Competitive

The Role of Relationships in Services-Led Growth: A Manufacturer's Perspective

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Abstract

The manufacturing base in many Western economies has been shrinking for a number of decades as outsourcing decisions result in manufacturing being undertaken in emerging economies (Kent, 2009). Manufacturers that remain are continuously seeking new ways in which to maintain their competitive edge. Recently, attention has focussed on servitization/service infusion as a mechanism for creating competitive advantage and maintaining the manufacturing sector(Brax, 2005; Baines, Lightfoot and Kay, 2009; Kowalkowski,KindströmAlejandro, Brege andBiggemann, forthcoming).

Central to the IMP philosophy is a belief that relationships are core to business activity, with networks defined by the relationships that they comprise driving all developed economies and the interactions they comprise defining the outcome of the relationship (Håkansson, 1982; Ford, 1997; Håkansson, Ford, Gadde, Snehota, &Waluszewski, 2009). Indeed Araujo, Gadde & Dubois, (2003) believe that relationships facilitate the development of new capabilities. Services were first noted to be of importance in business-to-business relationships by Cunningham & Roberts (1974) but perhaps because there are few pure products or services (Shostack, 1977; Zeithaml, 2010)they do not always warrant explicit attention in the IMP literature. Recent discussions around service dominant logic (e.g. Ford, 2011; Vargo&Lusch, 2011) provoke attention towards the explicit role of services and service in a manufacturing (and business-to-business context)

Hence, the purpose of this paper is to explore how business-to-business relationships and networks services impact on decisions by manufacturers to develop their service offerings.

This paper outlines research we have been conducting in this area and provides evidence to illustrate the complexity of service provision and how it relates to business relationships from the manufacturing sector. We do not see a simple set of dichotomous outcomes in this area, rather a complex set of offerings driven by the nature of the on-going relationships between provider and user.

Key words: service infusion, relationships, network services

Introduction
The manufacturing base in many Western economies has been shrinking for a number of decades as outsourcing decisions result in manufacturing being undertaken in emerging economies (Kent, 2009). Manufacturers that remain are continuously seeking new ways in which to maintain their competitive edge. Recently, attention has focussed on servitization/service infusion as a mechanism for creating competitive advantage and maintaining the manufacturing sector (Brax, 2005; Baines Lightfoot and Kay, 2009; Kowalkowski, KindströmAlejandro, Brege andBiggemann, forthcoming). This focus on the role of services as an extension of a company's core competencies (Hunt and Lambe, 2000) or from an ARA perspective, its utilization of resources and development of new activities (Håkansson and Snehota, 1995), should not be confused with the debate that revolves around the service/services dichotomy and co-creation of value (Vargo and Lusch, 2004, 2008, 2011). The service dominant logic debate can be seen as a philosophical discussion and does not necessarily help us understand what actually is happening in the business world. A perspective that relates to understanding value creation (e.g. Grönroos, 2011, 2011a) and how this is enacted in relationships (e.g. Walter, Ritter and Germünden, 2001)is the driver of this research.

Central to the IMP philosophy is a belief that relationships are core to business activity, with networks defined by the relationships that they comprise driving all developed economies and the interactions they comprise defining the outcome of the relationship (Håkansson, 1982; Ford, 1997; Håkansson, Ford, Gadde, Snehota, &Waluszewski, 2009). Indeed Araujo, Gadde & Dubois, (2003) believe that relationships facilitate the development of new capabilities. Services were first noted to be of importance in business-to-business relationships by Cunningham & Roberts (1974) and receive a significant amount of implicit attention within IMP research (see Easton, Zolkiewski and Bettany, 2003).Resources and activities are neither goods dominant nor service dominant terms and focus on the outcomes of interactions between two actors which may be either products or services. The people aspects of both the services marketing perspective and the IMP approach to relationships are synergistic. Contrary to Ford's (2011) assertion that: "IMP has not been linked to ideas on service(s) marketing" pg 232, there have been a number of researchers in the IMPtradition who have combined IMP views withthose of services marketing, see for example Yorke (1988;1990), Halinen (1994), Zolkiewski (1999),Axelsson and Wynstra (2000), Wynstra, Axelsson and van der Valk (2006),Čater (2007) and Edvardsson, Holmund and Strandvik (2008)among others, but the focus on how services are used to support and develop relationships does not receive enough attention either within the IMP literature or more generally within the b-to-b literature. Hence, this paper aims to address this issue by exploring how business-to-business relationships and networks services impact on decisions by manufacturers to develop their service offerings

