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# MAKING THE TRANSITION TO SERVICES IN THE ANIMAL HEALTH INDUSTRY

*Veronica Martinez \**

*Cambridge Service Alliance, University of Cambridge, 17 Charles Babbage Rd, Cambridge, CB3 0FS [vm338@cam.ac.uk](mailto:vm338@cam.ac.uk)*

*Veronique Pouthas*

*Institute for Manufacturing, University of Cambridge, 17 Charles Babbage Rd, Cambridge, CB3 0FS*

*Daniel Smith*

*Cambridge Service Alliance, University of Cambridge, 17 Charles Babbage Rd, Cambridge, CB3 0FS*

## Abstract

The objective of this paper is to explore the steps and practices involved in the management of the shift to services in the context of the animal health industry. Research was carried on a leading animal health company, comparing and contrasting the transition to services between two of its most important regions. The research demonstrates that the delivery journey of the sales force lies at the core of the service transition, and it has expanded the servitization theory by unfolding the two fundamental processes that organizations experience in the transition to services. These are: the service development strategy; and the sales force delivery. This is the first research to explain the changes in "the sales force delivery" process in selling services as opposed to products. The best practices required to make the shift to services include leveraging customers' experience, implementing service value and benefits, and building an integrated service team.

*Keywords:* Services, service operations, service transition, servitization

## Introduction

The upsurge in services has begun to dominate our economy. New service designs have a strong focus on making customers experiences easier, simpler, and, in many cases, hassle-free (Raddats, Baines, Burton, Story, and Zolkiewski, 2016). Successful new services such as Uber and Airbnb's service businesses have revolutionized the way that services are offered and delivered. In the health-care sector, the transition to services is rapidly moving from offering basic services to experience-oriented, results-oriented services. For instance, the use of wearable sensors in elderly people to monitor and improve quality of life is moving to the next level of prognostics. The data from these wearable devices is tested to build interconnected services in order to create personalized services to support people's well-being, safety, and independence (Ganz and Neuhüttler, 2016). Similarly, new services on the delivery of insulin are being developed (See [mydario.com](http://mydario.com) or the smart-guard) through the continuous and proactive monitoring of sugar levels, thereby customizing patients' doses. Creating successful services such as these requires a shift to services – in other words, the

ways that services are designed and delivered and how the services' ecosystem partners are interconnected.

Industrial manufacturers have begun to experience rapid changes in customer demands. These have consequently driven reductions in product margins (Raddats, Baines, Burton, Story, and Zolkiewski, 2016; Chesbrough, 2010). To respond to market changes, manufacturers have started to shift their strategies towards service-based strategies (Vandermerwe and Rada, 1988). This transition from selling products to selling services has represented a key challenge for them (Cusumano, Kahl, and Suarez, 2015; Gebauer, 2008; Oliva and Kallenberg, 2003).

The transition to services forces manufacturers to move from a transactional set of interactions to continuous relationships with their customers (Eloranta and Turunen, 2016; Oliva and Kallenberg, 2003). Managing customers' expectations has become a major industrial stake (Gebauer et al., 2006; Kindström, 2010). Despite the fundamental changes that manufacturers have to make to offer services, some of the main motivations for them to shift to services are: firm survival, growth, expansion, and leadership in the market (Mont, 202; Gebauer et al., 2006; Salonen, 2011; Martinez et al., 2010; Gaiardelli et al., 2014).

While much has been discussed in the literature about the classification of product–service systems and the development of service-dominant logic, research on the transition to services remains extremely vague and represents a clear gap in the theory and practice (Baines, Bigdeli, Bustinza, Shi, Baldwin, and Ridgway, 2016; Martinez, Granryd, and Neely, 2016). There is a clear need to define the steps and best practices required to make the transition to services. Accordingly, this study aims to answer the following research question:

*“What are the fundamental steps for a service transition and what are the associated best practices in the context of the animal health industry?”*

Through data collection and analysis from an exploratory case study in a global animal health manufacturer, this research seeks to determine how manufacturers can make the transition to services.

### **Servitization: Definition, Reasons, Challenges, and Steps**

The shift from selling products to selling integrated products and services is referred to as servitization. Servitization is also defined as the transition from products to services, product–service systems, high-value solutions, integrated solutions, and the service infusion in manufacturing (Vandermerwe and Rada, 1988; Davies et al., 2006; Kindström and Kowalkowski, 2014). Servitization changes the fundamental way in which manufacturers and providers interact with customers – moving from transactional interactions to continuous relationships (Oliva and Kallenberg, 2003; Gebauer et al., 2006; Eloranta and Turunen, 2016).

