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Servitization as a Route to overcoming various Barriers to Consumption

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Abstract

Customer retention has been well-cherished desire for many a firm in various industries. Nonetheless, by and large, many firms often focus more on selling their products than on the services offered in the later time period. Such an ad hoc approach of the sellers coupled with various barriers to consumption often let the customers go astray in their business. There has been a paucity of literature that links all these factors together towards providing firms with recipes of success in handling customers for longer time periods and ensure their loyalty. Moreover, the markets are much larger than what were envisaged with the disruptive business models being embraced by more and more firms. If firms can cultivate the ambidexterity in retaining the current customers for longer time periods while simultaneously attracting potential new customers (who end up being non-consumers because of various barriers to consumption), they can enjoy profitable and sustainable growth in business. In view of multiple research gaps in this regard, the current study endeavours to plug these gaps and strives to come up with appropriate recommendations to firms seeking long-term customer retention on one hand and attracting new customers who tend to suffer from one barrier to consumption or the other. Limitations of the study are indicated along with pointers to future research.

Keywords: Servitization, Customer Retention, Lock-In, Barriers to Consumption

1. Introduction

Firms tend to prefer customer retention to attracting new customers either because of the concomitant upselling or cross-selling prospects in future or because it is far more expensive to attract new customers than to retain existing customers (Bikfalvi, Lay, Maloca and Waser, 2013). Even novel metrics like a firm's Net Promoter Score (NPS) speaks volumes for the importance of retaining customers because loyal customers tend to become voluntary brand ambassadors for the firm. There could be other important reasons such as additional avenues of revenue in the form of continual provision of services over and above the initial sale of products. However, when the prices of products are unaffordably higher or when the customers feel so or when there is economic slowdown or depression, few firms convert such imbroglios into opportunities by virtue of novel business models like pay-per-use or razor-blade or guaranteed availability or other such Servitization strategies (Gebauer and Kowalkowski, 2012). Some kind of customer lock-in could be seen in all such strategies adopted by various firms in different industries (Matthyssens and Vandembemt, 2010). However, there is a lot more scope to attracting non-consumers (apart from attracting customers of the competing firms) in addition to retaining existing customers. Nonetheless, the extant literature on unconventional customer attraction along with conventional customer attraction and retention is scant in this regard.

2. Literature Review

The literature on Servitization strategies implicitly refers to wealth barriers to consumption. However, it is silent on linking Servitization to economic downturns. Similarly, it is mute on the additional financial flexibility that firms like Salesforce.com provide to their customers. In addition, it is silent on mapping Servitization to various other barriers to consumption. Moreover, it focuses more on retaining existing customers than on attracting new customers and particularly the non-consumers. This study endeavours to

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plug these research gaps. One major advantage that emanates from these Servitization strategies is that of breaking the wealth, skill, access and time barriers to consumption (Anthony, Johnson, Sinfield and Altman, 2008). When non-consumers are large in number, such a situation reeks of one barrier to consumption or the other on their part. Smart firms constantly endeavour to understand such barriers and work out strategies towards helping them break or overcome them. However, there has been a paucity of studies in linking these diverse strands of literature. In that sense, even the literature on blue ocean strategy could be duly synthesized and streamlined with Servitization for a greater understanding of such a coherent and unified body of knowledge. This paper is an earnest attempt to plug these research gaps.

3. Research Methodology

This paper takes the form of a theoretical discussion of various related cases in the form of comparison and contrasting towards eliciting pertinent managerial, organizational, social and policy takeaways. Various conceptual and empirical implications of the multitude of cases are propounded and expounded. The Servitization strategies often translate the conventional combination of fixed and variable costs into purely variable costs much to the comfort of the customers who are otherwise constrained for resources (Nordin and Kowalkowski, 2010). However, such strategies imply greater and circadian commitment from firms to customer satisfaction and perhaps that could be a guaranteed route to long-term customer retention. From the customer side, the cash outflows take the shape of monthly subscription akin to EMIs (Equal Monthly Instalments) which tend to alleviate their financial burden. Moreover, there is ample scope for much greater financial flexibility for customers in some cases. For example, the customer benefits of cloud solutions are not restricted to affordability alone when compared with those of the corresponding enterprise solutions. Customers also benefit from the per-employee payments to be made every month to the cloud service providers. So, when a firm is not doing well, they can downsize their workforce and thereby end up paying proportionately lesser charges accordingly. Moreover, enterprise solutions take several weeks of installation and additional time periods for repair and maintenance. However, cloud solutions do not need such time periods and in many a case the services are virtually instantaneous. In that sense, cloud services dispense with time barriers to consumption faced by the customers. In fact, when such vendors embrace Internet of Things (IoTs), far greater value could be provided to the customers on a circadian basis in addition to breaking the time barriers to consumption. When parking business model is exclusively used, firms can prevent the copycats from reverse engineering their product. Firms like Hilti also address the multiple concerns of their customers in terms of wealth, skill, time and access barriers to consumption. Thus, there are multiple strands of parallel literature that appear as stand-alone thought patterns. This study endeavours to synthesize and streamline these concepts into a unified body of wisdom both for reinforcement and connecting the dots and thereby cultivate a transcendental perspective which equips the firms with several managerial and organizational takeaways in their journey of profitable growth across space and time.

4. Conclusion

Though exit barriers to the customers are the lowest for Servitization models like cloud-based solutions, they tend to induce the firms towards circadian commitment to customer satisfaction in an attempt to ensure their loyalty in the long run. In a way, this is a blessing in disguise for firms offering such Servitization models. On the other hand, product-based models like enterprise solutions, the exit barriers for customers tend to be the highest in view of the substantial sunk costs. Moreover, customers might be taken for granted or at least if the customers feel so, firms tend to suffer from such customer dissatisfaction over the services of maintenance and repair though they were initially satisfied with the products purchased. Thus, the traditional model entailing fixed and variable costs can be painful to the customers while the Servitization models smartly combine these costs into purely variable costs and can prove to be gainful not only to the customers but also to the firms as long as they are committed to continued customer satisfaction and delight. Though all of this looks paradoxical, circadian commitment of the firm to continued customer satisfaction is a certain route to long-term customer retention via customer satisfaction and delight and eventual augmentation of various avenues of revenue in the form of upselling and cross-selling prospects apart from the virtual and moral contract that the Servitization model entails in view of the symbiotic win-win prospects for both the parties. Though few kinds of Servitization models are discussed at a generic level in this study,

future studies can incorporate the details of various Servitization models towards arriving at a comprehensive framework that addresses all kinds of Servitization models.

5. References

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