# Strategic Corporate Alliance Framework for Servitization

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Abstract

Now-a-days, service is the driving force for making additional values on products in manufacturing industry. The capability of serving total values to customers and cultivating relationships with customers is the key differentiator for firms. Therefore, manufacturing companies try to share their knowledge and other resources through alliance among partners in order to increase their capabilities and performances of existing processes. Before making any alliances, company has to choose right partners who can satisfy with customers' requirements and increase Company's performing capabilities. There are many prospects for pure manufacturing company to engage in as servitized firm. However, only a few studies have been targeting on how manufacturing company can realize these prospects. An effective design process is one of opportunity for adapting servitization but for building an effective design process a systematic corporate alliance model is really necessary. However, the relative framework has not been developed. Hence, the purpose of this paper is to build a conceptual corporate alliance framework for realizing servitization. Direct observation method for primary sources of data and literature review relating corporate alliance and servitization were employed in this paper. Findings reveal that a successful strategic corporate alliance needs the specific factors which are the fundamental requirements for developing suitable service design method which enables manufacturing company to shift to servitized firm. The design process will play a key part in manufacturing system, namely in innovation, designing, producing and delivering of core product as well as value. A suitable design process can make a bridge between company and customers through identifying customers' requirements and sharing knowledge.

The proposed framework could be helpful to find out the suitable companies for alliance in terms of knowledge, customers, technologies and other resources. Furthermore, it will contribute to developing design process method for service co-creation as well as servitization.

Keywords

Service Value co-creation, Servitization, Design Process, Strategic alliance and organizational shifting.

## 1. Introduction

Now-a-days more and more corporation throughout the world is adding value to their core corporate offerings through services. The trend is pervading almost all businesses, is customer demand-driven & perceived by corporations as sharpening their competitive edge. (Vandermerwe & Rada, 1988). Service is the application of competences for the benefit of another (Vargo and Lusch, 2004). Service value creation includes customer involvement in service innovation (SI) (e.g., Alam, 2002; Abramovici and Bancel-Charensol, 2004), the roles of service and how it adds value to the outputs of primary (agricultural and resource-based) and secondary (manufacturing) industries (e.g., Allmendinger and Lombreglia, 2005; Howells, 2004; Sandberg and Werr, 2003; Wise and Baumgartner, 1999).

It is a fact that the world is shifting to the services, the escalation of services is one of the key trends witnessed in recent years, and is perceived in the changing economic landscape in the USA, Asia, and Europe; where services constitute bulk of the national output and employ majority of the workforce (Johnstone, 2008).The national GDP of developed economies also driven by service sector. Gradually, services have achieved greater recognition at the internal level as they develop into a source of achieving sustainable competitive advantage (Bowen et al., 1991). In this circumstance, pure manufacturing in developed economies is under massive pressure (Neely, 2007). Today Services and goods are sold together in single 'value packages' (Wise and Baumgartner, 1999, Correa et al., 2007) by many companies. i.e. General Electric (Mathieu, 2001) and IBM (Davis and Heineke, 2005) etc;. Rada (1988) honestly declared that "Modern corporations are increasingly offering fuller market packages or 'bundles' of customer-focused combination of goods, service, support, self-service, and knowledge", and the company innovating-increasing its capabilities and processes to better create mutual value through a shift from selling product to selling Product-Service Systems.(Neely, *2008, Baines et al 2009).* They coined it as the strategy of Servitization. The ongoing moving from a traditional industrial society to a knowledge-based society trend is saturating almost in every businesses, while this strategy is proving increasingly popular with policy makers and academics (Neely, 2007). However, the journey of servitization and its adaptation by a typical manufacturing firm is very tough, where many opportunities are available (Uchihiral, Kyoya & Kim, 2007) for pure manufacturing company to engage in product-based service oriented businesses, but there is no any actual process of achieving those opportunities. Again, many significant literature and theoretical discussion available in the general field of strategic organizational change, but there are no models specific to the issues of servitization as a change process (Power et.al. 2009).

Therefore, the main aim of this study is to discover and determine the type of company which would be appropriate for alliance, when a company wants to continue or move on service value co-creation process. The more particular objectives are to: propose a conceptual company alliance framework concerned with the company's capabilities increase, which will be helpful for a manufacturing company to shifting typical manufacturing to knowledge and value-chain perspective. And it specifies the implementation of strategic company alliance in business and academic field.