The servitization phenomenon presents some challenges, the main one being the organizational change and the service strategy (Martinez et al., 2010; Davies et al., 2006). The organizational transformation raises specific transformation issues that are unique to moving to servitization (Baines and Lightfoot, 2009; Raddats, Baines, Burton, Story, and Zolkiewski, 2016).

The process towards servitized manufacturing has been described as a transitional process based on a continuum (Oliva and Kallenberg, 2003). The most frequent steps and best practices found in the literature are: implementing a service culture (Barnett et al., 2013); the use of performance management and measures (Martinez et al., 2010); customer involvement (Mont, 2002); and the continuous development and extension of service offerings (Salonen, 2011). The analysis of the literature clearly highlights huge gaps in the shift to services, particularly journey steps. The literature between 2002 and 2007 on the strategic journey steps focused on management, with the main author being Gebauer (2006). Between 2012 and 2013

the servitization research focused on the design and process perspective (Marques et al., 2013; Bakas et al., 2013). Towards 2014, 2015, and 2016, Baines et al. (2014), Kindström and Kowalkowski (2014), Cusumano, Kahl, and Suarez (2015), and Story, Raddats, Burton, Zolkiewski, and Baines (2016) have focused on the management perspective in the operational journey steps and put forward the need for technology support. This transition path includes steps that are broad and not clearly defined in most papers (Gebauer et al., 2006; Marques et al., 2013).

### **Servitization and Value Co-creation**

The literature about servitization describes a service-dominant logic, which focuses on value that is derived and determined in use – the integration and application of resources in a specific context – rather than exchange, that is, embedded in firm output and captured by price (Lusch et al., 2007; Vargo, Maglio, and Akaka, 2008; Eloranta and Turunen, 2016).

The process and meaning of value creation is rethought from operand to operant resources, with the locus of value creation moving from the producer to a collaborative process of co-creation between parties (Vargo and Lusch, 2008). The important concept embedded in service-dominant logic is the co-creation of value (Smith et al., 2014). Co-creative value is a concept designed to extend or amplify value by co-creation among producers (providers) and customers (receivers).

### **Research Design**

The epistemological position taken in this research is that of the social constructionist. The nature of the research objective and question described in the introduction shows that this is a nascent, emergent topic (Edmondson and McManus, 2007). Therefore, an exploratory strategy based on a qualitative study was used in this research.

Data collection was conducted through structured interviews with senior management personnel, and documents gathered by dialogue with stakeholders during interviews. An interview questionnaire was used to determine the company's journey to servitization through the eyes of different informants from different business units in two regions (they will be called Region1 and Region2 for confidentiality purposes). The interview tool included questions about the definition and value propositions of service offerings and the description of their servitization journey, steps, and practices for developing services. Then, content analysis, triangulation of interviewees' insights, and cross-case analysis were used to draw conclusions.

AnimalHealth is a global animal health company, which held 10 per cent of the market share in 2012 (the figures in this section were changed for confidentiality purposes). AnimalHealth researches, develops, manufactures, and commercializes various animal health medicines and vaccines. Its vision and mission are to focus on animal health to bring quality products and services to customers. The company provides services such as e-learning, professional consulting, and data management.

### **Findings**

#### *The Service Journey*

Our research identifies a common pattern described by most interviewees as a painful and long journey with *"a lot of bumps along the way"*. The results suggest that it takes time to change the processes and people's mindsets internally, in addition to obtaining funding and resources. All respondents agreed that it is a slow journey, but on the positive side, interviewees have observed the growth and progress of services.

Because services are different from products, the sales force need to develop a longer-term focus and be educated to work outside their comfort zone. Hence, the journey is made up of *"learning and education"*. This is a constant journey to try and improve the development and delivery of services: *"Every single person in the business has learnt by trial and error on how to do things"*, said one participant.

### *Findings*

From the analysis of the results, five processes were naturally identified in the service journey:

- Service design process
- Business consultancy delivery process
- Service delivery process
- Internal organization's journeys:
  - Service development strategy journey
  - Sales force delivery journey

Two of these will be described in this paper: the service development strategy and the sales force delivery journey that form part of the journey of the internal organization.

