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# **BEST PRACTICES BENCHMARKING OF SMART SERVICES**

**The Lectra Case**

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## PREFACE

This thesis resulted from an invitation from Prof. Celine Abecassis-Moedas to participate in a project in collaboration with ESCP Paris - *Institut pour l'Innovation* that now is taking its first steps. The project aims to help Lectra, a French technology solutions provider, to improve their Smart Services offering. Since the first moment, my participation in this project seemed to me an outstanding opportunity to understand this industry. Business-to-business marketing has been attracting me since long-time and I have been seeking for an opportunity to deepen my knowledge in this area. The involvement in this project was the perfect opportunity.

I want to show my deep acknowledgments to Prof. Celine Abecassis-Moedas, for the invitation and support through all the process, to *Institut pour l'Innovation* for the opportunity, and as well as to Lectra, for receiving me so kindly and for giving me the chance to participate in this important moment of its life.

I would also like to give special thanks to my family and friends. Especially to my parents that have been unreservedly supporting me throughout my academic course and to my aunt Maria Santa, who leaves us so recently and prematurely, for the enthusiasm and support that she always showed in my projects.

## ABSTRACT

**Title:** *Best Practices Benchmarking of Smart Service*

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Due to the global economic crisis, companies have been facing not only a more fierce competition, but also a decrease in demand. For many companies, in the business-to-business market, the only way to keep growing is to look for after-sales opportunities, called Smart Services. Best-in-class companies are aware of this business opportunity and have been developing different strategies to pursue it by selling high value solutions that, in some cases, can bring a competitive advantage to consumers.

The goal of this dissertation was to understand how best-in-class companies are marketing their Smart Services, sharing the results with Lectra, in order to help it to achieve a business partner positioning. In that way, a Best Practices Benchmarking based on secondary research was conducted on *STP* and *Marketing Mix* strategies across 28 companies, from different industries.

The benchmarking analysis showed that besides the fact that literature states 4 main business-model strategies to conduct Smart Service business, in what concerns with marketing strategies companies follow one of two: “Service Innovator” or “Smart Partner”. The first one uses a *product-centric approach*, selling a pack of services with no strategic value for consumers, while the second follows a *consumer-centric approach*, selling whole solutions and achieving in that way a business partner positioning. The theoretical guidelines of these two strategies were defined with the goal to show, not only to Lectra, but also to other Smart Services providers, the directions to be successful in this “Smart Services era”.

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## 1. INTRODUCTION

This thesis will integrate a business case conducted by *Institut pour l'Innovation* about a French company, Lectra. Lectra is an integrated technology solutions company, acting mainly in the textile industry (Lectra, 2010-2011). This company not only sells cutting rooms' hardware, software and consumables, but also sells Smart Services that support the client through all operational life-cycle of the products. Its training, consultancy, support and maintenance services, help companies to continuously improve their productivity and profitability (Lectra, 2010).

However, Lectra aims to be a strategic business partner, positioning itself not as a product or service seller, but as an integrated solutions provider. Actually, Lectra's technology and expertise allows it to sell high-value solutions that can bring to consumers a strategic competitive advantage. The main problem is that Lectra has been selling high technology products and services throughout its life, and has doubts about how to market integrated solutions, about how to segment, target, positioning, or even structure, promote, price or distribute these solutions in order to achieve the business partner positioning.

This paper aims to answer these questions through an across industries Best Practices Benchmarking on Segmentation, Targeting and Positioning (*STP*), as well as in marketing strategies for Service, Promotion, Pricing and Place (*Marketing Mix*). The goal is to share with Lectra how best-in-class companies are marketing their Smart Services businesses, and how they did to achieve the business partner positioning.

### **Note on Benchmarking**

Benchmarking is when a company recognizes that can learn from the best-in-class (Al-Mashari, 2005). American Productivity and Quality Center comes with a more elaborated definition, setting benchmarking as an improving process through

recognition and understanding the practices inside or outside the company, leading to a superior performance (Camp, 1998).

The **benefits** from this exercise are defended by many authors, some of them are: (i) leads to a “outside of the box thinking”, encouraging companies to seek for new solutions to improve; (ii) incentives companies to accelerate changes and capture opportunities, giving a kind of urgency to the changes needed; (iii) makes grow a “learning culture” inside the company, overcoming the “not-invented-here” mindset by showing the evidence of proven practices; (iv) helps companies to change to a *customer-centric* culture, where the main concern is to deliver high value solutions to customers (Zairi, 1996). Concluding, Benchmarking is a powerful tool that helps companies to improve performance, efficiency, create value and consequently to gain a competitive advantage.

Benchmarking can be divided in two main approaches: **performance** and **best practices benchmarking**. The first one only focuses in quantitative performance indicators, while the second analyzes strategies and practices (Overton, 2010).

Given that approaches help to define how to analyze, the types rely on what to analyze. The benchmarking types vary accordingly with: if the comparison is between the company and its competitors (*Competitive Benchmarking*), or is within the company (*Internal Benchmarking*); and if the comparison relies on specific functions (*Functional Benchmarking*), or in overall strategies (*Generic Benchmarking*) (Camp, 1989).

Since the main goal of this paper was to discover “how” companies conduct their Smart Services business, instead of “how much” they achieved, best practices **Generic Benchmarking** was conducted, with the aim to understand critical processes and practices.

## 2. LITERATURE REVIEW

### 2.1 BUSINESS-TO-BUSINESS SERVICE MARKETING

Regarding that there is no specific literature in business-to-business service marketing, neither in marketing strategies for Smart Services providers, the Literature Review was based on service and industrial marketing strategies that business-to-business companies use to apply in their business.

#### 2.1.1 Introduction

In business-to-business market companies buy goods and services with the goal to incorporate it in the production of other goods or services. In this market, the buying process is formal and complex, involves large amounts of money, takes long time, and involves a large number of professionals from both companies (Kotler et al., 2005).

This market demand is derived from the customers' expectations about their future demand, anticipating market conditions (Kotler et al., 2005). Is not so clear, but demand for capital, maintenance or repair services, are also determined by industrial customers' demand expectations (Webster, 1991). In that way, selling companies need to match their capabilities with customers' present and future needs. They also need to understand the companies' environmental factors like economic, technological, political, cultural and competitive conditions, in order to design successful *STP* and *Marketing Mix* strategies (Webster, 1991; Kotler et al., 2005).

#### 2.1.2 *STP* (Segmentation, Targeting and Positioning)

The *STP* exercise allows companies, firstly to divide the market into smaller homogenous segments; secondly to choose which segments to target, and finally to define the aspired positioning (Kotler et al., 2005).



### a) **Segmentation and Targeting**

Business-to-business companies face markets with different buyers that differ in their resources, buying process, needs and response to marketing efforts. In that way, companies need to divide the market into smaller homogeneous groups which in the limit can be each customer (Kotler et al., 2005).

The market can be segmented regarding customers' characteristics like demographics, attitudes or even regarding benefits that they perceive from consuming the product/service. This benefit criterion recognizes that, even when customers buy the same product/service, the reason to buy and the value perceived differ from customer to customer (Webster, 1991).

Wind and Cardozo (1974) presented a two-stage approach segmentation that distinguishes *macrosegmentation* from *microsegmentation*.

- i. Macrosegmentation* – division of the market into segments with customers that have similar characteristics and responses to *Marketing Mixes*. This *non-behavioral* segmentation divides consumers by type, size, application of the product, organization structure, location and *buying situation* (new or repeated purchase);
- ii. Microsegmentation* – *microsegments* are subgroups within *macrosegments* that cluster companies that have homogeneous Decision Making Unit's (DMU) compositions and behaviors. The following criteria are used: personal characteristics of the organizational buyers; buying criteria and decisions rules; importance of the purchase and perceived risk; relative importance of specifications, and so on.

The information needed to proceed the *macrosegmentation* can be collected from public secondary sources, however for the *microsegmentation* step is harder to get information and it depends directly from the commitment and experience of the selling team (Wind and Cardozo, 1974).

Later on, other more comprehensive and exhaustive approaches were presented, like the *Nested Approach* created by Bonoma and Shapiro (1983). However, most of them are difficult to conduct and implement, and companies look for effective but simple methodologies. Wind and Cardozo (1974) approach presents a good trade-off between comprehensiveness and simplicity (Webster, 1991).

After the segmentation, companies need to decide which segments to target. This decision requires the analysis of several factors like: the size of the segment; the future expected growth rates and profit margins; whether these needs are already being met by competitors; and whether companies have the ability to meet the customers' needs (Buckley, 1993; Kotler et al., 2005).

### **b) Positioning and Differentiation**

Through product positioning, companies achieve a distinct place on consumers' minds compared to competitors. This position is achieved through one or more differentiating factors that deliver a superior value and through what companies achieve a competitive advantage (Kotler et al., 2005).

