market opportunity for Fraisa, who responded to the attractive market potential by setting up a tool care concept. A new value constellation was thus formed, based on achieving attractive total costs for handling the tools through the value propositions that followed. The new concept reduced costs and the amount of capital tied up, since payment was made only for the tools that were actually used. Customers could outsource ordering, administration, service and maintenance activities for precision cutting tools, leading to a greater concentration on core competences and reduced costs. This new value constellation broke with the former value constellation in that it provided highly reliable precision cutting tools at reasonable prices. It allowed the company to open up a new market downstream in the value chain.

A new value constellation initiates the undertaking of integrated solutions that involve competencies beyond the competence base of the supplier. The supplier is, therefore, concerned with forming a new value network (including new business partners such as logistic providers, OEMs, customers and IT service providers) in which the co-production of competencies within the value network acts as a resource barrier towards competitors.

Table 10.1: *The three approaches used by suppliers to develop their service business*

	Enhancing the relational value of existing supplier–buyer relationships	Financial value-seeking behaviour in existing and new supplier–buyer relationships	Taking a radical leap towards a new value constellation downstream in the value chain
Strategic intention	<ul style="list-style-type: none"> Exploiting service opportunities in supplier–buyer relationships 	<ul style="list-style-type: none"> Exploiting service opportunities for additional service revenues and profits 	<ul style="list-style-type: none"> Exploring untested service markets
Business logic	<ul style="list-style-type: none"> Changing incrementally from being transaction-orientated to being relationship-orientated 	<ul style="list-style-type: none"> Changing incrementally from being transaction-orientated to products to being transaction-orientated to both products and service New customers in adjacent value-added steps 	<ul style="list-style-type: none"> Forming a radically new value network
Competitive advantages	<ul style="list-style-type: none"> Co-produced relational-competencies 	<ul style="list-style-type: none"> Co-produced service-competencies 	<ul style="list-style-type: none"> Competencies co-produced within the value network
Financial indicators	<ul style="list-style-type: none"> Services create a price premium of 5–10 per cent for products 	<ul style="list-style-type: none"> Services generate approx. 15 per cent of the total revenue Services achieve a margin leverage of two compared to product revenue 	<ul style="list-style-type: none"> Services create additional revenues and generate approx. 25 per cent of the total revenue Service revenue achieves margin leverage of three compared to product revenue

10.2 Co-evolvement of organisational capabilities

The following three sections describe the co-evolvement of the dynamic and operational capabilities required in the approaches to service business development used by small and medium suppliers (summarised in Table 10.2 and Table 10.3).

10.2.1 *Capabilities for enhancing the relational value of existing supplier–buyer relationships*

Dynamic capabilities

The sensing activities of suppliers focus on marketing benefits. Sensing is dominated by the assumption that services improve supplier–buyer relationships. Seizing marketing opportunities balances the additional service costs and the price premium.

Sensing and seizing are, nevertheless, rather limited in that they appear reactively and are constrained to the supplier in question. Suppliers lack a strategic focus; they admit to having an opportunistic attitude of seeking rapid and incremental improvements in the perceived customer value. Furthermore, sensing and seizing efforts appear reactively only when customers experience a decline in business. Customers are, therefore, often perceived as being highly price sensitive, employing every possible means of negotiating additional services at fixed product prices (when services are an integral part of product prices). Suppliers, as a result, do not see any financial benefits arising from the provision of new services. This internal recognition is self-reinforcing because customers consider these services as add-ons that should be offered for ‘free’. The suppliers’ service expenses can nonetheless be used as additional leverage in subsequent negotiations when customers place new orders. Sensing and seizing concentrate only on marketing opportunities.

Furthermore, other network actors, such as supplementary downstream or upstream business partners, are not involved in the sensing activities of suppliers. Seizing the marketing opportunities to provide a strategic response is integrated only with the suppliers’ distributors. This means that suppliers mobilise their distributors, requiring them to formulate and implement services in the sales phase (e.g. product consulting, information services, etc.) in order to augment their product offerings.