### *Service Development Strategy Journey*

The research shows that leadership is a major element to enabling the shift to services. One participant mentioned: *"Leadership is really important not just at the level of [the President of Region2 Operations] but also at the Business Unit level. It is taking time to get that leadership support all the way through the organisation and feeling it."* This case shows that leaders are genuinely committed to changing the company's strategy and promoting services. Leaders have to show that this is how they see the future of their organization in the long term, and convince people at all levels that services are a means for AnimalHealth to differentiate itself from its competitors and to facilitate the growth of the core business. They reassure all their employees that this is the strategy in which they believe, especially in Region1, where strategies vary according to the markets. Figure 1 illustrates the service development strategy steps.

Communicating and explaining the "why" for this change is critical: *"Why it is important for us as a business to make that shift, why it is important for me as an individual to make that shift, why it is important to change the customer perception of us, it's all about the why"*, explained a business solutions manager. For the company to develop its relationship with its customers, customer perception is a key point in the transition to services (Baines et al., 2010).

Endorsement from senior leadership is essential and leaders have to believe in the value of services themselves to be able to communicate this fully to the lower levels. This leads to a sense of urgency that has to be communicated throughout the organization. After the first steps of decision-making and communication of the reasons and vision for services, a clear strategy needs to be defined in order for services to be developed within the company.

The strategy involves the need for funding and investment throughout the development and delivery of services. The service strategy also includes time allocation. Time is an essential notion involved in this transition. Leaders acknowledge that time is needed to change the company culture or to develop services that match customers' issues. In order to go faster in this journey and to save time, processes – a major part of the company's strategy – must be kept simple, for both customers and the field force, in order to facilitate the sale of services.

Some managers mentioned as a best practice the need to standardize logistics and invoicing processes. Indeed, invoicing services is "*a pain point*" and it is fundamental to be able to charge customers correctly.

This involved building an infrastructure in a country in Region1 to change veterinary practices. As managers mentioned, products are sold via an indirect network: AnimalHealth does not sell products to end-users; it sells products to wholesalers who distribute the products. However, services are sold directly to the end-user; thus, the supply chain is direct to the customer. A Region1 participant explained: "*Our products are supplied, invoiced by a wholesaler, but our services are built directly so we had to build that infrastructure to enable the direct billing of services.*" Nothing can be found in the literature about this challenge.

Moreover, the service strategy includes determining revenue streams from services. While there used to be a separate one in Region1, leaders have now decided to link consultants with the business (the account managers) and services with products, through a common revenue stream. This link should not be underrated because it enables AnimalHealth to sell services that boost the core business and thus to differentiate itself from its competitors. The strategy also involves making a decision about "how to obtain the knowledge that is specific to services". Two different strategies were adopted in Region1 and Region2: Region2 partnered with service companies, while Region1 approached experts.

Partners provide knowledge about how to manage a service business, which includes scheduling, forecasting demand, or managing financials. This step was critical in Region2: "*There is a reliance on partners to deliver services.*" Partners are a way to make sure that the costs required to develop the service business are aligned with the revenue. Region1 approached experts in their field and hired people who have expertise in understanding both the technology and customers, hence knowing how to meet customers' demands and to develop services. These people were defined as "*bilingual*" by an executive.

Leaders must create readiness for services by also providing the resources needed in the transition. Developing the sales of something completely different from a product requires a team working in the service business, not just one or two people. According to a stakeholder: "*You need a safe place to come back to, somewhere you can refill before going back out again.*" The integration of resources from different business units (from business technology to finance), throughout the development of the service business in the company, can enable them to avoid logistical issues. Resource integration was suggested by Vargo and Akaka (2012).