Companies choose the differentiating strategies attending the competition positioning, the value perceived by customers, and if the company has the capability to deliver the value promised. Kosnik (1989) described a range of possible *positioning strategies*, which are the following:

- *Market share leader*;
- *Quality leader* (most reliable);
- *Innovation leader* (most creative);
- *Technology leader*;
- *Knowledge leader* (most technical expertise);
- *Service leader* (most responsive);
- *Flexibility leader* (most adaptable);
- *Relationship leader* (most committed);
- *Prestige leader* (most exclusive);
- *Global leader* ("best positions to service world market");
- *Bargain leader* (lowest price);
- *Value leader* (best price performance ratio).

To achieve a consistent and credible positioning, companies need to align the *Marketing Mix* components with the positioning message, in order to pass to the market a unique and consistent message (Kotler et al., 2005; Buckley, 1993).

### 2.1.3 Marketing Mix

Borden in the 1960s, launched a list of twelve essential marketing elements that he called *Marketing Mix*. Over time this list was reduced in the well known *4Ps* that grouped and captured the main elements of the initial list. Later on, Booms and Bitner (1981) suggested the “*extended Marketing Mix*” that comprehends the *4Ps* elements: Product, Price, Promotion and Place, and also adds People, Processes and Perceptions. Several authors defended that the number of the *Ps* of the *Marketing Mix* can be adapted accordingly with the industry and service or product type (Buckley, 1993). In this paper the *Marketing Mix* analysis was based on the *4Ps* analysis, due its widely acceptance and simplicity sense.

#### a) Service (product)

Customers don't buy products or services, they buy benefits, value or problem solvers. In that way, companies must comprehend its products/services as a group of benefits that can be divided in four levels:

- i. Core product* – basic service, the main reason why customer buy;
- ii. Expected product* – additional features that customer expects that come attached with the service/product, can be reliability, quality, delivery, etc.;
- iii. Augmented product* – in this level companies can introduce differentiated elements from competitors, that add value to consumers;
- iv. Potential product* – the last level comprehends potential added features or extensions that can be adapted to each consumer needs.

In business-to-business markets, where *microsegmentation* in the limit can be each consumer, the *augmented* and *potential* levels are very important to differentiate by customizing the service. (Buckley, 1993)

## b) Promotion

Promotion comprehends all tools used to communicate with companies' stakeholders. The messages' contents and channels must be aligned and coordinated in order to pass to consumers a consistent unique message (Kotler et al., 2005).

To pass the message to stakeholders companies can use several tools:

- **Advertising** – any paid impersonal form of promotion, through where companies build awareness, differentiate from competitors, and inform consumers (Buckley, 1993);
- **Direct marketing** – this tool allows a direct connection with carefully targeted individual consumers, with the goal to cultivate lasting customer relationships through direct mail or email, direct selling or telemarketing (Kotler et al., 2005);
- **Personal selling** – personal presentation in fairs or trade shows in order to build relationship with customer. Customer has access to personal explanations, brochures, catalogues and technical product specification (Kotler et al., 2005; Webster, 1991);
- **Public relations** – this tool permits to build good relationships within various publics by obtaining favorable publicity, through media channels (Kotler et al., 2005);
- **Sales promotion** - consist in the distribution of items like free offers, gifts, demonstrations, between others (Webster, 1991);

## c) Pricing

The price is the *Marketing Mix*'s element where revenues come from. To take pricing decisions, companies need to carefully analyze several factors like: positioning, corporate objectives, competition, service life cycle, demand elasticity, cost structures, resources, service capacity, demand, between others (Buckley, 1991).

Literature is consensual regarding the strategies that companies follow to price their products/services, the strategies are the following:

- **Cost-plus pricing** – through this strategy companies add to the cost a mark-up;
- **Rate of return pricing** – price is set in order to achieve a certain return on investment;

- **Competitive parity pricing** – the price is set regarding the competition prices;
- **Loss leading pricing** – companies reduce prices in short term in order to gain a market position or incentive the cross-selling;
- **Value-based pricing** - in this strategy the price is based on consumers' perceptions and benefits rather than on costs;
- **Relationship pricing** – prices are based on future potential sales and revenues streams over time (Buckley, 1991; Kotler et al., 2005).

Price is one of the most important elements of the *Marketing Mix*, not only because is linked with companies' revenues, but also because it strongly influences the customers' perceptions about the product/service (Buckley, 1991).

#### **d) Place**

The place decisions remain in two main topics, which are: **location** and **channels**.

**Location** is about where the operations and staff are situated geographically. The importance of the location depends of the type and degree of interactions between buyers and sellers. The types of interaction are the following:

- **Customer goes to service provider** – in this case location is very important to conduct the business;
- **Service provider goes to the customer** – location, in this case, is not so relevant as in the first interaction type, but the closeness between buyers and sellers can be important to provide a good quality service;
- **The service provider and customer transact business at arm's length** – in this interaction the location is somewhat irrelevant, since both parts are virtually connected (Buckley, 1993).

Regarding **channels**, companies can deliver the service alone, or through intermediates. The most usual intermediates types are: agent brokers, buyers or sellers agents or contracted service providers. In business-to-business market, sometimes is required that companies have a group of associated services providers, that can act closely to the customer, in order to offer a fast and integrated solution (Buckley, 1993).

## **2.2 SMART SERVICES**

### **2.2.1 Introduction**

Pervasive Internet has been changing the way companies make business. The “always-on” status allows manufactures to be connected in “real time” with the devices they sold and with their customers, taking the business to the next level, the level of Smart Services (Berman and Ritorto, 2009).

Due to the evolution of competition, many authors believe that the world is “moving towards a global, service-based economy” (Allmendinger, 2005; Shum and Watanable, 2007). The bests-in-class are awake for this growing opportunity, looking to fulfill after-sales needs, adding value to the customer throughout all states of the operational product’s life cycle (Industry Week, 2008).

### **2.2.2 Smart Services Definition**

Smart Service is a package of services that can include: repairs, software installations, reconditioning equipment, inspections or day-to-day maintenance. In other words, a Smart Service provider offers technical support, consulting and training to its customers during the entire installed machine’s operating life (Cohen and Agrawal, 2006). This service provision is only possible since even after the sale, the provider is able to remotely “keep in touch” with the sold device, capturing and analyzing data concerning the machine’s performance (Industry Week, 2008). This information is used in a preemptive manner in opposition to a reactive one (Shum and Watanable, 2007; Teresko, 2008). This means that this type of “hard field intelligence” is able to help customers to identify and avoid failures before they happen; therefore service providers are able to take corrective actions in advance and avoid surprises at the client’s end (Allmendinger and Lombreglia, 2005).

### 2.2.3 Smart Services Advantages

Allmendinger and Lombreglia (2005) defended that there is a competitive advantage for the first mover in the industry in Smart Services offering. They verified this in industries like asset management, vehicle telematics, industrial gases, networked building systems, energy monitoring, and medical imaging systems. In all these industries, the first-mover had gain a sustainable market leadership.

Besides the reason already mentioned, the Smart Services business also brings to companies, not only **differentiated offer** against competitors, but also **revenues increase, long-term partnerships** and other **strategic advantages**.

#### **Differentiation from Competition**

For manufacturers competition has intensified, demand is slowing and the product margins have shrunk, in that way companies can find in Smart Services offering a way to differentiate from competitors, building long, stable and valuable relationships with their customers (Cohen and Agrawal, 2006). The Smart Service's core idea is to avoid "price wars" through differentiation, offering high value customized solutions to consumers (Holobinko, 2001; Cohen and Agrawal, 2006).

#### **Revenues Increase**

Services are typically synonymous of revenue streams, less investment in fixed capital and higher margins potential (Allmendinger, 2005). These reasons are what make Smart Services an attractive opportunity for *product-centric* companies. This position is also defended by Cohen and Agrawal (2006), who stated that after-sales provision is the "longest-lasting source of revenues" due to its high margins and small investments requirements.

Companies that started selling Smart Services easily reach double digits growth rates. These companies have 50% of their revenues and 60% of their margin contribution coming from services (Allmendinger and Lombreglia, 2005).

### **Long-term Partnerships**

The Smart Service offering requires inter-firm coordination, where the customer gives the manufacturer data, and latter manufacturer returns with valuable information (Shum and Watanabe, 2007). In this “information loop” customers have access to unprecedented R&D feedback that will allow them to optimize processes, save money and increase profitability (Allmendinger and Lombreglia, 2005). Once customers are involved in this “loop”, is difficult for competitors to pull customers away, since at that moment the relationship between the customer and the Smart Service provider is growing and getting stronger (Allmendinger, 2005).

### **Strategic Advantage**

The “information loop” created, not only gives valuable information to the customer, but also to the manufacturer. As long as the relationship is improving, the manufacturer gets better quality information about product management and how customers purchase, use and dispose their products. This information is valuable to manufacturers when they are designing new products or strategies (Allmendinger, 2005).