The preliminary findings from our case study suggest that service provision is complex and that manufacturers are using a variety of strategies to develop services in the context of theirexisting relationships. It can be suggested that adopting aportfolio approach to the development of services is a useful strategy for manufacturers.

The remainder of this paper is presented as follows. Firstly the literature relating to the development of services by manufacturing companies is reviewed and how this can be related to extant relationship literature is explored. Our research questions are then presented and our

methodology discussed. We then present our preliminary findings and discuss these before presenting some tentative conclusions.

Literature Review

The processes of service infusion[1] (Brax, 2005, Zeithaml 2010, Kowalkowski et al., forthcoming) and servitization/servicization[2] (Baines et al., 2009) are currently hot topics, however, the significance and role of services in manufacturing and relationships has always been recognized to be of importance by a minority of researchers, e.g. Cunningham and Roberts (1974), Vandermerwe and Rada (1988) and Framback, Wels-Lips and Gündlach (1997).

Business or industrial services are complex heterogeneous offerings and often are context specific (Kowalkowski, Kindström and Brehmer, 2011) as exemplified by the move towards the provision of solutions and turnkey systems (Cova, Ghauri and Salle, 2002; Cova and Salle, 2008; Matthyssens and Vandenbempt, 2008). Despite this, numerous authors propose classification systems for these services, e.g. Mathieu (2001), Oliva and Kallenberg (2003), Wynstra, Axelsson and van der Valk (2006) Framback et al.'s (1997) andKowalkowski, Kindström and Brehmer, (2011). There is little agreement as to the basis for these dimensions although the dichotomy proposed by Mathieu (2001),services supporting the product (SSP) and services supporting the client (SSC), is used as a basis for some further research e.g. Eggert, Hogreve, Ulaga and Muenkhoff (2011) and both Framback et al., (1997) and Oliva and Kallenberg (2003) consider the importance of transaction-based and relationship-based services.

Other authors focus on strategies for developing services within a manufacturing context. Mathieu (2001a) considers service specificity (service as a product through to customer service) and organizational intensity(a tactic through to a cultural change, i.e. a shift of strategic objectives to move to a services focus) to be important. In contrast,Raddats and Easingwood (2010) outline a variety of strategies based on whether the service offering is focused on the customer or the goods and whether the offering is from single or multiple vendors. However, this transition is a major managerial challenge (Oliva and Kallenberg 2003) and may require companies to acquire new service management skills (Mathieu 2001a) and may well result in a disjointed incremental development rather than a simple linear process (Kowalkowski et al., forthcoming).

It can be suggested that customer service provides the basis fordifferentiation between competitive offerings not only in consumer service settings but also in business-to-business settings (Framback et al., 1997; Brax 2005). Customer service can be seen as one of the key episodes of interaction within a relationship (Sutton-Brady, Zhu and Zolkiewski, 2008).Related to thisis the suggestion that product services can be a mechanism for

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[1] None of the authors who use this term provide an explicit definition; they all are describing how services are integrated into manufacturing companies' offerings. Zeithaml (2010) describes this as a transition strategy moving from services that support their products to service that support their customers and sees these services as being more advanced, e.g. consulting services.

