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Transitioning from product provider to service provider through dealers

A case study to understand a manufacturing firm's challenges in the transition to servitize

Master's thesis in Supply Chain Management and Management and Economics of Innovation

MERYEM DAEBS
JONATAN LANDIN

DEPARTMENT OF TECHNOLOGY MANAGEMENT AND ECONOMICS
Division of Innovation and R&D Management

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Report no. E2021:140
Department of Technology Management and Economics
Chalmers University of Technology
SE-412 96 Göteborg
Sweden
Telephone + 46 (0)31-772 1000

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Department of Technology Management and Economics
Chalmers University of Technology

Abstract

The manufacturing industry has traditionally developed and produced tangible goods and operated through either direct or indirect sales via intermediaries. However, differentiating through low prices, product innovation and technological superiority has become more difficult and traditional services such as maintenance and repair are no longer enough to meet end customers' demands. Consequently, manufacturing firms are required to develop strategies that include services that assist the end customer after the sale. As a result, servitization has emerged as a trend in the industry in recent years. Albeit the challenges of servitization having been addressed in previous research, there is limited research on servitization through dealers. Furthermore, previous research is also limited in the challenges encountered by a manufacturing company when transitioning from product provider to service provider through a network of dealers. Thus, the purpose of this master thesis is to investigate what challenges there are for a manufacturing firm transitioning from a product provider to a service provider through a network of dealers. The investigation aims to provide a manufacturing firm with recommendations on how the identified challenges can be managed. This master thesis is a qualitative case study research of a single case company in question. Interviews with the company and their network of dealers were used to acquire primary data. A literature review of servitization and organizational change was conducted to provide a secondary data source.

The findings of this master thesis suggests that many of the challenges that are encountered when a manufacturing company introduces an integrated service solution to their dealers concurs with the previous findings in literature regarding challenges in the adoption of servitization. These challenges are connected to the lack of adequate supporting systems for the dealers, uncertainties regarding the transition and what benefits and investments there are for the dealers as well as a lack of service thinking mindset throughout the network. Furthermore, based on the findings of the master thesis the recommendations to practitioners are the importance of open communication, implementing the right mindset throughout the network and not only within the organization, and having adequate supporting systems in place when transitioning from a product provider to a service provider through a network of dealers.

Keywords: servitization, servitization in manufacturing firms, servitization challenges, servitization and dealers, integrated service offering

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Chalmers University of Technology
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1. Introduction

This chapter provides a general overview of the context and scope of this master thesis. The chapter will provide a description of the background followed by the purpose of research and the research questions as well as delimitations and a disposition of the master thesis.

1.1 Background

The manufacturing industry has traditionally developed and produced tangible goods and operated through either direct or indirect sales via intermediaries. Services are offered to varying degrees by most manufacturing companies, where some try to promote differentiated services while others limit their offerings to traditional services such as after-sales (Mathieu, 2001). However, customers are demanding more solution-based offerings which has led to the shift in the industry whereby services are taking the bigger part of the added value in end customer offerings (Vandermerwe & Rada, 1988). Traditional barriers between services and manufacturing are thus becoming more blurred (Mont, 2002). Business managers need to therefore consider services as part of their corporate planning and strategic mission rather than a separate category (Vandermerwe & Rada, 1988).

Servitization is now a rampant trend in the industry (Hakanen et al., 2017). Servitization as a term was coined in literature in the late 80's by Vandermerwe and Rada (1988). According to the authors the economies of the world are dominated by services as companies are undergoing a shift in their revenue generation and core businesses by adding service to their core offering. Differentiating through low prices, product innovation and technological superiority is becoming more difficult (Baines et al., 2009) and traditional services such as maintenance and repair are no longer enough to meet end customers' demands, therefore strategies including services that assist the end customer after the sale must be developed (Mathieu, 2001).

According to Gebauer et al. (2008) and Mathieu (2001) there are three motives for extending the service business; marketing opportunities, strategic opportunities and financial opportunities. However, the predominant motive for servitization is to gain competitive advantage (Vandermerwe & Rada, 1988). In early literature the common assumption was that servitization merely offered benefits (Lay, 2014). Nonetheless, there are challenges to servitization, and it is important to recognize them in order to fully

succeed in the transition from being a product provider to a service provider. Moreover, manufacturing companies are faced with substantial cultural and corporate challenges in the adoption of servitization (Baines et al., 2009; Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988; Wise & Baumgartner, 1999).