## **2.2.4 Product-centric and Customer-centric Marketing Approaches**

In order to better explore the Smart Services business opportunity, the first step to take is to shift from a *product-centric* to a *customer-centric approach* (Allmendinger, 2005). In the *product-centric approach* the primary source of value still in the product, while in the *customer-centric approach* the value moves from the product to the whole experience of owning, using and consuming products and services, through the product’s operational life cycle (Allmendinger and Lombreglia, 2005).

To adopt the *customer-centric approach*, companies need to design the services focusing on the client’s point of view. To do that, Allmendinger and Lombreglia (2005) suggested the following 3 steps:

- i. **Look for opportunities in the products’ life cycle** - The first step is to identify all direct activities related with the usage of the product. The main question is “What are



the activities the customer engages in, in order to procure, own, use, and dispose of our product?”

- ii. **Look opportunities beyond life cycle** - The second step is to try finding other activities that follow the first. These activities can be or not directly correlated with the product sold, they can be adjacent to it;
- iii. **Find opportunities for Smart Services** - In this phase the Smart Services provider analyzes all opportunities simultaneously; select the ones that make sense to integrate in the package and sells them as an overall solution.

### 2.2.5 Smart Services' Strategies

Allmendinger and Lombreglia (2005) in their article “Four Strategies for the Age of Smart Services” presented 4 main business-model strategies that companies follow when they sell Smart Services.

#### **The “*Embedded Innovator*”**

The “Embedded Innovator” pursues the opportunity alone and follows a *product-centric* approach. This kind of Smart Service provider use to bundle additional services with the product sold. For it is difficult to extra charge for the additional services, since neither the provider, nor the customer perceives these services as added value. In the customer’s eyes “Embedded Innovators” are inanimate partners;

#### **The “*Solutionist*”**

In the “Solutionist” business model, the company provides the service alone and follows a *consumer-centric approach*. The whole solution presented pursues opportunities, not only directly correlated with the product life cycle, but also with its adjacencies. The revenues and margins for the providers that follow this model are typically higher, mainly due to the fact that consumers perceive the service as a high value solution that brings a strategic competitive advantage. In that way, the relationship between customer and provider is usually a partnership;

### **The “Aggregator”**

In this strategy, the provider pursues the opportunity with a partner, but controls the service provision, being the main responsible for the value added. This situation happens when the main provider needs to connect several devices in order to create a high valuable body of data, but is not able to integrate vertically all the aspects needed to deliver the whole solution;

### **The “Synergist”**

This solution also requires a partner. But in this case, the partner controls the solution provision and consequently, it is the main responsible for the value added. A typical example of this strategy is when the company only provides the data linked to its device or product.

## **2.2.6 Main Barriers to Smart Services Implementation**

Even after realizing the potential of the Smart Services offering, some companies are still avoiding the shift from *product* to *customer-centric approach*. While they wait, they are losing the after-market opportunity, since customers will search for other companies that still give support when the warranty period ends (Cohen and Agrawal, 2006). Inevitably, who is not taking this path, soon will understand that their best customers are moving to other service providers (Allmendinger and Lombreglia, 2005) and as referred above, once the customer is inside the “loop” it is difficult to get him back.

However, the biggest barrier in the shifting process stills the managers’ mindset, since they continue to look at Smart Services as a necessary evil (Cohen and Agrawal, 2006). For this reason, is difficult to convince employees that Smart Service business must be a financial priority (Allmendinger and Lombreglia, 2005).

## 3. RESEARCH AIM, QUESTIONS AND METHODOLOGY

### 3.1 RESEARCH AIM AND QUESTIONS

The main goal of this study was to carry out a Best Practices Benchmarking on Smart Services across industries, in order to unveil how the “best-in-class” are marketing their Smart Services Business to position themselves as business partners. With this in mind, the primal approach was to focus on the strategies/practices that have led to such performances, rather than minding about the performance indicators.

The benchmarking subject was based in two well known marketing frameworks: *STP* (Segmentation, Targeting and Positioning) and *Marketing Mix* (Product, Promotion, Price and Place). Regarding this, the objectives of the research were to identify the best practices among Smart Services providers on:

- Segmentation and Targeting;
- Positioning and differentiation;
- Communication tools and channels;
- Levels/structure of the service offered;
- Pricing strategies;
- Distribution channels;

Regarding this paper objectives, one main research question arose: **How to conduct marketing strategies for Smart Services business?** This question was answered through other narrow questions:

- How did best-in-class companies segments and target their markets?
- How did best-in-class companies position and differentiate themselves from competition?
- How did best-in-class companies price their services?
- In which manner did best-in-class companies structure Smart Services offering?

- How did best-in-class companies communicate to the market as Smart Services providers?
- How did best-in-class companies distribute the service?

## 3.2 METHODOLOGY

### 3.2.1 Benchmarked Companies Selection

The first step of the benchmarking exercise was to select the companies to benchmark. This paper benchmarking started with 28 companies, which were referred in the literature reviewed as successful cases of Smart Services implementation (see *Table 1*).

Company	Reference
<b>ABB</b>	(Allmendinger and Lombreglia, 2005; Cohen and Agrawal, 2006)
<b>Air Liquide</b>	(Allmendinger and Lombreglia, 2005)
<b>Air Products and Chemicals</b>	(Allmendinger and Lombreglia, 2005)
<b>Boing</b>	(Cohen and Agrawal, 2006)
<b>Cisco</b>	(Cohen and Agrawal, 2006)
<b>Dell</b>	(Cohen and Agrawal, 2006)
<b>Dow Corning</b>	(Johnson et al., n.d.; Cohen and Agrawal, 2006)
<b>Eaton Electrical</b>	(Allmendinger and Lombreglia, 2005)
<b>Electrolux</b>	(Allmendinger and Lombreglia, 2005)
<b>Emerson</b>	(Allmendinger and Lombreglia, 2005)
<b>Gardner Denver</b>	(Allmendinger and Lombreglia, 2005; Teresko, 2008)
<b>GE</b>	(Allmendinger and Lombreglia, 2005)
<b>GM</b>	(Cohen and Agrawal, 2006)
<b>Heidelberg</b>	(Allmendinger and Lombreglia, 2005)
<b>Honeywell</b>	(Allmendinger and Lombreglia, 2005)
<b>HP</b>	(Allmendinger and Lombreglia, 2005; Cohen and Agrawal, 2006)
<b>Honeywell</b>	(Cohen and Agrawal, 2006)
<b>John Dear</b>	(Berman and Ritorto, 2009)
<b>Kla Tencor</b>	(Cohen and Agrawal, 2006)
<b>Kodak</b>	(Allmendinger and Lombreglia, 2005)
<b>Lockheed Martin</b>	(Cohen and Agrawal, 2006)
<b>Pepsico</b>	(Allmendinger and Lombreglia, 2005)
<b>Rockwell Automation</b>	(Allmendinger and Lombreglia, 2005)
<b>Saturn</b>	(Cohen and Agrawal, 2006)
<b>Sears</b>	(Cohen and Agrawal, 2006)

<b>Siemens</b>	(Allmendinger and Lombreglia, 2005)
<b>Silicon Valley</b>	(Cohen and Agrawal, 2006)
<b>Tellabs</b>	(Cohen and Agrawal, 2006)

Table 1 – Benchmarked companies

### 3.2.2 Data Collection

- **The Lectra case study:** the data about Lectra case was obtained through the Institute pour l’Innovation and through one day seminar on Lectra facilities in Paris. The data came from: internal documents, reports, brochures, interviews and presentations notes;
- **Benchmarked companies:** the information collected about the 28 companies benchmarked was all public information obtained from: journals’ articles, online articles, specialized magazines’ articles, companies’ web sites and other public documents (articles, white papers, brochures and annual reports).

### 3.2.3 Best-in-class Selection

From the initial 28 companies to the selection of the 3 best-in-class companies, several steps took place. In each phase, some companies were left out of the analysis regarding criteria that guarantees the quality of the analysis. The steps were the following:

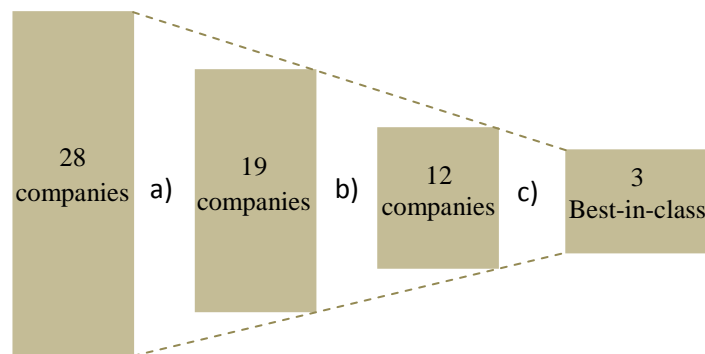


Image 1 – Best-in-class selection process

- At this point, some companies were excluded from the analysis due to the fact that the information available about their practices was insufficient or inconsistent to guarantee the quality of the results. From this first assortment,

resulted 19 companies that were divided in 4 main groups regarding their business-model strategy (Allmendinger and Lombreglia, 2005): “Embedded Innovators”, “Solutionists”, “Aggregators” and “Synergists”. This division was mainly suggested by the literature reviewed (see *Table 2*).

