

Chapter XI

The Role of E–Services in the Transition from the Product Focus to the Service Focus in the Printing Business: Case Lexmark

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ABSTRACT

Today, many manufacturing companies are focusing on their service operations, which are often seen as a better source of revenue than the traditional product business. E-services can accelerate this process by offering companies new ways to control products and monitor equipment from a distance. This chapter describes the changes which are taking place in the printing business. It tells the story of Lexmark, a printer manufacturer that has recently created differentiated offerings to its business customers. In the case of Lexmark, this repositioning of offerings has been enabled by e-services. Here, the e-services consist of the Lexmark Fleet Manager system which monitors the use and availability of the equipment and makes suggestions on how to improve the printing processes on the customer site. The case ends with a description of the actual challenges that Lexmark is currently facing.

BACKGROUND: THEORY SUGGESTS MOVING TOWARDS SERVICES

Management theory suggests that product manufacturers should move downstream closer to the customer and provide different kinds of services along with their tangible products (Oliva & Kallenberg, 2003; Penttinen & Palmer, 2007; Quinn, 1992; Vargo & Lusch, 2004; Wise & Baumgartner, 1999). Manufacturers' traditional value-chain role—producing and selling goods—has become less and less attractive as the demand for products has stagnated throughout the economy (Wise & Baumgartner, 1999). The demand for different kinds of services, on the other hand, has grown considerably. Increasingly, the customers of manufacturing companies are concentrating on their core competencies and, often, do not regard the maintenance of machines as being part of their core business.

Services within the manufacturing business include, for example, maintenance services, condition monitoring services, training services, consultation services, installation services, and documentation services (Oliva & Kallenberg, 2003). Increasingly, these services are in electronic format. As an example of an electronic service, manufacturing companies have innovated information systems that enable condition monitoring from a distance. These systems allow companies to keep an eye on their equipment on the customer site more effectively.

Service industries have grown in importance compared to the agricultural and manufacturing industries. Steady productivity increases in agriculture and manufacturing have meant that it takes ever fewer hours of work to produce or buy an automobile, a piece of furniture, or a home appliance. While productivity has improved, the demand for goods is somewhat capped; people can only consume limited quantities of automobiles, sofas, and washing machines (Quinn, 1992). At the same time, the installed base of products

has been expanding steadily in many industries, thanks to the accumulation of past purchases and to longer product life spans (Wise & Baumgartner, 1999). The combination of this stagnant product demand and an expanding installed base has pushed economic value downstream, away from manufacturing and toward providing services required to operate and maintain products (Wise & Baumgartner, 1999).

Many manufacturing companies have learned their lesson and have turned to services in search for growth and increased profitability (Penttinen & Palmer, 2007). Examples of successful companies include the elevator company KONE and the bearing producer SKF (Penttinen, 2007; Penttinen & Palmer, 2007; Penttinen & Saarinen, 2005). These companies have been actively inventing electronic services. For example, SKF has innovated intelligent bearings which report the status of the bearings to SKF. This is done by inserting a sensor to the bearing core which measures the vibration and motion status of the rotating components. These e-services allow SKF to provide maintenance contracts more economically than before. Similarly, KONE has added intelligence to their elevators, allowing a more efficient monitoring of their products from a distance.

Others have not been as successful in making the transition from product manufacturer to service provider. According to Oliva and Kallenberg (2003), there are three successive hurdles to overcome the problems related to the transition from products to services. First, firms might not believe in the economic potential of the service component for their product (e.g., engineers are more excited about building a multimillion-dollar piece of equipment than about a service contract for cleaning it). Second, firms might not have the capabilities and competencies to provide services for their products. Third, firms might fail in deploying a successful service strategy (e.g., Ford Motor Co.'s attempt to enter after-sales services was blocked by its network of independent dealerships) (Oliva & Kallenberg, 2003).

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