Reconfiguring takes place mainly in the context of corporate culture and human resources. Suppliers reconfigure their strong technical and product-orientated approaches to more service-orientated behaviour. Their human resources undergo changes in personnel development and compensation: the latter refers to reconfigurations observed in internal accounting and measurement systems.

Operational capabilities

Reconfiguration initiates a modification of operational capabilities. In the context of behaviour being a part of corporate culture, suppliers develop new ways of improving the general quality of a supplier-buyer relationship. Individual roles change: a reliable supplier becomes a trusted adviser who fulfils the customer's service needs. Individuals learn to employ a 'whatever it takes' philosophy to satisfy the needs of the customer. An increase in the service-orientation of human resources supports behavioural changes. Suppliers also enhance their recruiting and training procedures. Individuals are taught new ways of listening and communicating with customers in order to understand the nature of the customer's expectations at an earlier stage.

The focus of current personnel training used by suppliers is on technical skills directed towards behavioural competencies, recognising that the provision of services includes a high degree of uncertainty. Unexpected challenges that can be very diverse in nature may appear whilst personnel are providing design services: they have to be willing to address unexpected issues as soon as they arise (Neu and Brown, 2005). On-the-job training aims at developing such competencies and attitudes continuously, whereas personnel evaluation and rewards ensure that they are retained. Outstanding performance in solving customer problems is highly appreciated: individuals are compensated and rewarded for employing the 'whatever it takes' philosophy.

Suppliers change the procedures that are integral parts of the key account and accounting systems. The initial accounting systems track product profitability but not individual customers: costs are allocated initially to product categories for functional activities rather than to customers. No measurement system synthesises sales into specific key account customers that demand both products and services, making it impossible to track the profitability of the 5–10 per cent price premium. Suppliers are thereby required to recalculate activity-based profitability as and when necessary. The recalculated profitability

indicators supplement the reward system and balance the non-financial evaluation of solving the problems encountered by customers.

Table 10.2 and Table 10.3 illustrate that the co-evolvement of the relatively few dynamic and operational capabilities in this approach is relatively minor when compared to the other two approaches presented in the sections below.

10.2.2 Financial value-seeking behaviour in existing and new supplier–buyer relationships

Dynamic capabilities

In the case of financial value-seeking behaviour in existing and new supplier–buyer relationships, suppliers sense not just the marketing benefits and opportunities to enhance the general quality of the supplier–buyer relationship but focus rather on potential financial opportunities. They develop corporate values away from considering services as being add-ons to products towards seeing services themselves as potential sources of revenue and profit. Sensing the financial opportunities that emerge through analysing the potential service needs of new customers, they are then converted into new business opportunities that are seized in three different stages. Firstly, the suppliers define the value associated with the new services by assessing how the customer perceives their own service needs. The customer's perceptions are then translated in the second stage into value-based prices for each service. The third stage involves the financial benefits that are sensed being verified by assessing whether or not new or existing customers demand, and are willing to pay for, the services in question. These three issues extend previous service innovation processes. Suppliers then integrate assessments of the financial benefits into the service innovation process.

Suppliers are aware that general acceptance within the industry in question is necessary if they are to create a situation in which services are to be charged for separately. They cannot mobilise other suppliers into sensing and seizing new pricing policies so, in order to achieve customer acceptance, they no longer use reactive behaviour to seek out new value-adding activities when customers reduce their orders. The most efficient approach is to encourage acceptance of the new business logic of selling services separately when customers run at peak capacity. Customers that are fully occupied with development projects are

much more eager to outsource design and production and/or assembly activities. Timing is instrumental: driven by targets, outsourcing decisions are often made when the customer is in a relatively weak negotiating position. This creates a situation in which charging for design services is more likely to gain acceptance in the industry.

Suppliers sense and seize financial opportunities continuously but, before financial benefits can be transformed into new services, companies must assess whether customers can cope with running at peak capacity. This assessment supports suppliers in investing their limited resources in services with the highest potential of creating new financial benefits.