While incentives can be a means for the field force to understand the "why" for services, leaders must come up with a clear strategy and structure for them: how the budget is allocated or if the incentives form part of a normal bonus system. Incentives are a delicate topic because they relate to employees' perceptions of money and motivation; therefore, opinions differed on this topic. This step was summarized by one participant as an "*internal check against [AnimalHealth's] core competencies*". He explained: "*It's not smart to try to solve your customer issues otherwise. You need to make sure it resonates within your core values.*"

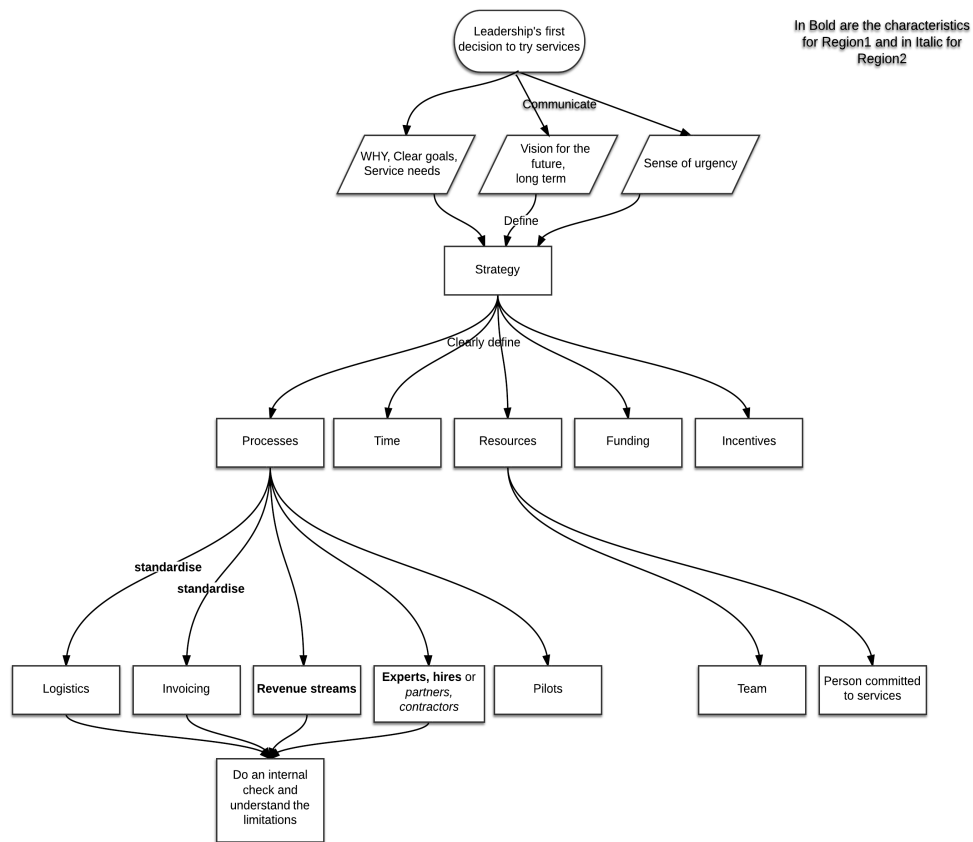


Figure 1: Service development strategy steps

### Sales Force Delivery Journey

Theory has not articulated this journey. The industrial sales force plays a pivotal role in the servitization process. Little can be found in the literature about their major role in the delivery and sales process, with the exception of Ulaga and Loveland (2014). Most managers acknowledged that the change for the industrial field force is significant: nothing can be done without them being on-board. One of the starting points for the service delivery journey is to have champions who support services and who have been successful in selling services. The influence of peers is vital to convincing the sales force that the servitization strategy works. The storytelling step was described by one executive as follows: *“We have had to do it through a process of storytelling and working with the most able members of the sales force to get them to a point where they are able to stand up in front of the sales force and tell them: this is what I did and this is how it helped me grow my territory.”* Internally, this leads to a messaging campaign so that everyone understands the value of services, and sees services as a way to sell more products. Figure 2 illustrates the sales force delivery journey.

The company acquires new skills and capabilities by intensive internal training for the sales force. The aim is to educate the delivery team, for example, on developing conversations with customers so that they learn how to sell services. Learning and development of the field force was also carried out through hiring contractors, called “coaches” in Region2. One manager in Region2 explained that contractors *“help coach the sales team but don’t do the sales for them. By making them contractors, it makes it clear to the sales team that coaches weren’t going to be there forever and they needed to learn on their own”*. In Region1,



managers highlighted the need for fresh thinking and new service-related knowledge in AnimalHealth. The sales force learn to shift their focus from a short-term to a long-term one because services take time to put in place and the benefits will take longer to reap than those derived directly from products.