Albeit the challenges of servitization having been addressed in previous research, there is limited research on servitization through dealers. Furthermore, previous research is also limited in the challenges encountered by a manufacturing company when transitioning from product provider to service provider through a network of dealers. Thus, it is an interesting area to further investigate.

1.2 Purpose

The purpose of this master thesis is to investigate what challenges there are for a manufacturing firm transitioning from a product provider to a service provider through a network of dealers. The investigation aims to provide a manufacturing company with recommendations on how the identified challenges could be managed.

1.2.1 Research questions

Two research questions have been formulated to reach the purpose of the master thesis:

- What challenges are encountered when a manufacturing company introduces an integrated service solution to their dealers?
- How can these challenges be reduced by the manufacturing company when transitioning from a product provider to a service provider?

1.3 Delimitations

In order to develop a deeper understanding during the time frame for the master thesis, there are some limitations to the undertaken research. Firstly, this master thesis is limited to one case company, a company which requested to be anonymous. Secondly, the master thesis focuses on the company's Swedish market and is therefore limited to the dealers of this market. These limitations may impact the generalizability of the research.

1.4 Disposition

This disposition offers a brief synopsis of the various chapters in order to provide a quick overview of the master thesis' content. The master thesis is organized according to the following structure; firstly, a theoretical framework will be presented to give an overview of the findings in previous research related to servitization and organizational change. Secondly the methodology applied in this master thesis to answer the research questions is described in detail. Thirdly, the information accumulated from the company as well as the results from the conducted interviews will be presented. Fourthly, analysis and discussions of the obtained results will be presented as well as recommendations for practitioners. Finally, the master thesis will present a conclusion that provides answers to the research questions thus fulfilling the purpose of the master thesis.

2. Theoretical framework

In this chapter a theoretical framework will be presented and aims to create a foundation for the master thesis. The following sections will provide a description of products and services, followed by a literature review of servitization and organizational change.

2.1 Products and services

There has previously been a clear distinction between product offerings and service offerings. The simplest distinction between the two has traditionally been described as either tangible or intangible. A product is tangible, and the value is derived from the user of the product, this implies that a product is felt, seen, or smelled. Furthermore, since it is tangible, a product can be returned if the value has not met the users' standards. This deduces that ownership of a product is transferred to the user at the moment of transaction. A service however is intangible, it can be felt but not seen. By the same token, services are not possessed, they are consumed (Martin & Horne, 1992). Hill (1999) states that in terms of services, a producer cannot exist without a consumer. Thus, a service must be provided and therefore value is created by the provider. Furthermore, a service is perishable and can therefore not be stored unlike products. Consequently, in contrast to a tangible product, a service cannot be returned as consumption takes place at the moment of transaction. Due to this, ownership cannot be established over a service since it is not an entity (Hill, 1999). To further clarify, Martin and Horne (1992) classify four characteristics that distinguish services from products; they are more easily copied, they require simultaneous consumption and production, they are more intangible than products and they are more people oriented.

The relationship between products and services are more complex today and the traditional distinction becomes less clear. This is further argued by Mont (2002) who stated that the traditional barriers between services and manufacturing are becoming more blurred. Initially, this is due to the increasing substitution between products and services and that several services are as of now built into products, therefore they cannot be ignored since some services are today essential to products or services (Vandermerwe & Rada, 1988). According to Vandermerwe and Rada (1988) there is a complementarity between the two and further argues that all products create services and products are bought to produce services. This is also supported by Vargo and Lusch's (2006) statement that services are not alternative forms of products, rather products are mechanisms that serve as alternatives aimed at service provision. This further illustrates that consumers need the functionality of products and the solutions that such products offer in applying them rather than the products themselves (Lay, 2014). Therefore, business managers need to consider services as part of their corporate planning and strategic mission rather

than a separate category (Vandermerwe & Rada, 1988). Following this it is implied that manufacturers are required to transition from offering products to meeting their end customers' demands by providing functionalities through their products and customer solutions (Lay, 2014). Extensive research in the subjects of management and marketing has identified the need for manufacturing firms service-offering strategy (Mathieu, 2001).