Operational capabilities

Financial value-seeking behaviour in existing and new supplier–buyer relationships avoids reconfiguring customer-focused attitudes towards a ‘whatever it takes’ philosophy. They aim more at a ‘what is paid for and valued’ philosophy and establish behavioural roles compatible with those of a reliable service provider.

The operational capabilities of human resources are concentrated on developing recruitment processes and on the training of listening and communication skills. Individuals learn the nature of the customers’ expectations of the services more quickly as well as how to convince them to pay for the services. As far as personnel assessment is concerned, suppliers increasingly reward outstanding financial performance and the ‘what is paid for and valued’ philosophy in the form of service revenues and profits. In order to support the system of rewards and the continuous development of the corporate values and behaviours mentioned above, suppliers should set up clearly visible service teams for specific services and give them profit/loss responsibility.

Suppliers should also modify their accounting system so that they can monitor the profitability and revenue generated by each service. Costs should be allocated not only to product categories and functional activities (such as marketing and manufacturing) but also to services. Such a modified accounting system synthesises sales and costs to a specific product and set of services: it allows the profitability of each product, service and key account to be traced. When service revenue and profitability are measured directly, services can be charged for separately. Exhibit 10.2 illustrates how Escatec implemented financial value-seeking behaviour to boost its service business.

Exhibit 10.2: Escatec's financial value-seeking behaviour in existing buyer and new supplier-buyer relationships

Escatec, a manufacturer of electronic boards, deliberately implemented a financial value-seeking behaviour in its existing and new supplier-buyer relationships. The company decided that it should be able to achieve a significant share of revenue through additional services within the next seven years. Driven by meeting this target, Escatec started to analyse existing service offerings. These covered the following service categories:

- Design services for hardware and software: feasibility studies, descriptions of performance and functional specifications.
- Construction services: electronic and mechanical construction, computer-aided design.
- Transformation services for moving from design to production: design to order, target costing services, product accreditation.
- Fast prototyping services.
- Production services: manufacture of electronic boards, supply chain management, life-cycle management, test and measurement services.

Each of these services was analysed further according to their existing value contribution. It resulted in Escatec changing its management behaviour from doing 'whatever it takes' to keep the customer happy to emphasising 'what is paid for and valued' by the customer. This analysis of the existing services in combination with an in-depth understanding of the customers' service needs thus aided Escatec in verifying, on the one hand, the financial benefits sensed and, on the other hand, in assessing the willingness of the customer to demand, and pay for, services.

Escatec proceeded by taking the following steps:

- Mapping existing services that had been offered for 'free' but could be easily charged for in the future.
- Appointing a project team to oversee the development of new services and service capabilities.
- Instating an incentive system for promoting the sales of services.
- Creating tools for documenting value and communicating them to customers.

Exhibit 10.2: (*cont.*)

- Drawing up a checklist of unique selling propositions for competing with the new, and newly-charged for, services.
- Balancing the customisation of the services required to meet customers' needs with a standardisation of the service processes and elements.

The result was that Escatec instated two dedicated service teams. The first team was responsible for promoting, selling and delivering design services that were previously offered for 'free'. The second team was responsible for promoting, selling and delivering repair services. These repair services were new service innovations that were not previously offered by Escatec; they created 15–20 per cent of Escatec's revenue within a period of a few years. This revenue share was, in addition, seen as achieving the highest operating margin.

10.2.3 Taking a radical leap towards a new value constellation downstream in the value chain

Dynamic capabilities

Suppliers aiming at taking a radical leap initiate their sensing activities by developing managerial cognition of the strategic opportunities downstream in the value chain, the total cost considerations of customers, the new value constellations beyond their own industry and, finally, the existing value network boundaries. Managers should consider the market structure as being endogenous as a result of innovation and learning. They should deliberately not accept the service market and their position in the value chain as being given but, instead, emphasise the separation of market players, value chain positions and customer needs (Jaworski *et al.*, 2000). The theory used for service markets is open for substitution by something fundamentally new through generative learning (Slater and Narver, 1995).