The journey involves everyone learning, communicating honestly, and sharing feedback on how to improve the process. The service culture can only be built by employees who are willing to change and adapt. This includes taking risks and accepting that things might fail. Servitization is made up of trial and error, so there is always an *"element of risk when we go away from our core business"*, explained one executive. These steps enable the field force to understand the value of services for themselves, for the business, and the customer. Moreover, leveraging positive customer experiences and sharing them throughout the business is a means to bringing the leaders who are still sceptical about services on-board. Seeing the impact of services on customers is crucial to building a service culture within the company.

Obtaining the buy-in of the sales force is a key step in the servitization process. Both leadership and employees' buy-in is necessary. This step is particularly difficult because some sales representatives have been selling products for decades. Changing their motivation to get them excited about selling services is a major challenge. At the beginning of the transition process, there was some scepticism in the field force and leadership about selling services. Some employees did not understand why they should spend time selling services. The sales force wanted to see how selling services would benefit them individually. One manager explained that the sales representatives *"don't want to be viewed as a commodity provider. They want to be viewed as people who provide something that's unique and that works very well, and be perceived in the mind of customers as bringing unique value to them"*. All executives agreed that getting a full buy-in and changing mindsets can take years; it is, however, happening.

Managers also agreed that the transition strategy can only be successful if everybody is involved in the process; thus, there is a need for collaboration and support from everyone. Building momentum and energy around services with the internal team is necessary in order to build a dynamic and entrepreneurial culture and get people excited about selling services. This culture is supported by a strong organizational structure and the processes presented earlier. Executives interviewed both in Region1 and Region2 conceded that the service transitioning strategy involves major alterations to AnimalHealth's structure and culture. The organization's transformation was mentioned in the literature (Baines et al., 2010; Davies et al., 2006). Thanks to the steps of the "service development strategy" journey, the field force becomes more comfortable selling services and having discussions and meetings with customers. The sales force are not used to having long conversations with customers about their needs. One manager illustrated this step: *"If the sales force are going to meet customers and they just want to talk about pharmaceuticals, they would struggle to stay thirty minutes with the practice owner. When the business consultants started talking more widely about how they can help the business, they would still be there three hours later and their relationship is much enhanced; they are seen in a different light."*

As contact is valuable for customers, it is important that the sales force have conversations with them about the challenges and issues that they face. Discussing with customers is critical in service sales. When the field force become more comfortable selling services, they become more confident talking with customers; this is important because the sales representatives are the people that directly face the customers. Since the model has changed from a transactional one to a relationship-based one with the customer (Oliva and Kallenberg, 2003), the sales force must adapt; hence, the relationship with the customer is enhanced. It was described as a partnership relationship. The customer's perception of the company changes at the same time

as AnimalHealth changes the type of sales relationship. It *“moves the conversation from one around the product to a partnering one”*. Some managers mentioned that AnimalHealth becomes the *“company of choice”* for customers.