[2]Vandermerwe and Rada (1988) see this as a transition within manufacturing companies toward actively "driving their companies into services to gain competitive ground" pg. 315. It should also be noted that there are a variety of terms being used in this context such as product service systems, integrated solutions, service infusion and tertiarization(Lay, Copani, Jäger and Biege, 2010).

developing and maintaining sustainable customer relationships (Mathieu 2001a), particularly if care is taken to identify which services are critical in different contexts (Frambacket al., 1997). Research by Briggs and Grisaffe (2010) also illustrates the importance of service in business-to-business contexts. The results from Bolton, Smith and Wagner (2003) suggest that the correct type of service delivery has an important impact on the maintenance of business relationships, particularly through the interactions between service providers and recipients and the development of social bonds. This is consistent with the findings of Turnbull and Wilson (1989).However, Bolton et al., (2003) do also acknowledge that some important relationship constructs such as idiosyncratic investments (adaptation in IMP terminology) have not been included in their investigation.

From an IMP perspective, interaction, relationships and networks are the aspect that differentiates business-to-business markets from other types of market (e.g. Håkansson, 1982; Axelsson& Easton, 1992; Håkansson & Snehota, 1995; Turnbull, Ford and Cunningham, 1996). There are a multitude of relationaland network aspects that have been studied (e.g. Wilson 1995; Håkansson et al., 2009). However, we contend that the explicit study of service interactions from a business to-business perspective is limited. This lack of investigation also relates to the explicit role of services in a business-to-business relationship or network contexts. Hence the purpose of this paper is to explore:

> How business-to-business relationships and networks services impact on decisions by manufacturers to develop their service offerings

Method
Because of the exploratory nature of this research question a flexible research method that allows depth investigation of the chosen area was needed. Hence, it was decided that an abductive approach to datacollection was needed (Dubois and Gadde, 2002; Dubois and Araujo, 2004) along with the ability to explore the situation in depth thus a case study was chosen as the method to explore this (Stake, 1995). The current paper reports preliminary findings from the first case study in this process, it involves a, multi-national, multi-brand company that is facing maturity in some of its traditional markets and is looking to services for new growth opportunities. Data collection is currentlyon-going and we report here, preliminary findings from initial interviews with 7 senior managers in the company. Further data collection will include data from their customers. It is also anticipated that further case studies will be undertaken.

To date depth, semi-structured interviews and secondary data have been collected. The interviews have all been facilitated by two and sometimes three of the members of the research team. All the interviews have been recorded and transcribed. The transcriptshave then be analyzed using a thematic approach by two membersof the team and the themes that are emerging have been discussed and agreed by the team and considered in the light of the literature that has been explored. Because of the qualitative and exploratory nature of the research the goal is to use credibility, transferability, dependability &confirmability as the measures of data validity (Hirschman, 1986).

Preliminary Findings and Discussion

The results highlight similar findings to previous research; that developing service offers involves organisational changes in mindset and climate, HR, processes and procedures (Raja *et al.*, 2010):

> *"Change is different, so there is a cultural change and you have to justify why you want to do services rather than what you are used to doing."*

> *" [The] challenge is reconfiguring our mind-set and reconfiguring the organization with that changing mind-set, so we can deploy our knowledge in a slightly different way."*

Internal and External Network Friction

The change required leads to tensions both within and outside the organisation. Internally there was initially mistrust across SBUs, linked to concerns over 'sharing' profit across the business and the risk of reduced performance for a particular unit and thus reduced remuneration or loss of bonus:

> *"There is suspicion across the business, people worrying about whether someone is trying to steal their lunch."*

> *"Part of the challenge, really, has been to get the other lines of business to accept that there is benefit and worth in pursuing our support and services as a line of business in its own right rather than being tagged onto the traditional product sales."*

The friction was not just at start up either, but continued to occur because of customer-focused decisions that the service developers took account of that meant they chose alternative suppliers:

> *"On [project x] the suppliers were the suppliers so I just had to deal with it. When we are looking at new solutions for customers then we have a choice. Uniquely for support and services if we put together a service or solution for the customer and using our own product is unaffordable, then we need to look elsewhere and that causes friction in the company that is product-based as well. We have to say we cannot have our own product because the customer cannot afford it. It's an unpopular job... Our first call will always be to use the company's products but if these products mean that we are not going to win the business then we have got to look elsewhere."*