“Embedded Innovators”	“Solutionists”	“Aggregators”	“Synergists”
Air Liquide	ABB	Cisco	Kodak
Air Products and Chemicals	GE	Eaton Electrical	Philips
Kla Tencor	Heidelberg	Gardner Denver	
Lockheed Martin	Honeywell	IBM	
Emerson Electric’s	HP	Rockwell Automation	
	Siemens		
	Tellabs		

Table 2 – Companies division by its business-model strategy

Since companies have different business-model strategies, accordingly with Allmendinger and Lombreglia (2005), it was expected that they also had different marketing strategies. The goal of this division was to analyze the marketing practices of each group, trying to understand if companies that belong to the same group have similar practices.

- b) In this step the companies were reduced to 12. The plan was to select the group of companies with the same business-model strategy as Lectra - “Embedded Innovators” - and the group that followed the strategy that Lectra aspires - “Solutionists”. The goal was to focus in the differences between both groups, and also understand what “Solutionists” have done to position themselves as business partners (see *Table 3*).

“Embedded Innovators”		“Solutionists”	
Air Liquide	Lockheed Martin	ABB	HP
Air Products and Chemicals	Emerson Electric’s	GE	Siemens
Kla Tencor		Heidelberg	Tellabs
		Honeywell	

Table 3 – “Embedded Innovators” and “Solutionists” companies

- c) The last step was to select the best-in-class examples for each topic. The criteria to the selection were: positioning that Lectra aspires; similarity with Lectra corporate structure; experience on Smart Service provision; innovation initiative and coverage of the paper topics (*STP* and *Marketing Mix*).

	<i>STP</i>		<i>Marketing Mix</i>			
	Segmentation and Targeting	Positioning and Differentiation	Service	Promotion	Pricing	Place
ABB			X	X		
GE - Intelligent Platforms		X	X			
GE - Power Systems					X	
Heidelberg	X			X		

Table 4 – Best-in-class examples regarding *STP* and *Marketing Mix* strategies

These best-in-class examples were also referred in the literature as companies that achieved outstanding performances in Smart Service business. However, they were not specifically referred as best-in-class in marketing strategies. This selection also aims to bring a contribution to the scientific community.

## 4. PRESENTATION OF THE LECTRA CASE

### 4.1 LECTRA INTRODUCTION

Lectra is the global leader in integrated technology solutions (software, CAD/CAM hardware, and associated services) for industries that use textiles, leather, industrial fabrics and others composites in their products. Through its hardware, software and consumables, this company is present in markets like fashion, automotive, and furniture, as well as in a broad array of other industries including aeronautics, marine, wind turbines, and personal protective equipment (Lectra, 2010-2011).

Lectra preserves long-term relationships with more than 23,000 customers, from more than 100 different countries. Its 1,350 employees have the expertise to enable customers to mechanize, streamline, and accelerate product design, development and manufacturing (Lectra, 2000-2011).

### 4.2 LECTRA'S CHALLENGES

The main challenges that Lectra faced at the time this paper were the following:

- i. **Strengthen its positioning as business partner** – through consumers' eyes, Lectra adds value mainly through its cutting rooms' edge technology. However, this company aims to shift the value delivered from products to integrated solutions (services and products). The goal is to turn every trade into a partnership. None of Lectra's competitors are able to offer an equivalent value proposition;
- ii. **Generation of incremental revenues** - The plan is to retain existing customers through trustable and durable relationships and attract new ones. Lectra's approach is to bring to the discussion a constructive exchange based on needs identification and solution definition. In that way, customers achieve higher returns on investments and, consequently, Lectra gains a stable source of revenues (Lageyre, 2010).



### 4.3 LECTRA'S SMART SERVICE BUSINESS STRATEGY

The actual Smart Service business-model followed by Lectra is an “Embedded Innovator” strategy, but its goal is to move to a “Solutionist” strategy. At the time of this paper, this company provides the service with no partners, following mainly a *product-centric* approach, where the technology is the main focus. However, Lectra already started to implement some strategies to shift to a “Solutionist” business-model, showing a clear ambition to be more than a service provider, a strategic partner.

### 4.4 LECTRA'S STP STRATEGY FOR SMART SERVICES

Note: all the information comes from the Lectra seminar and interviews notes.

#### a) Segmentation and targeting

The main criteria that Lectra uses to segment the Smart Services market are the following:

- Location;
- Industrial sector (fashion or automobile, e.g.);
- Type of Vector used and cut material (silk or leather);
- Company's size;
- Company's autonomy (if it is a subcontracted company or the “big house”);
- Company's purchasing power and revenue potential.

From this criterion results three main segments: A, B and C which have homogenous needs for training, maintenance, auditing or consulting. A brief description of these segments will follow, accordingly with Lectra:

- **Segment A** – formed by large enterprises, that need a fully customized training, audit and consulting;
- **Segment B** – refined segment according with their requirements, formed by medium and large enterprises that need consultancy, auditions and extended

training programs (40 to 60 days). For this segment the service is a mix of standardization and customization. This segment has around 3,000 companies;

- **Segment C** – companies that have few machines and low purchasing power. Their needs are mainly at the training level regarding how to use the machines and the software. The range of services addressed to this segment use to be standardized. This segment is composed by 300 companies.

The criteria used were mainly based on *non-behavioral* characteristics, meaning that the focus remains on *macrosegmentation*. However, an implicit *microsegmentation* was also done, but not in a structured way.

The targeting strategy is to focus on “major accounts” from segments A and B+, where Lectra solutions are more regular and substantial. Nevertheless, it makes part of Lectra strategy to take advantage of its diverse client portfolio, in order to offer tailored solutions to each location, budget or projects.

### **b) Positioning and Differentiation**

Lectra’s actual positioning is based on its edge technology, reliability and its products and services’ innovations. However, the goal is to position themselves in the future as strategic partners, recognized by offering high-value solutions.

## **4.5 LECTRA’S SMART SERVICES *MARKETING MIX* STRATEGY**

Note: all the information comes from the Lectra seminar and interviews notes.

### **a) Service (product)**

Lectra presents 4 main Smart Services packs that vary in their customization levels. The Service packages are: *PowerFlex*, *PowerPlus*, *PowerMax*, and finally *PowerPro* which is the most customized solution.

The *core service* that Lectra sells is maintenance in a corrective and preventive way. The first two packs focus essential in the *augmented service*, through differentiated

elements that customer values. The last two packages, center not only in the *augmented service*, but also and mainly in the *potential service* level. This means that they present a higher level of customization, incorporating extensions and adaptations in order to satisfy customers' specific needs.

### **b) Promotion**

The most used communication tools by Lectra are the following:

- **Public relations** – media news about service launches, success business cases, new contracts and events. Its well organized website also comprises news, business cases, videos, customer testimonials and service brochures;
- **Personal selling** – through exhibition and trade shows;
- **Direct marketing** – customers have the possibility to subscribe newsletters, that are customized to each consumer's interests.

### **c) Price**

The price strategy followed by Lectra is a mix between *cost-plus*, *value-based* and *relationship* pricing strategies. The goal is always to take advantage of the information available to negotiate based on quality and benefits, rather than on price. The goal is to charge accordingly with each customer willingness-to-pay, however is not always possible.

### **d) Place**

Lectra has 5 International Call Centers that provide real-time support; almost all problems are solved remotely. However, when the need arises, Lectra's specialists move to customer facilities as fast as possible. Lectra doesn't have intermediaries.

## 5. SMART SERVICES BENCHMARKING DATA ANALYSIS

The data analysis was divided into two main parts within each topic analyzed:

- i. Analysis of the overall marketing strategies trends by group (“Embedded Innovators”, “Solutionists”, “Aggregators” and “Synergists”), based on the 19 companies presented in *Table 2*;
- ii. Detailed information about the best-in-class examples in the specific topic (*Table 4*).