The transition process of pure manufacturing firm to successful servitization one is extremely complex, much more than the existent literature suggests, as its completely different way of thinking about the products and services offered by the institution. Service-centered business demands an effective transition strategy and its efficient implementation, parallel to maintaining managerial focus, employee motivation, design process, mindset, technological know-how, and supporting cultural shifts in the organizational blueprint as well as structure of an organization (Oliva & Kallenberg, 2003; Neely, 2008; Weeks, 2010). US Bititci, V Martinez (2003) and V Martinez & M Bastl (2010) strongly recommended that companies have to keep a constant flow of innovation, not only in terms of what is offered to the customer, but also in how products and services are designed, produced, delivered and marketed. So, when engineers design products try to design services, they encounter difficulties like; lack of organizational resource. Thus, a systematic corporate alliance as well as effective design method is

needed for designing product-based services more successfully and proficiently. However, the rest of the paper is organized as follows: Section 2 explains basic concepts, proposed model and its effectiveness; Section 3 verifies and analyzes the cases;   Section   4 presents the idea of company form for alliance in the proposed concepts; and the final section 5 concludes the paper.

## 2. The proposed concept regarding company's strategic alliance towards   servitization of manufacturing industry

### 2.1   Strategic basics of Company alliance

The business alliance is an ongoing, formal, business relationship between two or more independent organizations to achieve common goals (Sheth and Atul, 1992) via sharing their knowledge or other resources and guiding their actions. According to current global business trend the company need to innovate of capabilities and process (Neely, 2008; Baines et al., 2007) for creating a mutual value and needed every resource to sustain, therefore the company pursues to access necessary resources by alliance. There are many business alliance theory has developed such as; Strategic options (Hurry, 1993; Kogut, 1991; Sanchez, 1993; Grant & Baden, 2004), resource-dependency (Barley et al; 1992, Guezkow, 1966; van de Ven, 1976), etc. According to resource based theory; (Barney; Conner, Prahalad & Wernerfelt) for greater achievement, the company must identify, select, develop and organize the bundle of tangible and intangible assets as well as tacit know-how. Thus, firms must always remain in a dynamic capability building mode, retaining its capacity to renew and augment (Shuen and Pisano) for the lack of significant resources that help to adapt with global current business fashion.

However, Combining products and services together requires a different approach to design from that of specifying components to meet performance requirements (Ramaswamy;1996, Pugh; 1991) as pure manufacturing firm's viewpoint being revise from product centric to customer centric (viewpoint of servitization strategy). So, the company needs to improve its performing capabilities to matching with new vision that be able to connect customers for gathering their experience and utilize this mutual knowledge, skill and experience to deliver continuous value aim to make delight them. A strategic corporate alliance can play major role in enhancing the competitive advantage of firms (Kogut, 1989) and (Doz and Hamel, 1998) but it is difficult to manage (Bleeke, Ernst,1993) and identification the type of company for alliance then connect with customer is core challenges that half the alliances formed end up as failures .

This research investigates on three types of company's vision; those are; technology based, knowledge based and customer based and this discussion help to determine the type of company for better positioned to enjoy greater alliance success and value creation with their alliance portfolio that can formulate as victorious servitization