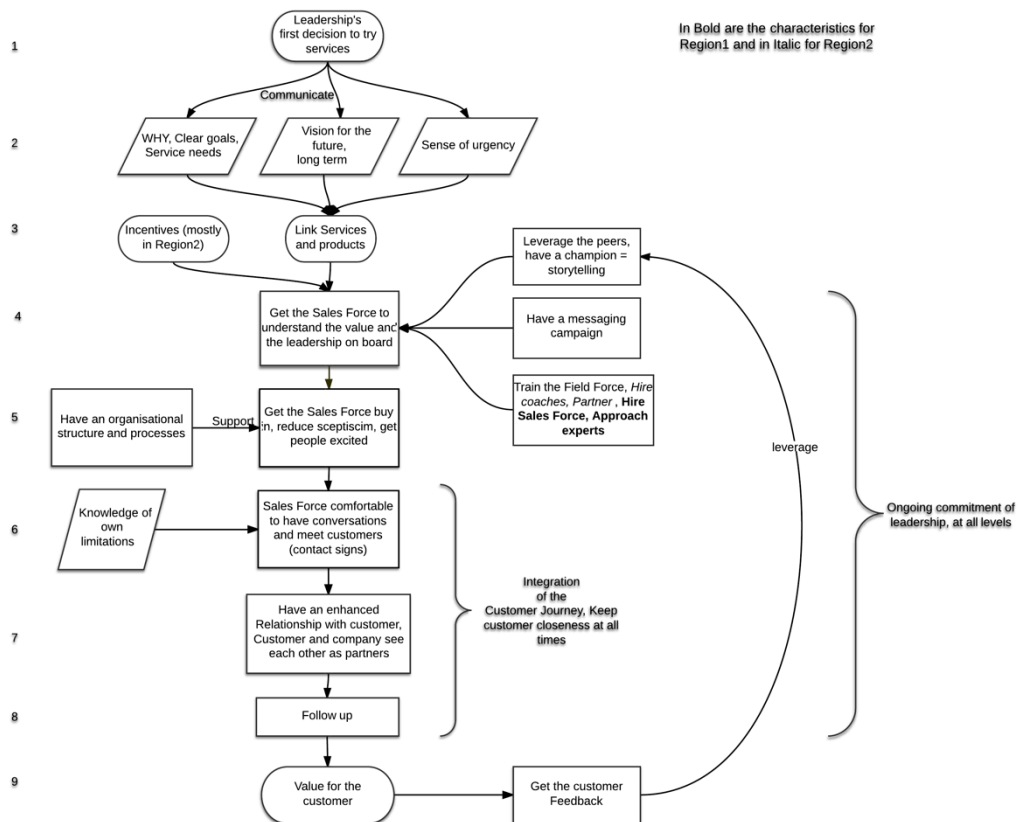


Figure 2: Sales force delivery journey

Customers are interested in having in-depth conversations about how to solve their issues with the sales force. This research underlines the predominance of the customer in the servitization process: the company creates value for the customer by delivering outcomes, but the customer also creates value for the manufacturer by helping them to grow their core business and differentiate. The service strategy is centred on a co-creation mindset, as described by Vargo and Lusch (2008). Furthermore, the customer is involved in the service delivery process from beginning to end: from understanding the customer’s challenges and building requirements, to following up after delivery of the service and leveraging their experience to enhance the comfort of the sales force throughout the process. The relationship between AnimalHealth and the customer does not end when the service is sold and delivered. The “follow-up” step is critical to the service strategy. This step involves the sales force contacting the customer again a few weeks later to see if real change has taken place for the customer and if they are capturing value from the service offering. Then, the manufacturer can obtain customer feedback about their experience of services and leverage it for storytelling within the company. The sales force service delivery journey is shown in Figure 2.



## Discussions

### *Cross-case Comparison: Region1–Region2*

One main service in Region1 is business consultancy, while Region2 has diversified service offerings, covering human capital, analytics models, and scientific methods. AnimalHealth is now also trying to develop services related to data analytics. Moreover, there are several markets in Region1 with different legislation regarding animal health: services that can be implemented in one country perhaps cannot be implemented in another, as mentioned by a manager: *"It's always a matter of local adaptation and also to match local needs."*

A recurrent issue in Region1 is for AnimalHealth to be able to charge for services because, historically, customers have been used to receiving value-added services; Region2, on the other hand, decided early on to charge for services, emphasizing that this was absolutely necessary. These findings, which are based on real business insights from managers in a multinational company in different business units, highlight the paradigm shift that the servitization journey represents for the field force. According to one participant: *"When we started talking [to customers] about services that would potentially be charged, it was as much a paradigm shift for the vet as it was for the sales force."* This notion was also developed in the literature, although it focused more generally on the business model (Barnett et al., 2013).

Partnerships with service companies are an important tool used by Region2 to acquire the missing skills and capabilities required to deliver services, while Region1 approached and talked to experts. Furthermore, incentives to get the sales force to sell services in Region1 are a means for them to achieve their bonuses from pharmaceuticals and are related to *"the performance of their account managers' territory"*; they are not, however, an end in themselves. In Region2, incentives are an impactful tool; one manager explained that *"they help reinforce the behaviour that we want to sell services to customers"*. The infrastructures around services in Region1 and Region2 are very different, since Region1 has built an infrastructure internally, to charge or invoice their customers, for example. Region2, on the other hand, uses a variable cost structure: getting capabilities from their partners and hiring contractors – "coaches" – on a short-term basis to enable the sales force to learn from them. Region1, on the contrary, has hired new sales people.

*Best Practices*

Specific and common practices for Region1 and Region2 are summarized in Table 1 (below).