The manufacturing industry has traditionally developed and produced tangible goods and operated through either direct or indirect sales via intermediaries. Services such as maintenance, repair or training have not been a significant role in manufacturing companies' strategy (Lay, 2014). As intermediaries base their business primarily on end customer relationship management, marketing and sales and logistic services, they have had a stronger focus in offering services in their operations (Hakanen et al., 2017). Mathieu (2001) claimed that services are offered to varying degrees by most manufacturing companies, where some try to promote differentiated services while others limit their offerings to traditional services such as after-sales. However, a growing competitive global economy with easily commoditized products has led to a shift in the core product offering and the popular strategy of innovating by adding services (Kastalli & Van Looy, 2013). Services are taking the bigger part of the added value in end customer offerings (Vandermerwe & Rada, 1988). Customers are demanding more solution-based offerings which has led to the shift in the industry. The shift for manufacturers has changed from emphasis being mainly on information flow in the downstream value chain to realizing the value of providing services as a competitive advantage.

Moreover, in an increasingly competitive market, traditional manufacturers are moving more towards service and end customer solution fields to grow their revenues and margins i.e., leading to a shift from a goods-dominant to a service-dominant logic in business (Ulaga & Reinartz, 2011). Customers are demanding more, and there will always be a struggle to be better than competitors in order to satisfy end customer demands. By moving down the value chain through services, companies are offering end users more attention by intently pursuing opportunities to understand their problems and offer services to create derived demand and goodwill (Vandermerwe & Rada, 1988). In line with this, Martin and Horne (1992) found that the opportunity for competitive differentiation and increasing pressure on product margins are the main reasons for company's pursue to become more service oriented and this is executed by placing more emphasis on the service element in the offering and less on the product.

2.2 Servitization

Servitization is a term that was coined in literature in the late 80's by Vandermerwe and Rada (1988). According to the authors the economies of the world are dominated by services as companies are undergoing a shift in their revenue generation and core businesses by adding service to their core offering. Due to this the authors further state that making simplistic distinctions between products and services and assuming industries can do one without the other is no longer valid. While customer services, such as repair, training and maintenance, have traditionally been offered by manufacturing companies, such activities have previously had a minor strategic role and have been considered to be a necessity to be offered as opposed to being considered to be a strategic asset (Lay, 2014). Currently, the same companies that have been in services in a marginal way, are realizing that increasing amounts of profits and revenue are accounted for by the service end of the business (Vandermerwe & Rada, 1988). The trend is moving towards creating more specialized services around the manufactured products and setting up particular companies and divisions for these service activities (Vandermerwe & Rada, 1988).

Servitization is now a rampant trend in the industry (Hakanen et al., 2017). Servitization is appearing in almost all industries by both manufacturers and service companies on a global scale and is adopted by the best companies as a total market strategy (Vandermerwe & Rada, 1988). Vandermerwe and Rada (1988) argues that there is an emphasis by the market on establishing and maintaining relationships with end customers by broadening a company's offerings and the previous focus on satisfying these needs predominantly through core business activities has changed. Therefore, the authors argue that end customers are the essential drivers for servitization, as they are in most market-driven approaches to a company's strategy, thus this becomes a top management matter since the fundamental purpose is to create wealth by creating value.

2.2.1 Typologies of product-service systems

It is necessary to look at definitions and classifications when considering services in manufacturing industries. Vargo and Lusch (2006) proposes two different logics; the service-dominant (SD) logic and the goods-dominant (GD) logic. In GD logic products are the focus and the purpose is to produce things that can be sold to maximize profit. In this logic, services are considered as tools to increase the product's value. In SD logic, the product is a facilitator to the main focus which is the services provided. This logic is customer-centric, meaning co-creating value and collaborating with end customers (Vargo & Lusch, 2004). The shift is now going from focus on tangibles towards focusing on intangibles and the orientation has shifted from consumer oriented to customer centered (Vargo & Lusch, 2004).