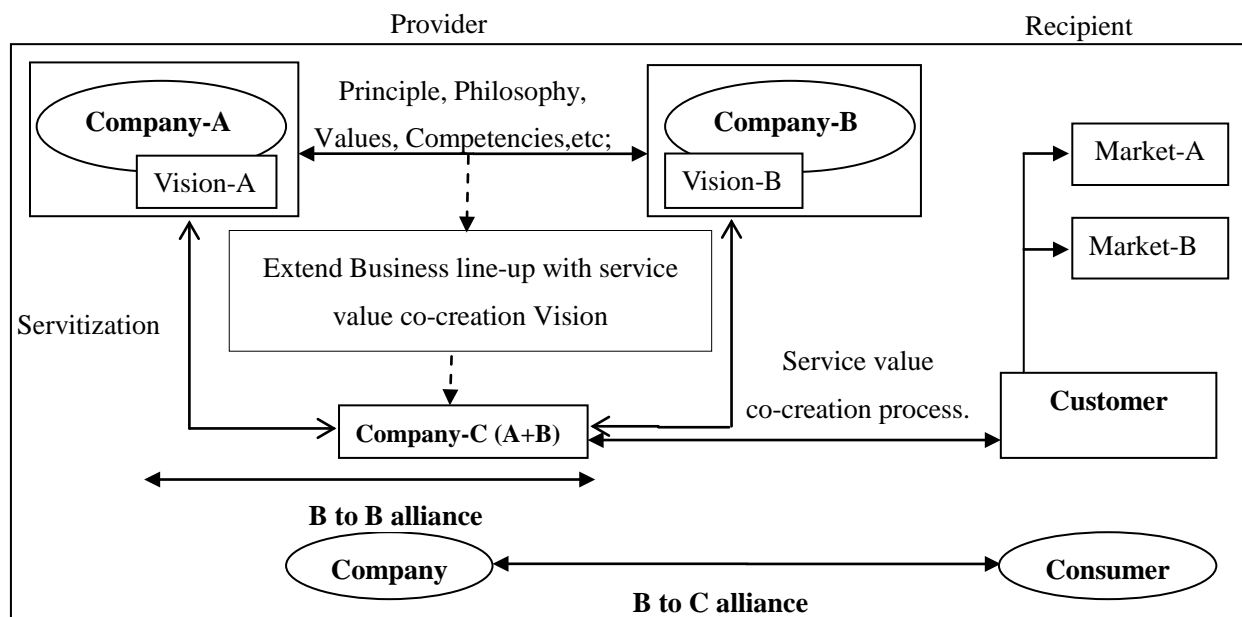## 2.2  Basic concepts illustrated in the proposed model



*Figure: 1; Strategic corporate alliance framework for successful servitization*

## 2.3  Effectiveness

The design process must tie the gap between customers' requirements and the firm's capabilities of doing. So, when a typical manufacturing firm wants to move for value chain perspective then it's essential to prepare itself as an able for serving total value. The proposed framework (figure-1) has directed that the company 'A'(host company) and company 'B'(guest company) is getting alliance where both are sharing their core strengths and extending business line-up with increasable capabilities ('A+B' companies knowledge/competencies) and with revised vision (Service value co-creation vision). This new dealing is ready to perform together with customer/user or idea maker (See figure-2; 3-Dimention knowledge space approach (Kosaka, 2010) for developing new solution by analyzing knowledge space. The solution varies on customer's experience, knowledge and needs, as the customer's experience, knowledge and needs are dynamic.
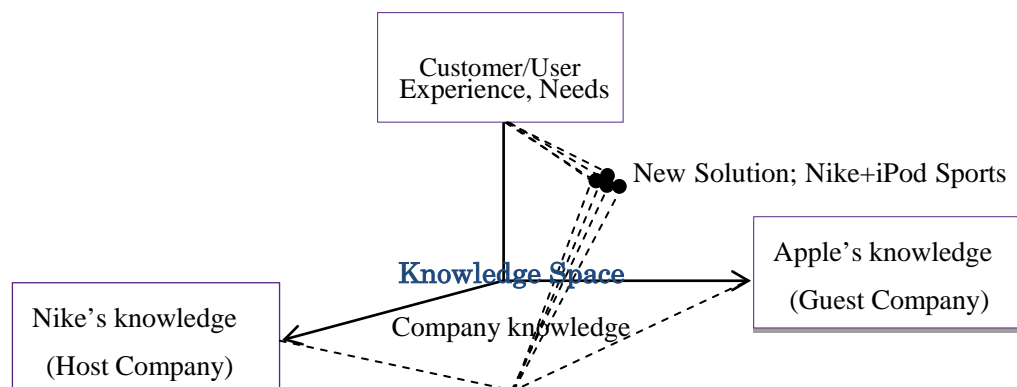


*Fig: 2; 3-Dimension knowledge space approach; for users' value co-creation; source; Kosaka, 2010.*

### 3. Verification through the case analysis (A successful collaboration of Nike and Apple）

This case aims to express how manufacturing firms can go to value chain perspective for sustain competitive advantages by sharing their competencies and by co-creating experiences and needs of value with users.