The tension and friction also had to be managed externally, with added complexity from the triad of relationships (Li and Choi, 2009; Nirangan and Metri, 2008) between the organisation under study, the prime responsible for creating physical products that the case organisations services involved and the ultimate customer:

> *"The capabilities that you need will not be in one company, they will be in several companies, so it make things a lot more difficult, and is taking a while for management to understand... we are actually going to have to change the way the company works"*

> *"We do get into situations where there is a fight for it... and what I mean by that is the Prime buys the service from us, or they do it internally in house, so we [have] got competition against the internal set up. We [have] the product knowledge, the main knowledge and expertise, but we have to persuade [the end client] why we are the best placed to do that, and it can be very difficult sometimes."*

This friction leads to a focus on managing relationships both within the firm and across the network.

The Importance of Orchestrating

Strategically the case organisation also aimed to develop more of a lead or prime role within its networks as it developed new service offers. In aiming to achieve this it aimed to take the customers' focus on the need for a solution and turn it into an opportunity to make the solution (that it managed) the core focus, rather than (as traditionally been the case) a third party prime's product platform. In doing so it provided added value for the client in reduced costs and value for the firm in a stronger strategic position within the network:

> *"We are looking at setting up an engagement [with client X] by which we can interact with them, they can tell us what their main problems are, or an operational outcome that they want to achieve. So we want to achieve a reduction of 20% budget, we want situational awareness and the command & control centre to deliver this ... So instead of saying we want a command & control system, we want them to tell us what they want it to do and how much are they willing to pay ... then we use our technical knowledge to design the system for them, so we need to understand what they want to achieve and then once we are talking with them and helping them to understand what they can achieve, then we align the internal capabilities as well, so we are ready to offer."*

This customer 'value add' component also allows the firm to strengthen its position in the network, supporting Brax (2005):

> *"On that particular contract the equipment on the [customer product] did not change; there was an established supply chain. So there was no choice; if someone made [component x] they were always going to support it... I had to work with the established supply chain. Depending on the magnitude of their input into the overall solution depended on how I treated them. If they were a key player I could be a little bit more flexible with them and if they were a bit part player I could say 'this is how we're going to do it guys'... I was in a decent position with the customer in that he was going to offer me a 10-year contract. Without that they [the other suppliers] would have been offered a much smaller contract. I was offering them a long-term contract that they could plan around and stability. The option for them if they opted out was short-term contracts, lots of negotiation and bother for the next 10 years. That was one of the 'tricks in my bag'".*

Taking a lead role also provides the company with opportunities to improve revenue via cost reductions in ongoing relationships rather than transactional exchanges, through taking on risk and looking for opportunities to improve efficiencies of processes:

> *"So [for key customer networks], we kind of manage their flow through as well... so that's a large part of our added value... It's managing to cut out waste, cleaning out the supply chain,*
>
> *"So we would rather do it as a service, rather take some of the risk and the opportunity... and some of the liability... versus you want me to do one task that is part of the bigger picture, but I might want to charge a premium for that one task because I am giving away some of that opportunity to you."*

In developing innovative service solutions there is a balance between what is shared with the customer and what is provided for them.

Development of New Network Partners

In attempting to manage the friction, the organisation is looking to develop a much stronger network of stakeholders than was necessary for traditional product sales:

> *"What we looking at is an alliance of organizations in order to be able to trade in [Country X]. We know to play the longer game on this to create capability... so what we are doing is pulling together that alliance so we can actually do that, and deliver a genuine and sustainable capability rather than a dependency."*

The antecedents of this approach were linked to this long-term view of revenue generation and an aggressive competitor orientation. Network development might involve acquisition to get into new services, to extend their network, to get expertise and to strategically to avoid others getting into market space:

> *"I guess the concern on the competitors is ... we don't want them ahead of us... what we are looking to do is highlight companies that would be a good fit with [us].... that already do stuff in the market we are looking at, and we would be happy to work alongside... possibly an existing relationship; but there might not be, if we identify companies heads and shoulders above the rest, we wouldn't want one of our competitors getting in there before us..."*

> *Every year we have to put together a 5-year plan which we call the integrated business plan (IBP). The IBP does show these new areas that we believe through contact with customers or through intelligence gathering the new directions we need to take. Once those ideas are put in the IBP they then (if approved) start attracting investment. But they also attract an expectation, so it's quite a complicated process and we as a team need to be pretty sure that when we put things forward as a new growth theme for the line of business that we understand that we can deliver against it. So we generate ideas all the time but once a year they are formalised and put in the 5-year plan.... We have formed a team that is working on that new growth area and they have identified stakeholders who they have now started dialogue with to understand what the pressing problems are in that particular area. The problem with 'new' is that it takes more time to understand where the problems are and then come up with solutions."*

Training and Solutions Capabilities

In seeking solutions, their customers seek three things: solution provision that allows the customer to do something better; solutions that make current operations cheaper; or training that enables the customer to do something better for themselves in the future. The training option involves the development of a new type of network in order to make it an on-going value opportunity for the case organisation through exploiting their capability of possessing great knowledge of their product and those of others:

> *"We are not just looking at people who got the scientific and technical expertise, we are also looking at universities who are looking at research and development in terms of knowledge transfer, so we are thinking about the ways in which knowledge is transferred"*

In contrast, the provision of solutions that are better or cheaper involves investment in technology and data systems with and for the customer in order to gather information, translate it into knowledge and transfer back to the customer:

"Now moving not to just maintaining & sustaining elements but sustaining, maintaining, and upgrading ... is a step we are moving to, because technology is moving so fast ... it's something that can be done for half the cost it was before."

"That innovation has blown the mind of some of the [customer employees], because we have been able to take a systematic approach to this valuable information.... we are able to see things and react very quickly to things that cause problems. ..... It took a year and a half to get the thing running... £2m investment ...but it paid back very quickly, because we are able to see opportunities and translate them into business performance improvements."

However, investment in developing complex solutions does not necessarily mean that the firm is moving away from more basic services.

The Service Provision Continuum:

Consistent with the portfolio approach and in contrast with literature suggesting staged service development maturity (e.g. Shelton, 2009) from basic add-on services developing towards solution provision, our data supports the notion of a continuum of offers available from the firm. This is reflected in literature suggesting that firms have multiple capabilities (Baines et al., 2009; Kowalkowski et al., 2011) that are context dependent:

"We cover a range of services...it's very much the equivalent of a garage where when itbreaks down you call a mechanic...which is a lot of our export position where we just do repairs...the other extreme of the spectrum where we effectively: take on all the risk [offering] a guaranteed warranty for a fixed price"

"the foundation has been on our own products, we now do this and manage a lot of third party products...that is not to say, we personally touch them in terms of doing the repairs, but what we do is manage the flow through whether we repair something or not.... on behalf of the customer"

This continuum of offers may be partly a result of the case organisation being a large, multi-national, multi-brand organisation, but also perhaps because firms see inherent long-term value in providing a range of services, depending upon the context and requirements of the client:

"We may pursue a service that's stand-alone. It may not take a hell of a lot of business tasks, but we would take it on, and probably exceed the expectations where we can.... with a view that it is actually a stepping stone to something bigger and wider, more attractive. And that's where some of the strategic decision making is made, rather than just tactical."

"There are two aspects to [solution provision], because it depends very heavily on what it is that we're actually trying to do. You know, what does the customer really want? And, crucially, how much does he want to pay? We have looked at, and offered, solutions to issues that have had very little of our product involved in it. And we've sort of done that because, actually, our product is a bit expensive and it's not necessary for the application that the customer wants, so we will get somebody else's cheaper product, it might not be to the same high specification but it meets the requirement and it actually gets us a competitive solution in terms of price."