Oliva and Kallenberg (2003) described the servitization process as a continuum in order to position at what stage of the process a company is. On one side of the continuum is pure-product providers and moving along that axis companies integrate more product-related services, reaching the other side of pure-service providers (Oliva & Kallenberg, 2003). According to several authors (Lay, 2014; Mathieu, 2001; Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988), most manufacturing firms are already providing product-related services to support and sell their products. However, service offerings have been increasing in stages within the firms and positioning them along the proposed product-service continuum helps to determine where in the process the company is (Pereira et al., 2011). Mathieu (2001) suggests seeing a company's service transition as a movement along the product-service continuum associated with growing success regarding profits and sales whilst the complexity and number of services offered is increasing. Moving along this continuum, products are no longer viewed as the center of the value proposition. Therefore, according to Oliva and Kallenberg (2003), the standard servitization path is characterized by offering product-related services before offering customer-related services. Thus concluding that successful servitization is related to finding a company's right position on the continuum (Fundin et al., 2012). Figure 2.1 illustrates the product service continuum based on the one proposed by Oliva and Kallenberg (2003).

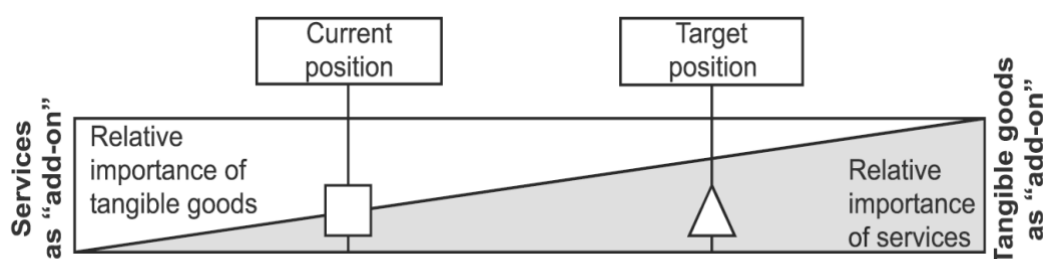


Figure 2.1: The product service continuum, based on Oliva and Kallenberg (2003)

A product-service system (PSS) is defined according to Tukker (2004) as intangible services and tangible products that are combined and designed in order to jointly be capable of fulfilling specific end customer needs. The author distinguishes three main categories and eight subcategories of PSS models and further claims that such models permit companies to construct new sources of added value and competitiveness. The three main categories are product-oriented services, use-oriented services, and result-oriented services. Business models with the first main category product-oriented services, are mainly organized towards the sale of products with some add-on services (Tukker, 2004). Two subcategories are identified by the author in this model, product-related services and advice and consultancy, where the former includes services needed

during use of the product and the latter includes advice on efficient use of product. The second main category is use-oriented services where the business model is no longer organized towards the sale of products and ownership stays with the provider and is made available to end customers in different forms, such as product lease, product renting or sharing and product pooling (Tukker, 2004). The third main category is result-oriented services and the principal is based on an agreement between the provider and end customer with no predetermined product involved (Tukker, 2004). The author suggested three subcategories relating to result-oriented services; activity management/outsourcing, pay per service unit and functional result.

The classification constructed by Tukker (2004) is supported by Mathieu (2001) that categorized manufacturers service methods into; customer service that is targeted to facilitate company sales, product services to facilitate product sales and lastly service as a product that are independent of product offerings and can be obtained separately. Thus, Mathieu (2001) distinguishes between services that support the product and services that support the end customers utilization of the product. The PSS model is frequently related with a transformation in the construction of product ownership (Pereira et al., 2011). Figure 2.2 illustrates the PSS classification according to Tukker (2004).