Suppliers are not limited by their size when they sense for opportunities in creating markets and new customer value propositions. Whilst managers attempt to shape the behaviour of the market, they are also aware of the fact that their size, their position in the value chain, the behaviour of both the customer and competitors and their

past competitive behaviour may act as potential hurdles in reshaping the market structure, value constellations and the development of their service business.

Procedures relevant to extensive sensing are investigated in other industries: customers and non-customers are observed and all related activities are mapped comprehensively. For example, the concept of tool care means that fixing and assembly materials (such as screws, screw accessories, dowels and plugs) are transferred to the comprehensive logistics service that deals with low-value, high-volume parts, thereby forming a new value constellation (see Exhibit 10.3). This new value constellation shows the cutting tool manufacturer in question that the handling costs of the customer exceed the purchasing costs of the products. Handling activities (storing, ordering, administering and controlling) are obviously not a part of the customers' primary activities of using the precision tools (which are utilisation, repairing and maintaining), but are interpreted as being a potential, and attractive, market.

The cognition of these opportunities and the new value constellation associated with them, however, is also threatened by potential biases. Providing services downstream in the value chain is often far beyond the existing core competencies of the company. Also, as in the case of Fraisa (see Exhibit 10.1 and Exhibit 10.3), for example, its use of its existing reputation as a reliable manufacturer of cutting tools as a proxy for evaluating the purchasing potential of tool care is questionable. Suppliers can overcome such biases through a cognitively sophisticated and disciplined approach to decision-making. Managers are required to reassess their attitudes to satisfying customer needs related to products and services. If radical leaps are to be made, they are forced to consider markets not only in terms of the product and service offerings they sell but also what customers buy. Value is never a product or service: it is always a utility, i.e. what the product or service actually does for the customers (Drucker, 1973).

Suppliers apply an 'umbrella' strategy where seizing is concerned in order to define the boundaries of the strategic response and new value constellations. It is a strategy that allows various scenarios of value constellations and propositions to emerge. Anticipating how each scenario affects the logics of value creation (which, in turn, influences the roles of actors and their value-creating processes), suppliers mobilise other network players to participate in seizing scenarios, value propositions and value-creating processes. They thus create a learning relationship

with other network players. Managers and employees, along with other business partners, become wiser in how to propose new value constellations through the formation of value networks. Suppliers learn specifically about the complex business problems encountered by their customers and gain intimate knowledge of the handling costs and various activities related to their products. Simultaneously, downstream customers become increasingly skilled in recognising the competencies of network actors that are suitable for solving their complex business challenges. The inherent learning processes help the suppliers anticipate potential value propositions for each network actor and identify which are most suitable for forming a new value constellation.

Exhibit 10.3: Scenarios at Fraisa

Fraisa envisioned potential value propositions and a new value constellation in their network using a scenario technique. Aware of the likelihood that it might collapse if only one scenario was explored, Fraisa allowed numerous scenarios to emerge. A first scenario included selling its tool care concept in cooperation with machine tool manufacturers where the service technicians of the machine tool manufacturers supported sales and ensured that service was provided. The second scenario included collaboration with providers of high-volume, low-cost, components. Such companies had already succeeded in moving from selling screws, screw accessories, dowels and plugs to integrating these components into a logistics service concept. As a provider of logistics service, Fraisa could find it beneficial to integrate tool care into its own service portfolio and to open its component portfolio to high-cost, low-volume, tools. To develop such scenarios, managers learned to anticipate or estimate the value proposition and value production logic and understand how it would influence the roles of the various actors and their value-creating processes.

The supplier in the case above is aware that one scenario might collapse and thus allowed several scenarios to emerge. Discussing various scenarios proves to be beneficial because it facilitates managerial cognition of a wide range of business opportunities. Managers are required to be flexible throughout the entire strategy process, as well as being open to discussing new aspects of the service business.