This speaks to a number of authors' work that argue for understanding the contingent nature of the issues based on context (MacCormack and Verganti, 2003). More specifically, Jacob and Ulaga (2008) argue that for manufacturing firms that are heavily reliant on 'product' it may not be a case of which structure is better but finding a combination of approaches that can work within a single organisation. This may also be necessary for firms who have different offerings in different markets/countries (Neely, 2008).

This balancing of offerings is necessary because some customers still only want product and want to buy from product specialists and both these, and other customers buy the product because it is the best product (thus, requiring the product guys to be focused on 'best in class' technology):

> *"I think what is a powerful combination is not just being a niche training company, but [that] we are part of a much bigger organization that [has] got 50 plus years of experience of product development through-life support, so we have got that experience to draw on in the organization."*

> *"The product lines of business have their own technology road maps and they are very clear about where they are going with their products and what needs to happen. [Site X] is very successful. They are very highly regarded, globally, in terms of the products and they've got a heavy, on-going investment program to make sure that they stay there. They are not going to be very interested in listening to us saying "we think you should make something a bit different" …. they've got their own research, they know what the market wants and they're being pretty successful with that, right now."*

This refutes the idea that as service capabilities are developed, traditional advantages tend to diminish (Salonen, 2011) and suggests that a complete transition to a customer oriented 'service' structure for the whole organisation may not be appropriate or feasible for some firms. This is especially the case where there are problems associated with motivating the customer to co-produce the service, as identified by Brax (2005).

Customer Interactions

The importance of relationships with the customer are highlighted in some instances, but, in contrast to the literature on solutions as relational, and interactively designed (Evanschitzky *et al.,* 2011; Tuli et al., 2007) this importance is not universal.

In line with extant literature (e.g. Sawhney, 2006), many of the service development projects start with a customer problem and lead to the development of customised solutions:

> *"[we have] a team of business developers or Campaign Managers …. They meet with customers, discover what the customers' problems are, and try and piece together a support and service solution that meets the customer's needs".*

> *"There are two aspects to [solution provision], because it depends very heavily on what it is that we're actually trying to do. You know, what does the customer really want? And, crucially, how much does he want to pay? We have looked at, and offered, solutions to issues that have had very little of our product involved in it. And we've sort of done that because, actually, our product is a bit expensive and it's not necessary for the application that the customer wants, so we will get somebody else's cheaper product, it might not be to the same high specification but it meets the requirement and it actually gets us a competitive solution in terms of price."*

But, there are also a number of examples of services where a specific customer problem was not the starting point for the project:

> *"We don't actually have a contract or anything, yet, we are still refining the solution for that, but it is a solution which we believe could be transferrable and could be sold in other countries."*

> *"So we are looking outside of the [current sector] ... I've been looking at all different industries ... so we are looking at what models we already have that are applicable to the [current sector] and applying them to other sectors."*

Nor does it seem to be the case that all services are developed interactively "with" the customer:

> *"The next gate is, we have now got a proposal ... 'are we going to release the proposal?' Once we get through that gate we put the proposal formally to the customer. Again, it depends on the relationship; the customer might have seen a draft of the proposal so we can gauge his feedback. We then deliver that proposal to the customer and he decides whether he likes the solution, the price, the timeframe."*

While some services are bespoke, what our data suggests is that the firm learns from these service development projects and then search for new customers and new markets where these solutions might also be relevant, illustrating how these moves can facilitate changes in the firm's position in the value chain (Brax, 2005) or network:

> *"As part of our process we design what our strategic road maps are... and we need to map out what we believe to be must-win programmes, or routes to protect our markets"*

A key area where working with the customer is critical to success is during the post-deployment phase (Edvardsson*et al.,* 1995; Tuli*et al.* 2007):

> *"We have people working hand in hand with [a customer], they are integrated into the life of the manufacturers of the different products... I think it is absolutely essential, I think without that, we wouldn't have the relationship with the customer that we do have. If you are not living and breathing and shown to be 100% committed then they are always going to have a different depth of strengths, weaknesses, and threats to what we are going to have, so I think it is absolutely essential that we have done that hand in hand."*

What is clear is that particular members of staff are important for delivering these benefits.