Think…Mr.'X' is jogging and his running-shoe's advance technology-knowledge system began to keeping track of every of his step. Report showing that he runs 1.76 miles in 18 minutes and 36 seconds and burned 168.72 calories. Not only that it is also keeping in touch with music, collecting Mr.X's rough information about his live and analyzing as well then providing feedback that can be helpful for upgrade in his live for better health, better habits and better performance.

It was On 23 May 2006, the athletes Lance Armstrong and Paula Radcliffe, at an event in New York, the *Apple's* CEO innovation master Steve Jobs and the *Nike's*, CEO Mike Parker is attended and they together with announced a partnership between these two famous global organization named *Nike+iPod*. This business alliance aimed to launch of innovative products with the campaign slogan of "*Tune your run*"(*Apple – Press Release*, 23/05/2006).

CEO of *Apple* Steve Jobs; announced that *"the company decided to work with *Nike* in order to elevate together music and sport to a new level of performance"* and by same tune Mike Parker CEO of *Nike* coined that *Nike+iPod* resulted from forming a partnership between two global brands that have a mutual passion, i.e. creation of products or services that let the user enjoy new experiences full of innovation and design, as well as an effective change in the way people perceive and do sport". So, in this corporate alliance between *Nike* and *Apple*, goal was to co-create users' value that able to make satisfy of stakeholders as well as help to gain competitive advantages of both parties.

The *Nike+Apple* shares their competencies and strength aim to developing a new product (solution) that connects music and physical exercise. The *Apple* provides its know-how and experience (electronic equipment, players and digital music) and *Nike* provides its advance technology and design of running shoes, again other side the user (idea makers- Steve Jobs & Mike Parker ) allocate their experience, needs, knowledge etc.;. By the combination of those knowledge and technology the 'Nike+iPod sport kit' has come out as novel solution that is co-creating users' value.

'*Nike+iPod Sport Kit*', designed with a sensor and a receiver for the *iPod Nano* player. This wireless sensor which communicates with the receiver and works exclusively with Nike+ shoes and iPod nano to give you real-time feedback about individual performance during training. The users' can select their exercise from personal training list. This automatic sensor is very fine to provide the information about foot movement, rhythm, distance covered, time, and calories burned.

The *Nike+* consumers will be members of this global community called '*Nike+* community' and it is able to links consumers all over the world by which the users' can enjoy the feedback of their activities individually or

together with other members in any part of world. The user will automatically connect with the *nikeplus.com* site when the receiver connected to a computer from the *iPod.* The '*Nike+iPod Sport Kit*', is main responsibility for this community's success (*Hispanic PR Wire - Press Release*, 03/04/2008) as well as sharing and creating value. For Nike; 'in the past the product was the end point of the consumer experience, now it is the starting point' and serve continuous value to customer.

## 4. Considerations regarding company type for alliance of the proposed model

### 4.1 Technology based vision company

The modern organization is very eager to match with current trend of global economy. Technology is performing an important role for organizational sustainability as well as keeping in right path of business growth. The technology-based firm's core power from its co-evolution with modern and advance science and technology so it becomes increasingly important. The current economy is calling as service economy by many recognized scholars and it is associated with the mixture of technologies, knowledge and other resources. The technology-based company is very often engage in technology modification and technology related partnering aim to increase the company's capabilities and it is the requirement of value centralization, value sharing-serving and increase customer   connection. For example; Nike and Apple sharing their knowledge and technology (by doing alliance in 2006) that creating new 'knowledge-space' and it is collaborating with customer experiences which is helping to develop new solution as Nike+sports kits.

  Dabholkar 2000; Meuter  et al. Forthcoming- openly stated that the employee-customer interaction is an essential feature of service marketing. But we believe that company-customer interection is more effective rather only with employee (one part of company). Now-a-days in many cases, products and services exist as digital information and can be   delivered through information based channels (Rayport & Sviokla, 1995:14) and the customer-company interactions significantly create a 'knowledge space'. This 'knowledge space' has a great role of service value co-creation with customer. Thus, the technology can make an organization more effective and efficient for serving value but the success of business generating dependent on the ability of effective use of technology and customer accessibility.