It is realised, however, that the resources and the attention spans of managers were both limited, so considering different scenarios had the potential of leading to bottlenecks and time delays in terms of implementation. Bottlenecks can be avoided if suppliers provide sufficient resources and realistic time frames. Fraisa actually considered time as not being critical for the implementation of a new value constellation and allowed schedules to be very flexible.

The suppliers in the new value constellation initiated reconfigurations in the corporate culture, human resources, organisational structures and innovation process within their respective company. They also orchestrated reconfiguration activities for other network actors. Reconfiguration is a continual process that improves subsequent operational capabilities.

Operational capabilities

Corporate values change incrementally from considering services as being add-ons to products to seeing them as a potential means of restructuring the value chain and forming new value constellations. Managers expect a more service-centred perspective of strategy to allow service competences to be translated into new value propositions via a restructuring of the processes controlling the co-creation of value within the entire value chain (Vargo and Lusch, 2004). This is conducive for establishing managerial roles that depart from, and critically reconsider, the current concepts that apply to the industry in question. Implementing new value creation processes also requires suppliers to establish clear roles for their employees in providing reliable solutions.

In the case of human resources, partner competencies are developed in order to create collaborative learning relationships with business partners and downstream customers. Suppliers deliberately recruit and develop behavioural competencies so as to learn how to provide integrated solutions quickly via a network of business partners. Learning with business partners should be rewarded: it is helpful to solve customer problems in collaboration with business partners.

Suppliers should set up specific solution teams to enhance the way in which customers and business partners perceive the solutions offered. These teams integrate products, services and partner competencies into one organisational unit, acting relatively autonomously of existing organisational functions. The size of the company means that

Table 10.2: Summary of the dynamic capabilities associated with each approach

		Approaches used in service business development		
Capabilities		Enhancing the relational value of existing supplier–buyer relationships	Financial value-seeking behaviour in existing and new supplier–buyer relationships	Taking a radical leap towards a new value constellation downstream in the value chain
Dynamic capabilities	Sensing	<ul style="list-style-type: none"> • Continuing with the propensity to sense for new opportunities timely and reactively • Making incremental improvements in the perceived customer value • Improving customer relationships when marketing opportunities arise 	<ul style="list-style-type: none"> • Breaking with the tendency to sense for incremental improvements alone in the perceived customer value • Setting up a more counter-cyclic method of sensing • Analysing potential service needs of new customers and converting them into new financial opportunities 	<ul style="list-style-type: none"> • Exposing sensing activities to strategic opportunities downstream in the value chain, understanding customers’ consideration of total costs, new value constellations beyond the industry and existing value network boundaries • Considering the market structure that arises from innovation and learning • Substituting the current theory used for service markets • Emphasising the creation of service markets and new value propositions • Actively influencing the structure, and shaping the behaviour, of the market
	Seizing	<ul style="list-style-type: none"> • Balancing the costs of the services to augment the product offerings and make improvements in the quality of supplier–buyer relationship with the price premium of the product 	<ul style="list-style-type: none"> • Defining the value associated with new services by assessing the way in which customers perceive their service needs 	<ul style="list-style-type: none"> • Considering value propositions as utilities or in terms of how a product and/or service benefits the customer rather than separating them into product and service attributes

	<ul style="list-style-type: none"> • Translating the customers' perception into value-based prices for each service • Verifying the financial benefits sensed; assessing whether new or existing customers are willing to demand and pay for services 	<ul style="list-style-type: none"> • Applying 'umbrella' strategies by defining the boundaries of the strategic response and new value constellations • Allowing various scenarios of value constellations and propositions to emerge • Anticipating how each scenario will affect value creation logics and influence the roles of actors and their value-creating processes • Mobilising other network players to participate in seizing scenarios, making value propositions • Defining the role of the actors in value-creating processes • Visioning a value network that is most suitable in forming a new value constellation 	
Reconfiguring	<ul style="list-style-type: none"> • Initiating reconfigurations in corporate culture, human resources and measurement systems 	<ul style="list-style-type: none"> • Initiating reconfigurations in corporate culture, human resources, organisational structures and innovation processes 	<ul style="list-style-type: none"> • Initiating reconfigurations in the corporate culture, human resources, organisational structures and innovation processes of the supplier • Orchestrating reconfiguration activities of other network actors