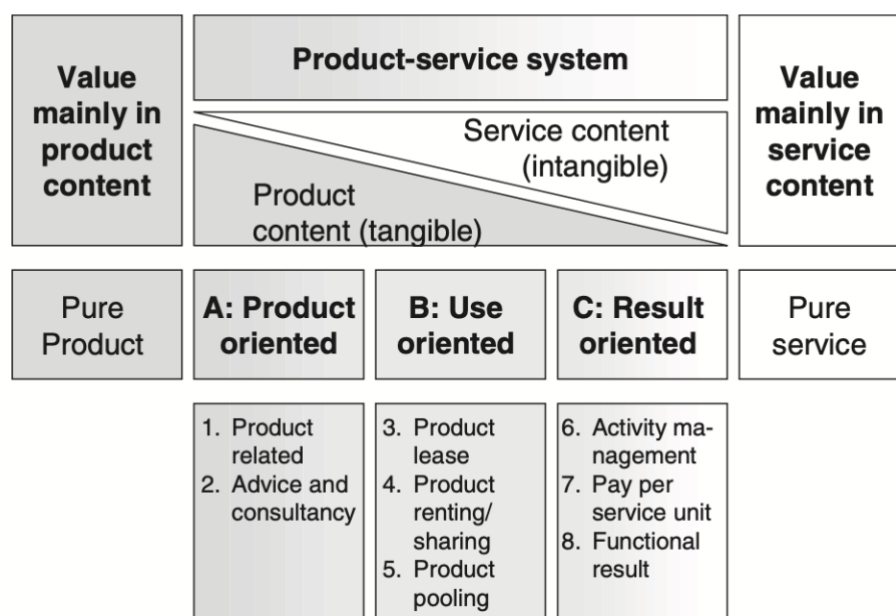


Figure 2.2: Classification of PSS (Tukker, 2004)

The transition from product provision to service provision has been examined by several authors and due to similarities between the different concepts it is possible to draw parallels between them. The GD and SD logic as well as the PSS can be translated to fit into the continuum proposed by Oliva and Kallenberg (2003). Pereira et al. (2011)

proposes a framework that summarizes the different concepts and argues that they can be used as a basis to analyze a company's activities and its maturity level in the transition process from product provider to solution provider. Figure 2.3 illustrates parallels between the different concepts proposed by Pereira et al. (2011).

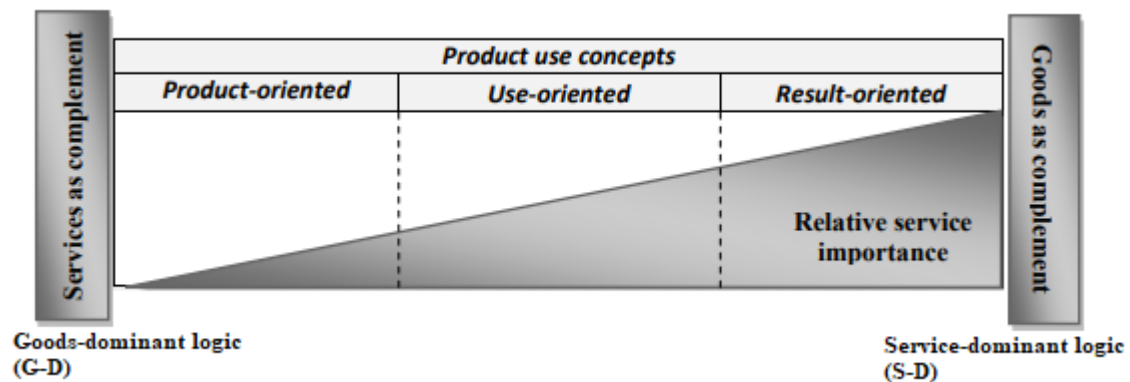
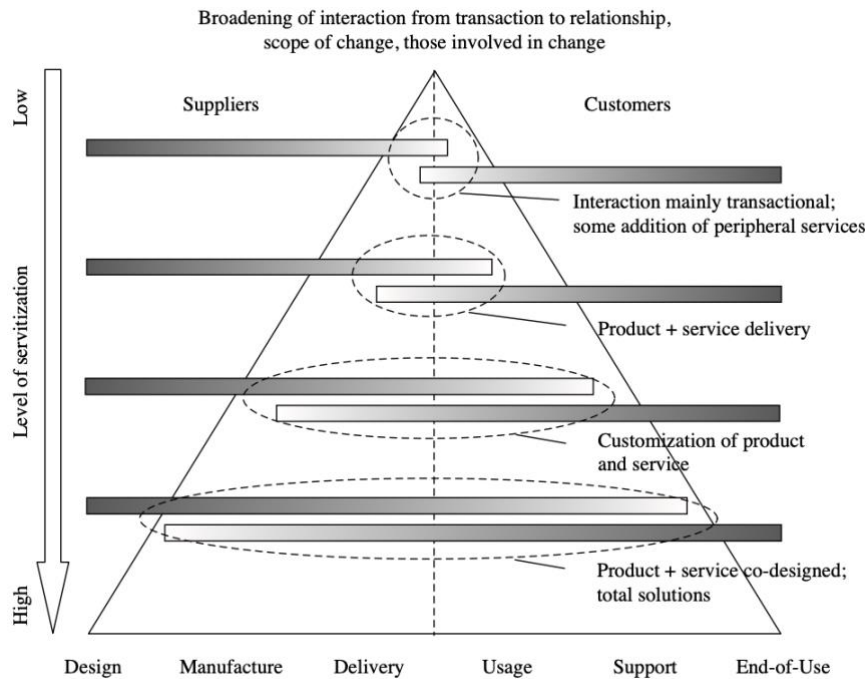