### 4.2 Knowledge based vision company

From the last two or three decades, most businesses and even   some manufacturing organizations such as IBM, General Electric, Rolls Royce, Siemens, Xerox, Parkersell and Canon focus on knowledge to see their business from a knowledge perspective. Knowledge creation and apply it for value co-creation with a view to achieving competitive advantages is main goal of company as 'knowledge is the most strategically significant resource of a firm (Grant,1996a)' and 'knowledge-bases and capabilities among firms are the main determinants of sustained competitive advantages & superior corporate performance' (Decarolis and Deeds, 1999; Winter & Szulanski, 1999) .The knowledge grows when it is shared (Sveiby, 1997,pp.19-20) and people competencies, company's structure (internal structure - patents, vision, aim, concept, model, design process, administrative system and

External structure - relationship based setting, company's reputation, images, brand value, trademarks; are main responsibilities of knowledge creation. The typical knowledge based company selling or sharing knowledge to other businesses and people or employees are their core assets, who are highly qualified professionals. The knowledge based view of company gives more priority to intangible assets than their visible assets.

However, knowledge Transfer; "Competence is transferred most effectively when the recipient participates in the process" (Sveiby, 1997, pp.43-46). So, not only employees and organizational internal-external structure are acting role for creating knowledge based value, the customers is also special to encourage the development of competencies with their experience, demands and expectations and its changeable over time. Thus, the customers are considered as important parts to knowledge based vision of an organization. But in current perspective when global economies have started to compete on the basis of value delivered by shifting their market share from manufacturing to more product-service oriented systems (Wise and Baumgartner 1999; Neely, 2008).  As a result, the major challenges for manufacturing organization relate with vision knowledge acquisition and continuous service value co-creation with customer.

### 4.3  Customer based vision company

More and more markets are characterized by global competition (Carvens & Shipp, 1991). The market is changing rapidly, competition is enduring, and customer demands as well as expectations are fluctuating over the time. Resources are distributed unevenly among competitors in a market (Day, 1994a; Slater, 1997). In this situation, firms are also very aggressive over customer retention as well as new customer acquisition by satisfying them. Peter Drucker (1973) also honestly speaking that. 'To satisfy the customer is the main mission and purpose of every business' (p.79) and customer satisfaction is achieved when superior value is delivered by the business (Slater, 1997). Therefore the manufacturing companies targeting sustainable competitive advantage through value serving to customer and according to meeting this principles the companies are reviewing its philosophy as 'customer centric' from product centric. .

In current trend of global business, the value co-creation is a strategic weapon and ongoing concern in building and sustaining reasonable benefit where the customer-organization contact point plays an important role (Uchihiral, Kyoya, Kim, 2007). Therefore, if we think according to resource-based way that allows for the possibility of superior performance by a firm , based on its possession of a specific combination of resources that is valuable, rare and difficult to imitate (Barney,1991) then customer is the most significant resource of co-producer, or co-developer of value, knowledge, imperfect information (Morgan,1995) and competencies. According to Hammer (1996) "A process perspective on a business is the customer's perspective…A perspective requires that we start with customer and what they want from us, and work backward from there" (p.12). Thus, understanding and learning about customer and their continuous changing demands is essential that utilize for organize customer value delivery process as well as for building customer value-based culture.

## 5. Conclusions

The servitization is one of core strategy in modern movement of business that could be able to make a company as sustainable one in market but for adapting a servitization strategy company's need to follow some strategic steps. This study has discussed the challenges of company alliance that faced by manufacturers adopting servitization. This paper conducted in response to current lack of strategic corporate alliance framework among business to business and business to customer. The developed corporate alliance framework of this paper showed how firms can sustain competitive advantages by sharing their competencies and through co-creating experiences of value with users/customers that will help to pure manufacturing firm for realizing servitization. This research also provides the basic standpoint on technology, knowledge and customer based organization that will make sense to identify the type of company for getting alliance. Moreover, for practitioners, this research has presented a real life case study, where the case companies are really successful through sharing its technology and knowledge by which the collaboration's experiences of both companies will help to support of understanding how the alliance helps to develop new solution for customer and how a company can move from traditional product-centric to value chain perspective. Therefore, it is a fact that for moving value chain perspective as well as adapting servitization strategy, the successful strategic corporate alliance is required.

Further research is vital to discover that 'A new model for servitization of manufacturing industries based on a concept of knowledge space'.

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