Table 10.3: Summary of the operational capabilities associated with each approach

		Approaches for service business development		
		Enhancing the relational value of existing supplier–buyer relationships	Financial value-seeking behaviour in existing and new supplier–buyer relationships	Taking a radical leap towards a new value constellation downstream in the value chain
Capabilities				
Operational capabilities	Corporate culture (values and behaviour)	<ul style="list-style-type: none"> Establishing a behavioural role of trusted adviser and employing a philosophy of ‘whatever it takes’ 	<ul style="list-style-type: none"> Developing corporate values away from considering services as being add-ons to products to seeing services as a potential source of revenue and profits Establishing behavioural roles of a reliable service provider and a philosophy of ‘what is paid for and valued’ 	<ul style="list-style-type: none"> Developing corporate values away from regarding services as being add-ons to products and towards seeing them as a potential way of restructuring the value chain and forming new value constellations Establishing managerial roles in breaking and reconsidering critically the concept currently used Establishing employee roles in providing reliable solutions
	Human resources (recruitment, development and assessment of, and compensation for, personnel)	<ul style="list-style-type: none"> Recruiting; training listening and communication skills to understand the customer’s expectations of the service at an early stage 	<ul style="list-style-type: none"> Recruiting and training in listening and communication skills to learn the nature of customer’s service expectations more rapidly and to convince customers to pay for services 	<ul style="list-style-type: none"> Developing partnering competencies to create collaborative learning relationships with business partners and customers downstream in the value chain Recruiting and developing behavioural competencies to learn how to provide integrated solutions rapidly through a network of business partners

Organisational structures for products and services (profit/loss responsibility, organisational clarity and visibility)	<ul style="list-style-type: none"> • Rewarding outstanding performance in solving customer problems and for employing the ‘whatever it takes’ philosophy 	<ul style="list-style-type: none"> • Rewarding outstanding financial performance with service revenues and profits. • Rewarding the ‘what is paid for and valued’ philosophy • Setting up specific service teams for logistic and design services • Ascertaining profit/loss responsibilities for the service teams 	<ul style="list-style-type: none"> • Rewarding cooperation with business partners • Rewarding the solving of customer problems in collaboration with business partners • Establishing specific solution teams with integrated products, services and partner competencies • Ascertaining profit/loss responsibilities for solution teams • Strengthening inter-company collaboration with business partners
Measurement systems	<ul style="list-style-type: none"> • Establishing procedures for the occasional recalculation of customer profitability 	<ul style="list-style-type: none"> • Establishing a set of financial and non-financial performance indicators for the service teams 	<ul style="list-style-type: none"> • Establishing a set of financial and non-financial performance indicators for the solution teams
Innovation processes		<ul style="list-style-type: none"> • Extending the service innovation process by setting goals and assessing the financial benefits 	<ul style="list-style-type: none"> • Opening up the innovation process to business partners • Integrating product and service innovation processes with solution innovation processes

providing solutions is cross-functional: there are various interfaces with, for example, manufacturing, sales, marketing and services, making a separate business unit unnecessary. In conformity with the second approach, suppliers who follow the third approach should also delegate profit/loss responsibilities to their solution teams (after having made the necessary changes in accounting and measurement systems) and provide them with a set of financial and non-financial performance indicators.

Finally, related to previous descriptions pertaining to visioning, mobilising and orchestrating network actors, suppliers open up the innovation process to business partners. The latter are specifically requested to participate in the development phase and to contribute in drawing up business plans, designing the system for delivery solutions and blueprinting the value activities necessary across the network as a whole. Suppliers integrate product and service innovation processes into one solution innovation process, since solutions are based on how useful the products and services are to customers and how they cope with the challenges posed by their business processes.