Figure 2.3: Parallels between different servitization concepts (Based on Pereira et al. (2011))

Martinez et al. (2010) developed another classification similar to PSS and in a similar framework to servitization continuum. Martinez et al. (2010), defined servitization as a transformation process whereby companies facilitate their product-service offerings, and thus they proposed a servitization continuum as a view on the customer-supplier interface. Four basic criteria were identified to determine a company's level of servitization, where low levels are reached with fairly small changes and high levels of servitization require more interactions with the end customers (Martinez et al., 2010). Figure 2.4 illustrates the servitization continuum proposed by Martinez et al. (2010).



*Figure 2.4: Servitization continuum: a view of the customer-supplier interface
(Martinez et al., 2010)*

2.2.2 Drivers of servitization

Another classification in literature identifies servitization drivers. It is necessary to look at the drivers behind servitization in order to better understand the underlying intended value of manufacturing companies transition from merely being product providers. Many authors have attempted to describe manufacturing companies' different reasons to servitize (Lay, 2014). The literature suggests a number of motivations, some of which have already been brought up in this theoretical framework. However, this section aims to go into detail behind those motivations and highlight the main findings in literature.

Companies can find that their business naturally progresses into service while others see it as a way to create business opportunities (Vandermerwe & Rada, 1988). However, according to Vandermerwe and Rada (1988) the predominant motive is to gain competitive advantage. According to Gebauer et al. (2008) and Mathieu (2001) there are three motives for extending the service business; marketing opportunities, strategic opportunities and financial opportunities. Marketing opportunities support companies in developing services to prolong their product offering, creating long-term relationships with end customers and promoting sales, thus selling more products (Gebauer et al., 2008). Strategic opportunities are related to achieving a better competitive strategy through product differentiation (Gebauer et al., 2008). As services are a more even source of revenue, financial opportunities can be attained through the potential services

revenues and higher service margins (Gebauer et al., 2008). Lay (2014) supports the three motives proposed by both Gebauer et al. (2008) and Mathieu (2001) and states that the three motivations for servitization strategies in manufacturing firms are growth, profit and innovation. The author further proposes a hierarchy of the servitization rationales illustrated in figure 2.5.