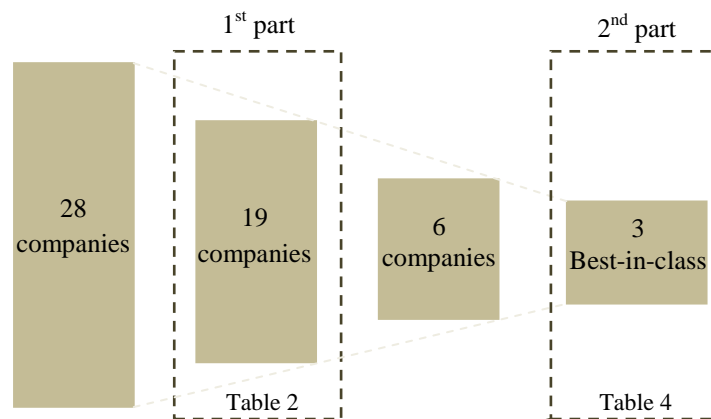


Image 2 – Best-in-class selection process and topics’ analysis

	STP		Marketing Mix			
	Segmentation and Targeting	Positioning and Differentiation	Service	Promotion	Pricing	Place
ABB			X	X		
GE - Intelligent Platforms		X	X			
GE - Power Systems					X	
Heidelberg	X			X		

Table 4 – Best-in-class examples regarding *STP* and *Marketing Mix* strategies

Before starting with the data analysis, it is important to highlight that the “Synergists” group (*Table 2*) has only two companies and this fact could limit the analysis. However, these two companies were referred on the literature (Allemdinger and Lombreglia, 2005), as typical cases of “Synergists” companies, that is why they were considered representative enough of this group, ensuring the quality of the analysis.

## 5.1 STP BENCHMARKING

### a) Segmentation and Targeting

The analysis of the available information about the 18 companies showed that companies segment the markets using two main steps:

- i. **Macrosegmentation** – firstly segment the market regarding criteria like: location, industry, company’s size, technology used, benefits perception, future potential for new sales and other *non-behavioral* criteria.
- ii. **Microsegmentation** – The second step is to take the *macrosegments* and divide in *microsegments*. The criteria mainly used are: purchasing behavior of business units and individuals, loyalty and risk aversion.

The trend is clear: “**Embedded Innovators**” and “**Synergists**” focus their segmentation exercise more on *macrosegmentation*, than in *microsegmentation*. These groups use to have standard packs of services to address *macrosegments* and for some specific *microsegments*, they superficially customize. In other hand, “**Solutionists**” use to perform a deep *microsegmentation*, addressing each segment with customized contracts. In some cases, they draw the contracts from scratch to address *microsegments* with only one consumer. “**Aggregators**” did not show a clear trend, since some of them behave like “Embedded Innovators” and others like “Solutionists”.

Regarding **targeting** decisions “**Embedded Innovators**” and “**Synergists**” rely more focus in the short-term criteria like: number of companies in each segment, the company’s size and immediate profit margins. “**Solutionists**” use to take decisions based mainly in carefully cost-benefit analysis, present and future streams of revenues and capability to meet customer’s needs.

The consistency of the segmentation method used, and the actionability of the segments targeted through different *Marketing Mixes*, makes **Heidelberg** the best-in-class example selected in Segmentation and Targeting category.

### ***Heidelberg***

Heidelberg is in transition from an “Embedded innovator” to a “Solutionist” business-model strategy. This company is a worldwide leader in overall solutions for the print industries (Heidelberg Druckmaschinen AG, 2005) (for more information about Heidelberg see *Appendix I*).

Their customers are divided in main three segments:

- i. “**All rounders**” – consumers that consume the classic spectrum of products like brochures and posters;
- ii. “**Packaging printers**” – consumers of large formats, which are an attractive segment for new Heidelberg large formats. In other words, they are potential consumers of other products and services;
- iii. “**Specialists**” – consumers that use machines to produce “high-finish quality products with the most sophisticated techniques”, meaning consumers that are looking for the best solutions available (Heidelberg Druckmaschinen AG, 2005).

To find these segments Heidelberg used the following criteria: **company’s size**, **product type** (commercial print, industrial commercial print, packaging print, and label print, postpress specialists), **benefits perceived** and **future sales potential**.

To address these segments this firm offers two types of modular contracts:

- ***Systemservice 36 Plus*** - is included with the purchase of all machines that comprises mainly assistance and repair services, extended by 36 months. (Heidelberg, n.d). This service only addresses *macrosegments*;
- ***Partner Program*** - fully customized contracts extended to a product life time, (Heidelberg, n.d). This one address to *microsegments*.

This company is an example to a company in transition to a “partnership positioning”, since the Heidelberg goal is to show to the consumers the benefits of their services, creating dependence and transforming each contract in a partnership.

### **b) Positioning and Differentiation**

The differentiation positioning depends on the specific capabilities of each company. However is possible to identify two main trends:

- “**Embedded Innovators**”, “**Synergists**” and some “**Aggregators**” - tend to defend their leadership on *Technology*, product *Knowledge* and *Innovation*. Their messages are focused in explanations about service features and specifications;
- “**Solutionists**” and some “**Aggregators**” - proclaim its leadership in Service industry *Knowledge*, *Flexibility*, *Relationship* and *Value*, centering their messages more in benefits than in features’ descriptions.

“**Embedded Innovators**” and “**Synergists**” have a *product-centric approach*, where the main focus is the product, not the services; this is the reason why they center their positioning in attributes and technical specifications. On the other hand, “**Solutionists**” have a *customer-centric approach* and their high-value services go beyond their products, delivering integrated solutions. Their deep knowledge about the clients and their capacity to measure services’ benefits, allow them to positioning themselves regarding benefits that they can provide.

**GE - Intelligent Platforms** were chosen best-in-class due to its clear and consistent positioning.

#### ***GE (General Electric) - Intelligent Platforms***

Regarding Smart Services offering, GE presents the *Product Lifecycle Management* program that in simple words promises simplicity, effectiveness and long-term support (for more information about GE see *Appendix I*). This service is referred as sophisticated, innovative, simple and flexible, being tailored to aim the specific needs of

each customer. GE position itself as a problem sharing partner that combines customer understanding and the company's expertise in long term supportive contracts (GE Intelligent Platforms, 2010).

GE's *Product Lifecycle* is a core service for this firm, delivering a performance level that cannot be imitated by any competitor (GE Intelligent Platforms, 2010).

Concluding, GE focuses their positioning mainly on **long-term relationships, flexibility, innovation and service performance.**

## 5.2 *MARKETING MIX* BENCHMARKING

### a) **Services (product)**

Regarding this topic, the goal is to understand how Smart Services providers structure their service regarding the services *levels*. This structure varies from company to company, but the overall picture shows two main trends:

- **“Embedded Innovators”** – these companies sell Smart Service contracts as a group of modules that customers choose. These modules can be: consultancy, maintenance, training, predictive maintenance, between others. These companies sell different contracts for each module, but also customer can aggregate modules in the same contract. These companies focus their efforts more on *augmented product*, but also make some adjustments to leverage the *potential product*;
- **“Solutionists”** – use to sell the whole package together (maintenance, training, predictive maintenance, obsolescence management, etc.). They focus on selling benefits that the whole package can bring to the company, leveraging the synergies between modules. “Solutionists” always propose partnerships and long-term commitment. All service levels are fully explored (*core, expected, augmented and potential product*) in order to bring a range of benefits totally adapted to each consumer needs.

The main difference is that the first ones start from modules to the whole package, and the second ones always start from the whole package to the modules. The first ones are



merely service providers; the second ones aspire to be partners. The commitment degree is very different and by default, the customers' benefits too.

Regarding “**Aggregators**” and “**Synergists**”, since they don't pursue the business opportunity alone but with partners, the *product levels* they focus varies regarding their part in the contract. Thus, the trends are not so clear. Half of the “**Aggregators**” act like “Embedded Innovators” and the other half like “Solutionists”, and “**Synergists**”, tend to act more like “Embedded Innovators”.

**ABB** and **GE - Intelligent Platforms**, present both partnership programs, but with different kind of contracts. The briefings about these companies' practices explain the scope and type of the contracts.

### **ABB**

ABB *Full Service Partnership* is a maintenance outsourcing contract which helps through all over the world more than 150 clients to improve efficiency and reduce costs (ABB, 2011) (for more information about ABB see *Appendix I*). In the contract, this firm assumes full responsibility for the engineering, planning, execution and entire maintenance actions in the customer plant (ABB, 2011).

ABB customizes all contracts, no matter the scope or size fully exploring the *augmented* and *potential product*. All efforts are made to align objectives, core competencies, assets and customer culture (ABB, 2009).

These contracts are based on the performance achieved, meaning that ABB is rewarded based on the results accomplished with its actions (O'Brien, 2007). This kind of partnerships allow both partners to share risk, since financial outcome, related to the ABB intervention, is shared by both, the company and the customer.

### ***GE - Intelligent Platforms***

*Product Lifecycle Management* service, as previously stated is GE's core service in the Intelligent Platforms business unit.

This long term support comprehends the following modules: “health check – obsolescence monitoring and reporting”; “Component Storage - safe, secure and for as long as required” and “Repair & Support capability – retention of knowledge and equipment” (GE Intelligent Platforms, 2010).