Boundary-Spanning Staff

In line with the work of Storbacka (2011), our research also highlights the need for totally new boundary spanning individuals, who have to span intra-firm and inter-firm functions:

> *"I keep on telling my team that as well as facing the customer, they must be able to 'spin on their barstool' and face the company. If they cannot convince the company it is the right thing to do they are wasting their time."*

> *"When I started this job 7 years ago I lived with the customer for 2 years (embedded in their team). By sitting in the next desk to a group you slowly but surely get involved in everything they are doing and before long you are invited to meetings that are nothing to*

do with the solution you are working on. You are seen as part of their team. Once you start living and breathing their problem space you can really come up with a smart solution. Spending 2 years working with the customer is not going to work on every opportunity but in my view it's the most successful way of doing it if you can afford the time and the investment.

The literature highlights issues of profitability in services, particularly SSCs (particularly as managing services costs can be more challenging than managing product costs, Mathieu 2001a). Our data highlights the importance of these boundary-spanning staff for ensuring the ultimate profitability of the service and the delivery of win-win gains that support long-term relationships:

The delivery process is quite complicated as well. Every month the delivery team has to record all their costs. We deliver against key performance indicators (KPIs). It's a fixed price contract, so there is no going back to the customer saying we need more money. The obligation on the delivery team is to make a profit knowing that they have a fixed price. We have monthly meetings with the customer and we go through the KPIs. As long as we are meeting the KPIs the customer is happy because he knows it is a fixed price and we are not going to get any more money... Looking internally, the delivery team has to say I'm delivering the KPIs and the customer is happy and I'm on track to make the profits we approved when we put the proposal on the table. If things go wrong and it looks like they are not going to do it they have to try harder; that's where continuous improvement becomes the focus in their minds. The beauty of a fixed price contract for the customer is that he knows he is getting continuous improvement for free because that's now an internal company requirement to deliver a profit..... One of the important things about service contract is that you have got to have a very good relationship with the customer. The delivery team 'lives and breathes' the problem with the customer every single day. Once the customer appreciates he is on a fixed price contract with KPIs, he starts to open up knowing the fact that if you don't make a profit and the sums were horrendously wrong and we are going to end up making a loss, then at the end of the contract we are going to walk away and he then has a problem trying to find someone else to replace all the infrastructure you have put in place. As the customers become more experienced they appreciate that and open up to us and we work together to put improvements in place that cut our costs. So if there was a problem around a specific area, e.g. for [product y] we estimated 100 faults a year and it was 1000, then we would work with the customer to say is there a specification relaxation we can have so that we can get nearer the 100. Maybe the spec says that if there is a minute scratch on [product y] you have to change it. We would work with the customer and say is [product y] okay with a minute scratch on it? 'Of course it is', so we would change the requirements so that the scratch has to be say 5cm long before we change it. So there are things to cut out costs, because in that example the customer is still happy because he can still use [product y]; we're happy because we don't have to change these expensive [product y]. That's how we continuously improve the service.

Our findings have much in common with Kowlakoski et al., (forthcoming) who note "service infusion seems less clear cut and deterministic, and more explorative, discoverable, reactive, and ambiguous" pg 7.

Tentative Conclusions

There is clear evidence that service infusion acts as a mechanism for changing network position and thus illustrates the strategic role of the decision to invest in service provision. It also illustrates the criticality of managing relationships throughout the process and we would suggest that viewing relationships as from a portfolio perspective in this context is a useful management tool (cf. Zolkiewski and Turnbull (2002). However, we are also aware that there are significant challenges in reconfiguring culture/structure to achieve this.

There are a number of limitations to this study, clearly it is only focusing on one company and it is essential that the empirical data is widened to include customer perspectives and additionally additional cases are needed to support the development of theory.

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