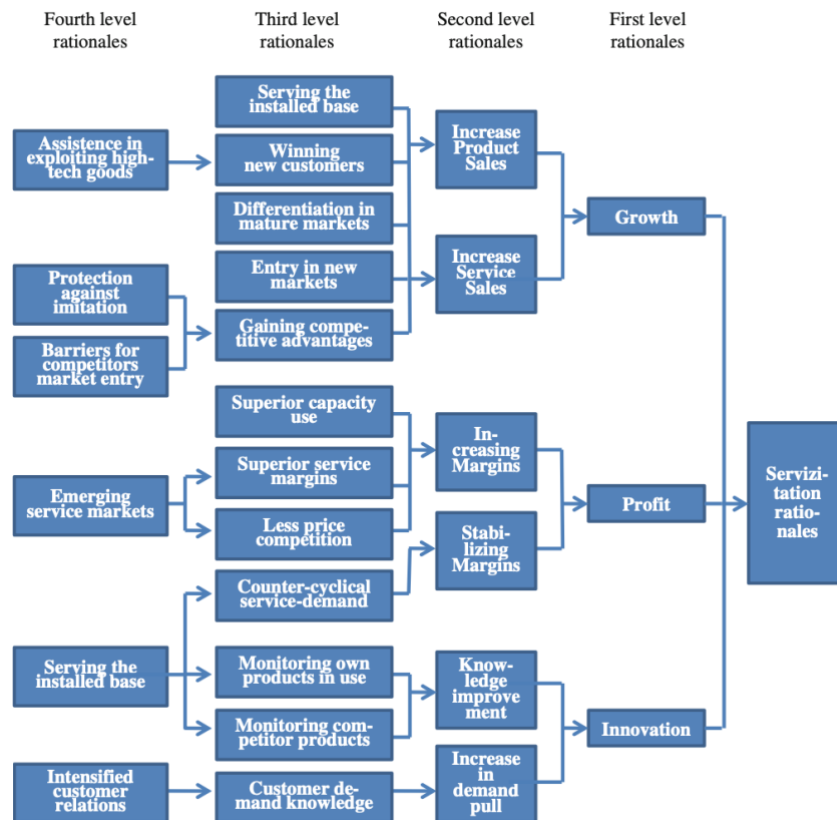


Figure 2.5: Hierarchy of servitization rationales (Lay, 2014)

Differentiating through low prices, product innovation and technological superiority is becoming more difficult (Baines et al., 2009) and traditional services such as maintenance and repair are no longer enough to meet end customers' demands, therefore strategies including services that assist the end customer after the sale must be developed (Mathieu, 2001). Stimulating product sales and offering more services is promoted by increasing competitive advantage through services that set barriers for competitors and by differentiation in mature markets (Lay, 2014). Tukker (2004) states that a PSS business model allows companies to be competitive and adds value. This is achieved by building stronger relationships with end customers, thus increasing loyalty and also by promoting faster innovations since companies learn their end customers' needs better. Product related service is an essential source of information for manufacturers product development (Lay, 2014).

According to Mathieu (2001) services increases the product offering, increases sales and thus increases market share. Wise and Baumgartner (1999) estimated that service revenues can generate twice as much as a new product sale. Gaining competitive advantages through services is more sustainable since services are more labor dependent and less visible thus difficult to imitate by competitors (Baines et al., 2009). Services have an influence on the purchasing decision especially in business to business (B2B) markets where end customers are demanding more services (Baines et al., 2009). Furthermore, according to Mathieu (2001), end customers demand more value that is connected to both the products and services offered and they also want more customized relationships. The level of service is, according to the author, an effective way to sustain relationships.

Thus, by integrating services and products it is much more difficult for end customers to compare different offerings in the market (Gebauer et al., 2008) thereby protecting companies against imitation and sets barriers for competitors (Lay, 2014). These product-service offerings are less sensitive to price-based competition and therefore result in higher profitability in comparison to product offerings alone (Baines et al., 2009).

2.2.3 Challenges of servitization

In early literature the common assumption was that servitization merely offered benefits (Lay, 2014). However, there are challenges to servitization, and it is important to recognize them in order to fully succeed in the transition from being a product provider to a service provider. Manufacturing companies are faced with substantial cultural and corporate challenges in the adoption of servitization (Baines et al., 2009; Oliva & Kallenberg, 2003; Vandermerwe & Rada, 1988; Wise & Baumgartner, 1999). Failure in meeting these challenges have resulted in the so-called “service paradox” (Lay, 2014). According to Gebauer et al. (2008) this situation occurs when investments are made by the company to extend the service business, but due to increased costs paradoxically do not capture the value of the investments i.e., higher returns. Furthermore, there is a challenge in acquiring the positive effects of servitization. According to Fang et al. (2008) there are two constraints to achieving the positive effects on companies value, the first relates to services needing to reach a critical mass and the second relates to potential synergies of services with the core business.