The contract scope and duration is different for each consumer, regarding their specific needs and wants. Some contracts, principally when it is the first time that the company buys the service, are just for one year. The fees are paid on an annual basis at the beginning of the contract. After the first year, GE adjusts the fee regarding the previous year activities (GE Intelligent Platforms Limited, n.d.).

GE *Product Lifecycle Management* service allows consumers to capitalize on their investments, improving overall performances at minimum costs through a “full integrated approach” (Holmes, 2010).

#### **b) Promotion**

Regarding Smart Services providers, the following tools, by descending order, are the most used:

- ***Public relations*** – Smart Services companies' initiatives in this topic are: managers' speeches to customers and financial investors, special events, services launches, success cases, new contracts, exhibitions and events. Their website is the main communication channel used, where they turn available not only everything that media publish about them, but as well as a large range of written materials, reports, brochures, articles, newsletters, audiovisual materials and customer testimonials;
- ***Direct marketing*** – In what concerns with *direct marketing*, some Smart Services companies have a website area with restricted access, where consumers have to register and provide data about themselves. Through this data, consumers access

specific contents, as well as receive customized mails and e-mails regarding their preferences;

- **Personal selling** – This is a very common practice among Smart Service providers that use to be present in fairs, trade shows and presentations.

Regarding promotion tools, all groups use the same ones. However, it is possible to verify that some groups invest more resources on promotion than others, this is the case of “**Solutionists**” and “**Embedded Innovators**”.

The best-in-class examples in Promotion topic are **ABB** and **Heidelberg**. They presented distinct integrated communication plans that transmit in a simple and effective way a unique and consistent message. Also, the innovation and the quality of the initiatives and contents were a decision factor.

### **ABB**

This firm most used tool is *Public Relations*, mainly through recognized specialized magazines and its website. The website presents a clear organization and easy access to the contents. Also the qualities of the contents are above average. In the website customers can find:

- **Smart Services brochures and executive briefings** – these contents not only have a good graphic presentation with a large range of images and graphics, but also structure the contents in a concise and straight forward way;
- **Smart Services video presentations and customers testimonials** - ABB also presents its *Full Service Partnership* through a high quality video, where customers explain the process and the benefits in first person (ABB, 2011b);
- **Business cases** – a large number of business cases are available where they present the main challenges, quantitative and qualitative results, and customer’s testimonial (ABB, 2011b);
- **Media events, and press releases** – at least quarterly, ABB prepares a speech to the media announcing the results. This firm also use to organize annual meetings with the CEO, where company’s achievements are discussed (ABB, 2011c);

- **Social responsibility** – ABB slogan states: “Power and productivity for a better world.”, they present a webpage area only dedicated to the projects through all over the world that helped companies to reduce their impact in environment (ABB, 201d);
- **Media presence in specialized magazines** - this specific *Full Service Partnership* is assiduously referred in news and articles in well known magazines (ABB, 2011e).

ABB was one of the companies studied that by far communicates in a consistent and persistently way, through several communication channels.

## **HEIDELBERG**

Heidelberg deserves a place as best-in-class mainly through their innovative initiatives that allows it to communicate closer to the client.

As well as ABB, Heidelberg also presents a well organized website that is used as its main communication channel. In the website, there can be found case studies, customers’ testimonials, newsletters and other contents. But, the reason why Heidelberg was stated as a best-in-class example is its customer Forums. These Forums are tailored for customers’ senior levels where the company presents its products, services, and more than that, discuss business challenges and industry trends. The speakers are not only Heidelberg’s managers but also outside practitioners and visionaries in their business (Heidelberg Druckmaschinen AG, 2011).

### **c) Pricing**

Concerning price strategies it is difficult to define an equation that explains how companies price their services, since a large part of the contracts are customized. On the limit each consumer has a different price which is influenced by: the company’s size and willingness to pay, its sector, project’s scope and duration, future business opportunities, beyond others. In this equation there are a range of variables which are different from consumer to consumer.

However, it is possible to identify three main pricing strategies among Smart Services providers:

- **Cost-plus pricing** – This strategy is not the most common among Smart Services providers due to the reasons already stated. However, there are companies that adopted it and had succeed;
- **Value-based pricing** – This is a popular strategy among Smart Services providers and the one that all Smart Services providers aims to practice;
- **Relationship pricing** – This is other strategy that strongly influences the price in Smart Services provision, since contracts use to be for long terms and companies can define the price regarding the future revenues.

Other trend that analysis showed was the fact that “**Embedded Innovators**”, “**Aggregators**” and “**Synergists**” are more likely to use the *cost-plus pricing* strategy, and the “**Solutionists**” mainly follow the *value-based* and the *relationship pricing* strategies. That happens due to the fact that “Solutionists” have a higher degree of customization, knowing better consumers and also their willingness to pay. The best example of a “Solutionist” company that uses these strategies is ABB. This firm calculates *a priori* all the benefits of its service, and charge the price attached to the accomplishment of these same benefits through the time.

**GE- Power Systems** was the best-in-class example chosen. It is important to strengthen that this company contract types varies from fixed to variable fees, regarding a range of factors and situations that change from customer to customer.

### ***GE - Power Systems***

In the power system industry, consumers’ equipment failures mean huge costs for them, since delays obligate them to pay compliance fines. Regarding this situation, GE found a market opportunity through Smart Services provision that allows it to charge \$500 to \$600 per hour for a technician, while competitors didn’t charge more than \$110 for the same time. GE is able to charge 5 times more than competitors due to the fact that they can remotely track all machines performances, transforming data in knowledge. In this way, GE became a business partner, creating customer dependence (Allmendinger and Lombreglia, 2005).

In this case, the fixed fee per hour is a *value-based pricing* strategy that not explores on the limit each consumer's willingness to pay. The price is achieved through a cross customer's average of their benefits. This means that for some customers GE could charge even more, using the information that they have about them.

#### **d) Place**

Regarding place, the channels used depend of the industry; depend of the service type, and companies' resources and strategies.

In the Smart Service business the interactions types between service providers and customers are mainly two: *service provider goes to the customer* and the *service provider and the customer transact business at arm's length*. All groups interact in these two ways, having assistance centers through all over the world that give remote and onsite customer support.

Regarding intermediates, some companies could contract service providers that give assistance on customer facilities, but usually they do not subcontract the remote assistance. In this topic, there is no clear trends, for example some "Embedded Innovators" subcontract service providers if the client localization is far from their main business areas; and some "Solutionists" subcontract local service providers, because they want to ensure a fast and reliable response on the customer side.

The decision to have intermediates or not depend on several factors that goes beyond marketing issues. Regarding that, is not possible to select best-in-class companies, since distributions it strictly correlated with the business background of each company.

## 6. DISCUSSION

### 6.1 FROM A BUSINESS-MODEL STRATEGY TO A MARKETING STRATEGY

Allmendinger and Lombreglia (2005) presented a resumed approach about business-model strategies that Smart Services companies can adopt to deliver their services. This approach divides the companies in four main groups: “Embedded Innovators”, “Solutionists”, “Aggregators” and “Synergists”. In the first two groups, the main business opportunity relies on their products, so they are able to pursue the opportunity alone without partners, controlling the service provision. The main distinction between these two strategies, is that the first one (“Embedded Innovators”) follow a *product-centric approach*, and the second one (“Solutionists”) a *customer-centric approach*.

Regarding the other two strategies “Synergist” and “Aggregator”, the opportunity cannot be pursued alone, thus needing a partner. The main difference between both is the control of the service delivered. For an “Aggregator”, the value added by the whole contract is mainly attached to its service, and it controls the value delivery. For a “Synergist”, the value of its service is secondary, and it doesn’t control the service delivered.

In that way, it is possible to conclude that Allmendinger and Lombreglia (2005) distinguish Smart Services strategies regarding 3 main factors: **Smart Service opportunity** (company pursues the opportunity alone or with a partner); **marketing approach** (company follows a *product-centric* or a *consumer-centric approach*); and **service control** (if the value added comes mainly from its services or from partners).