*Table 1: Best practices summary*

Challenges encountered	Best practices to solve the issues	
	Region1	Region2
<b>Get the buy-in and motivation from the sales force</b>	<ul style="list-style-type: none"> <li>Leadership support: communicate the value of services, the “why” for services</li> <li>Emphasize the need for services in the business</li> <li>Leverage the peers</li> <li>Create a link between products and services / business consultants and account managers</li> <li>Collaboration and support from everyone</li> </ul>	<ul style="list-style-type: none"> <li>Incentives as a tool</li> </ul>
	<ul style="list-style-type: none"> <li>Incentives less powerful</li> </ul>	
	<ul style="list-style-type: none"> <li>Learning and development process</li> </ul>	
<b>New skills and capabilities required</b>	<ul style="list-style-type: none"> <li>Hire new talent</li> <li>Approach experts in the industry</li> </ul>	<ul style="list-style-type: none"> <li>Use contractors as coaches internally</li> <li>Partner with service companies</li> </ul>
<b>Services are different to products</b>	<ul style="list-style-type: none"> <li>Train the sales force (internally and with coaches for Region2)</li> <li>Manage customers’ perceptions</li> <li>Acknowledgement from the leadership and the sales force that services take more time: allocate time</li> <li>Charge for services</li> <li>Allocate and integrate resources for a service team</li> </ul>	
	<ul style="list-style-type: none"> <li>Adapt services to local legislation</li> </ul>	<ul style="list-style-type: none"> <li>N/A</li> </ul>
<b>Sales force to enhance relationship with the customer</b>	<ul style="list-style-type: none"> <li>Stay close to the customer: go and sit with the customers, have in-depth discussions about their issues</li> <li>Implement systematic follow-up</li> <li>Leverage customer feedback</li> <li>Partnership relationship between the veterinarians/farmers and the manufacturer</li> </ul>	
<b>Have clear service processes</b>	<ul style="list-style-type: none"> <li>Develop an infrastructure (including the ERP system) to invoice customers</li> </ul>	<ul style="list-style-type: none"> <li>Use the partners’ capabilities</li> <li>Adopt a variable cost structure</li> </ul>
	<ul style="list-style-type: none"> <li>Use pilots to test services and speed up the delivery of services</li> <li>Standardize some systems and processes</li> </ul>	
<b>Service failure</b>	<ul style="list-style-type: none"> <li>Discuss with practices whether it is possible to see why the consultancy is not working</li> <li>Metrics for failure</li> </ul>	<ul style="list-style-type: none"> <li>Take the risk to try new things</li> </ul>
	<ul style="list-style-type: none"> <li>Set the expectations early with customers</li> <li>Otherwise, scratch a service</li> <li>Always learn from it</li> </ul>	

## Conclusions

The servitization process involves a slow and difficult journey for manufacturers, in both Region1 and Region2. Despite several discrepancies in the design and implementation of services, clear practices were highlighted by managers in terms of making and sustaining the shift to services. A critical issue appeared in the process: getting the buy-in from the sales force to sell services. AnimalHealth thus leveraged customer experience and successful peers to communicate the value of services – for both customers and the company – to the sales force.

The managers of AnimalHealth also see the need to create a strong service leadership. Leaders continuously communicate services as the vision for the company's future and put in place service practices such as building an integrated service team to enable the transition to services. Moreover, the executives of AnimalHealth underlined straightforward steps in service design and delivery, including having numerous service conversations with customers to obtain the customer's agreement for implementation, and always following up the service with customers afterwards. In conclusion, this paper has illustrated two out of five different key processes involved in the shift to services, which are interlinked and not exclusive. This research has expanded the servitization theory by unfolding the two fundamental journeys that internal service providers experience in the transition to services. These are: the service development strategy journey; and the sales force delivery journey.

## Contributions, Implications, and Future Work

Little is known about how to shift and successfully manage service-transitioning strategies. This study fills this research gap and extends some scattered steps found in the literature by combining and integrating best practices in strategic and organizational flows.

The findings contribute to explaining how industrial manufacturers in the animal health industry can design, develop, deliver, and sell services by identifying five service processes (service design, service delivery for business consultancy and other services, service development strategy, and sales force delivery process). Two of these have been presented in this paper, each having between five and nine steps, which cannot be found in the servitization literature. This research also provided a set of service practices about a manufacturer's strategic transition to services and the delivery journey of the sales force.

The research choice created some limitations, offering room for future research. Additional research in other industrial sectors would be necessary and cross-case analysis across these industries should be undertaken to generalize the conclusions reached in this research.

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