The scheme below characterizes the distinction:

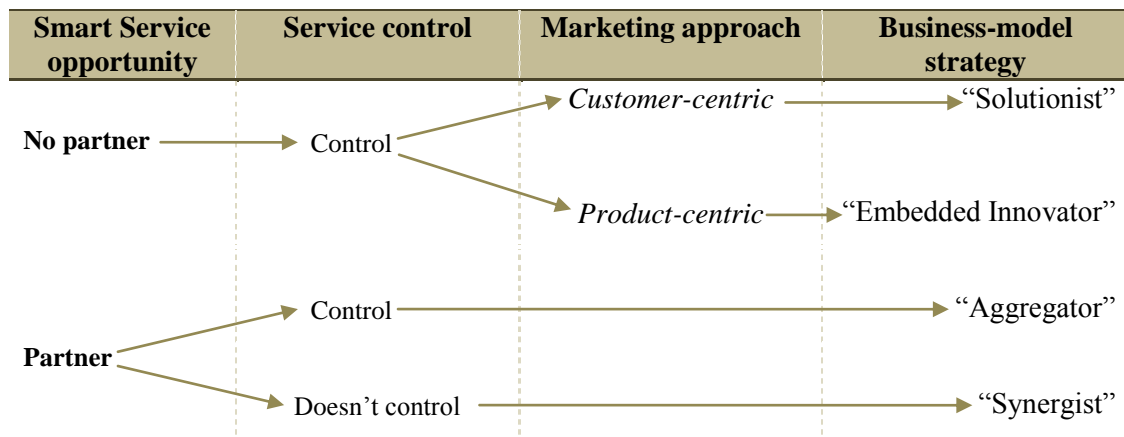


Table 5 –Business-model strategies and distinguish factors

Regarding business-model strategies, one important assumption was taken: companies with similar business-model strategies would also have similar marketing strategies. This was the reason why each group was analyzed individually and compared. However, the analysis showed that **Smart Services’ companies only follow two main marketing strategies, not four.**

In what concerns with marketing strategies it is independent if the company has partners or not, thus the most important dimensions are: **marketing approach** and **service control**. This conclusion comes from 3 main facts:

- i. some “Aggregators” companies, besides having partners, presented a *customer-centric approach*, behaving like “Solutionists” companies, and others follows a *product-centric approach* like “Embedded Innovators”;
- ii. “Synergists” present always a *product-centric approach* like “Embedded Innovators”;
- iii. The similarity between “Aggregators”, “Embedded Innovators” and “Solutionists” is the fact that they control the service provision, when “Synergists” not.

The following table resulted from these facts:



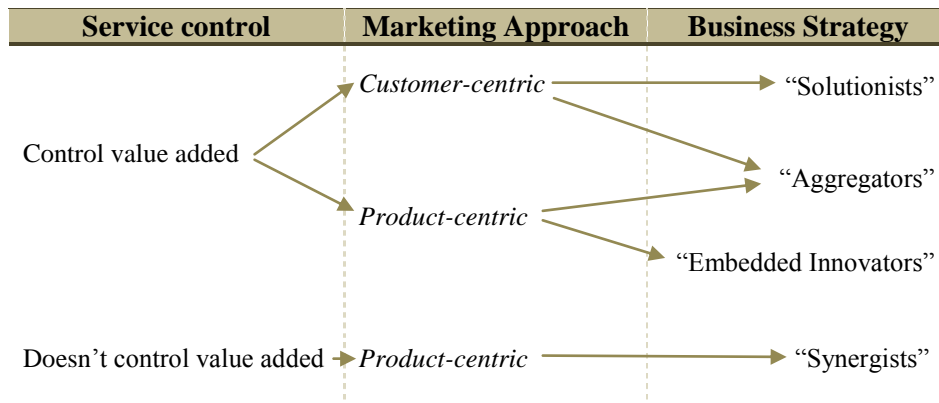


Table 6 – Service control and marketing approaches of business-model strategies

From the table it is possible to conclude that Allmendinger and Lombreglia (2005) model doesn't fit to characterize Smart Services marketing strategies. The main reason is the focus of the analysis. For them the focus remained on business-model strategies concerning mainly if the company has partners or not, while for Marketing Strategies the main point is the Marketing Approach.

Concerning that, 2 new groups arise: “Service Innovators” and “Smart Partners”.

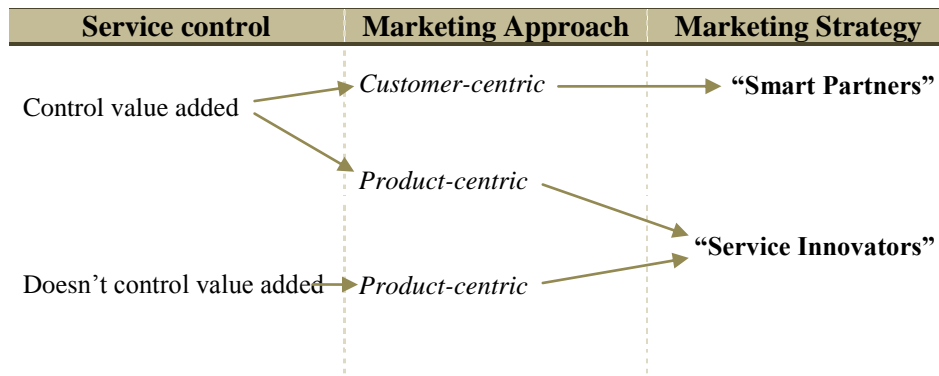


Table 7 – Smart Services companies' marketing strategies

		Business-model Strategies			
		“Solutionist”	“Embedded Innovator”	“Aggregator”	“Synergist”
Marketing Strategies	“Service Innovators”				
	“Smart Partners”				

Table 8 – Cross table between Business-model Strategies and Marketing Strategies

**“Service Innovators”**

“Service Innovators” are Smart Services providers that have a *product-centric approach*. With or without partners, their services are seen as an innovation that brings some operational value, but not strategic, and for that reason, they cannot achieve the partnership positioning. These companies focus more on the product, than in the service or consumers’ needs. For consumers, they are perceived as a service provider that likes to innovate.

**“Smart Partners”**

“Smart Partners” have a *customer-centric approach*. They can provide the service alone or with partners, but always present the service as a “whole solution”. They understand the customers’ business, challenges and culture, and use all information available to deliver solutions that bring high-value to consumers. For clients, these companies are perceived as business partners that help them to improve day-by-day.

The following table characterizes both strategies regarding *STP* and *Marketing Mix* strategies:

		“Service Innovator”	“Smart Partner”
<b>Characteristics</b>		<ul style="list-style-type: none"> <li>• <i>Product-centric approach</i>;</li> <li>• Perceived as a service provider that likes to innovate.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Customer -centric approach</i>;</li> <li>• Perceived as business partner.</li> </ul>
<b>STP</b>	Segmentation	<ul style="list-style-type: none"> <li>• <i>Macrosegmentation</i>;</li> <li>• <i>Superficial Microsegmentation</i>.</li> </ul>	<ul style="list-style-type: none"> <li>• <i>Macrosegmentation</i>;</li> <li>• <i>Microsegmentation</i>.</li> </ul>
	Targeting	Based on: <ul style="list-style-type: none"> <li>• Segment’s size;</li> <li>• Companies’ size;</li> <li>• Profit margins.</li> </ul>	Based on: <ul style="list-style-type: none"> <li>• Cost-benefit analysis;</li> <li>• Long-term revenue stream and profit margins;</li> <li>• Capability to meet the customer needs.</li> </ul>
	Positioning	Leadership on: <ul style="list-style-type: none"> <li>• Technology;</li> <li>• Innovation.</li> </ul> Focus on service features.	Leadership on: <ul style="list-style-type: none"> <li>• Service;</li> <li>• Flexibility;</li> <li>• Relationship.</li> </ul> Focus on service benefits.

		“Service Innovator”	“Smart Partner”
<b>Mkt. Mix</b>	Service	Focus on <i>augmented product</i> .	Focus on <i>augmented product</i> and <i>potential product</i> .
	Promotion	Main tools used: <ul style="list-style-type: none"> <li>• <i>Personal selling</i>;</li> <li>• <i>Public relations</i>;</li> <li>• <i>Direct marketing</i>.</li> </ul>	Main tools used: <ul style="list-style-type: none"> <li>• <i>Public relations</i>;</li> <li>• <i>Personal selling</i>;</li> <li>• <i>Direct marketing</i>.</li> </ul>
	Price	Mixed of: <ul style="list-style-type: none"> <li>• <i>Cost-plus pricing</i>;</li> <li>• <i>Value-based pricing</i>.</li> </ul>	Mixed of: <ul style="list-style-type: none"> <li>• <i>Value-based pricing</i>;</li> <li>• <i>Relationship pricing</i></li> </ul>
	Place	Usually don’t have intermediates.	Some have contracted service providers.

Table 9 – “Service Innovators” and “Smart Partners” Marketing Strategies

## 6.2 THE TRANSITION FROM “SERVICE INNOVATORS” TO “SMART PARTNERS”

Regarding the descriptions of both strategies, it was possible to observe that “Smart Partners” can take more advantage from the Smart Service provision than “Service Innovators”. It happens due to the fact that “Smart Partners” are able to:

- Achieve a higher degree of differentiation from competitors since they fully customize the services;
- Price the services based on benefits, charging different prices according to customers’ willingness-to-pay, increasing in that way the revenues in the short and long term;
- Build long-term trustable relationships, since they show full comprehension and commitment towards customers’ business.

These advantages are also achieved by “Service Innovators” but at a lower level. Regarding that, this statement could lead to conclude that all companies must aspire the “Smart Partner” positioning. However, this is not true since some companies face constraints that make the “Service Innovators” positioning the best for them. Some reasons can be the following:

- **Nature of the product or service** - if the service doesn't contribute for consumer's competitive advantage, it will be complicated to get a partner positioning;
- **Control of the service** – it happens when the main part of the value delivered is provided by the partner, and it control the service delivery;
- **Technology availability** – if the provider doesn't have technological capability to deliver a high-value service;
- **Competition** – if competition already has a strong position as business partners, the option is to find a gap, or find other positioning strategy.

However there are other companies, for whom the transition is a possibility. For these companies, the main question is not the product, the service control, the technology, neither the competition, but rather the employees' mindset.

The cultural barrier exists because these companies, during their lives, only sold products, and they don't know how to sell benefits, how to sell services (Cohen and Agrawal, 2006). They have doubts about segmentation, targeting, and positioning. They also don't know how to structure the offer, how to communicate, price or distribute it. These were basically the questions answered by this paper. The result was a range of theoretical guidelines which can help companies to define their marketing strategies in order to position themselves as “Smart Partners” or “Service Innovators”.

## 6.3 LECTRA RECOMMENDATIONS

Regarding Marketing strategy, Lectra is a typical “Service Innovator” trying to move to a “Smart Partner” positioning. Lectra can be confident in this transition, since presents the following factors:

- i. The product type that Lectra sells allows this transition, since its products can be an important source of competitive advantage for consumers;
- ii. Lectra controls de service provision;
- iii. The technology available makes possible the delivery of a high-value service;
- iv. Competition is not a threat to Lectra’s value proposition;
- v. The top managers’ sense of urgency for this transition, trying internally to change the cultural mindset.

However, there is a long way to go through. The very beginning step is to diffuse the culture that they are no longer a product company; they are integrated solutions’ providers. This is the called transition from *product-centric approach* to *customer-centric approach*, or in other words from a “Service Innovator” to a “Smart Partner”.

### 6.3.1 STP

#### a) Segmentation and Targeting

In this topic the suggestion is to explore more the *microsegmentation* exercise using *non-behavioural* criteria like DMU’s behaviour; risk aversion; perceived importance of the purchase and decisions rules. The result will be a range of *microsegments* that obviously cannot be all targeted at the same time. To choose the targeting order is important to do a cost-benefit analysis, setting priority segments. The main point is the quality of the approach, not how many companies are approached. It means that Lectra should select few *microsegment*, try to fully understand their needs, behaviours and business backgrounds, target them and only after select other *microsegments*, and do it all over again.

## **b) Positioning and Differentiation**

Regarding positioning, Lectra already has a clear idea where it wants to be in consumers' minds. It wants to be a strategic partner that brings value through integrated solutions, service quality, and industry and customer knowledge.

However, it is important to highlight that the positioning is achieved through a range of aligned practices, including the *Marketing Mix*. The message that goes to the market must be unique, distinct, and consistent and must address the needs of the targeted segment.

### **6.3.2 Marketing Mix**

#### **a) Product/Service**

Regarding the Smart Services packs, their structure demonstrates a concern in balancing the standardization and the customization, covering Lectra's client portfolio. However, Lectra still sell integrated solutions, like it used to sell technology products, focusing in features, more than in benefits. To be a "Smart Partner", Lectra needs to think through the client point-of-view, showing full understanding of consumers' worries and challenges, and must cover both quantitative and qualitative benefits. For example, make references about Overall Equipment Efficiency (OEE) achieved on average through its clients, or start by talking about the customer problems, can be some examples.

#### **b) Promotion**

In this topic, Lectra already has a good performance regarding tools and channels. However, is never enough to reinforce the presence in the social media. Having an assiduous presence in specialized magazines and journals, through speeches, awards, new contracts announcements and success cases, is always good and helps the company to increase awareness and reinforce the positioning. Also having a good communication agent or agents is always a point to not underestimate.

Other initiatives, that can be conducted by Lectra, for specific segments, like medium and small enterprises, can be the realization of free seminars for top managers, not only about the products and services, but also about industry trends, benchmarking, business models and so on.

**c) Price**

Regarding price, Lectra seems to be in a good way. However, is always important to remember that to conduct a *value-based pricing* strategy is necessary to have a lot of information about customers' willingness to pay. To overcome this and other crucial problems correlated with this lack of information, Lectra needs a well trained selling team. This is important not only to set prices, but also to define the services levels, and even to segment, positioning and targeting. Information about consumers is a key issue in Smart Services business and companies must strongly invest in ways to obtain it.

## 7. CONCLUSIONS

### 7.1 CONCLUSIONS

The main goal of this dissertation was to answer the question: **How to conduct marketing strategies for Smart Service business?** The answer to this question was based not only in literature but also in proven practices that other Smart Services providers have been applying in their business. In that way, 2 main steps were followed:

- i. Literature review on service marketing strategies for business-to-business markets and also on Smart Services;
- ii. Best Practices Benchmarking on Marketing Strategies that showed how best-in-class companies have been marketing their Smart Services. To conduct the benchmarking, 28 best-in-class companies, from different industries were analyzed.

In data analysis the benchmarked companies were divided in four groups regarding their business-model strategy (“Embedded Innovators”, “Solutionists”, “Aggregators” or “Synergists”) (Allmendinger and Lombreglia, 2005) and their practices were analyzed by group. The conclusion was that regarding Marketing Strategies companies only follow 2 main strategies: “Smart Partners” that have a *customer-centric* marketing approach, and “Service Innovators” that have a *product-centric* approach. This conclusion showed that Allmendinger and Lombreglia (2005) model cannot be extended to marketing strategies, since his main focus is in business-models.

Lectra, that was the case of this paper, already started the transition from a “Service Innovator” to a “Smart Partner” positioning, but some points like segmentation, service and pricing strategies, still need adjustments.

Concluding, this Benchmarking analysis provides important theoretical guidelines to help companies to conduct their Smart Services marketing strategies. However, these guidelines are not enough. The biggest change must be done at a cultural level; top managers must show and prove to their employees that Smart Services are a priority for who wants to survive in this “new service era”.



## **7.2 LIMITATIONS AND DIRECTION FOR FURTHER RESEARCH**

Although this thesis might have brought some insights about marketing strategies for Smart Services providers, there is still much work to be done in this topic.

The limited time to conclude the project, as well as the fact that was not possible to collect deep information through primary sources, led to a more theoretical, and superficial approach.

The suggestions for further research, bearing in mind that a deep collection of data is possible, accent in the following topics:

- Use of quantitative data, meaning for example benchmark performance indicators;
- Investigate the Success factors for Smart Service implementation;
- Study the impact of the adoption of the different Smart Services strategies;
- Investigate Smart Service strategies by industry.

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## 9. APPENDIX

### APPENDIX I

#### **HEIDELBEG**

Heidelberg Druckmaschinen AG is one of the leaders of overall solutions for the print industries synonymous of top quality and proximity to the consumers. With German headquarters, Heidelberg centers its process in the whole value-added and process chain of popular format classes of the sheet fed offset and flexographic printing sectors. This firm offers a range of precision printing presses, platesetters, postpress equipment, integration software, consulting services for spare parts and consumables, remarketed equipment, and training.

#### **ABB**

ABB is a global leader in power and automation technologies that help customers to improve efficiency and reduce the environment impact. This company operates in more than 100 countries and has more than 124,000 employees. ABB sells a range of product and services which include: **Power products** (transition and distribution electricity devices); **Power Systems** (power transmission and distribution grids); **Discrete Automation and Motion** (integrated solutions to increase industrial productivity and energy efficiency); **Low Voltage Products** (low-voltage consumables to consumers plants from electrical overload); **Process Automation** (solutions for instrumentation, automation and optimization of industrial processes) (ABB, 2011f).

#### **GE**

GE is an advanced technology, services and finance company that spread its activities through 100 countries, with the collaboration of more than 300,000 employees. GE core business is innovation in energy, health, transportation and infrastructures. This

company range of services and products includes: **Aviation** (jet engines); **Consumer electronics** (appliances); **Electrical distribution** (integrated solutions to ensure safe and reliable power delivery); **Energy** (energy products and services for coal, oil, natural gas, nuclear energy, water and wind energies); **Business and Consumer Finance** (providing loans, operating leases, financing programs, commercial insurance and equipment leasing); **Healthcare** (information technologies to diagnostics and drug); **Lighting** (range of innovative products for consumer, commercial and industrial markets); **Oil & Gas** (complete solutions to the oil and gas industry); **Rail** (railroads, locomotive and railroad management technologies); **Software & Services** (software, hardware, services, and expertise in manufacturing; remote monitoring and diagnostics; and customer vertical solutions); **Water** (water treatment, wastewater treatment and efficient process systems solutions) (General Electric Company, 2011)