The most important findings in literature point to new organizational structures, a specific company culture and adequate processes as requirements for manufacturer servitization (Lay, 2014). Vandermerwe & Rada (1988) argues that the traditional managerial methods are not appropriate for servitization anymore, instead it requires a different strategic drive and another level of organizational complexity. By selling more

services, manufacturers are forced to restructure their organizations and form service-centered models (Vandermerwe & Rada, 1988). The difficulty here, according to the authors, lies in the resistance within the company as well as reeducating the end customers.

According to Mathieu (2001) service culture differs from the traditional manufacturing culture. Furthermore, when taking on services company's need to shift their mindset (Baines et al., 2009; Oliva & Kallenberg, 2003) and this will require changes in traditional company practices and attitudes (Vandermerwe & Rada, 1988). Companies tend to return to focus on the product itself rather than the integrated offering (Martinez et al., 2010; Vandermerwe & Rada, 1988), specifically if services are considered to be secondary to the product, which poses challenges and threats to companies servitization process (Lay, 2014).

Thus, in order to meet end customers' demands, manufacturing companies need to embrace the product-service culture and the thinking of end customers as well as acquiring a passion for service (Martinez et al., 2010). Furthermore, Martinez et al. (2010) implies that when delivering an integrated offering, there are more end customer interactions with more staff involved, and issues regarding definition and lack of understanding about offering synergies may occur. The cultural challenges originate from the companies move from transaction-based to relationship-based value creation (Martinez et al., 2010). Baines et al. (2009) further argues that there are challenges in seizing activities previously performed by end customers. The transition therefore requires companies to align their mindset with their end customers perspective in order to offer services that meet end customers demand (Vandermerwe & Rada, 1988). This mindset is also required by the companies' suppliers on account of the higher degree of partnership required by them to supply integrated offerings (Martinez et al., 2010; Oliva & Kallenberg, 2003). When enforcing these changes, resistance is likely met by the company from within the organization due to lack of comprehension of the service strategy as well as fear of change (Baines et al., 2009). Martinez et al. (2010) argues that such resistance can cultivate itself in suppliers through a "not invented here" type of mindset, albeit a willingness to adapt to the changes and support an integrated offering.

Mathieu (2001) argues however that traditional manufacturing practices are often conflicting with that of service management principles. Therefore, servitization requires companies to have the capabilities and facilities that enable them to be competitive in the service offering market (Martinez et al., 2010; Vandermerwe & Rada, 1988). In order to supply an integrated offering, companies need to align their processes across their organization (Martinez et al., 2010), as well as adapting the necessary organizational structure and processes (Baines et al., 2009; Gebauer et al., 2008; Oliva & Kallenberg,

2003). The challenge here lies in defining the necessary strategy for the company that supports customer allegiance (Wise & Baumgartner, 1999). Furthermore, Martinez et al. (2010) argues that lack of reliable infrastructures within the organization will result in failure to meet end customers' demands. The authors also argue that stronger cooperation between the company and its supporting network is required considering that an integrated offering calls for more insight into their customers' problems and applications. Thus, intensive exchange of information and know-how is also required (Martinez et al., 2010).

Another noteworthy challenge is connected to product lease i.e., one of the subcategories of use-oriented services presented by Tukker (2004). With product lease responsibility of maintenance, control and repair lies with the provider and this can result in efficiency improvements (Tukker, 2004). Furthermore, Tukker (2004) argues that the company has incentives to design the product in order to prolong the product life. However, the end customers often lease the products from a third party rather than from the provider, thus the incentives to prolong the product life lies with the third party and is not passed on to the designer team. Moreover, with ownership staying with the company, this poses a risk that the user may be careless with the product, thereby decreasing its life span and increasing environmental impacts (Tukker, 2004).

2.3 Organizational change

In this chapter, literature in change and change management will build on the challenges identified in the servitization literature. This aims to present a better understanding of the characteristics of change and potential barriers that can arise when enforcing this change in an organization.

Galli (2018) argues that it is inevitable and necessary with change in order to grow, both on a personal and a professional plane. For an organization to survive and to avoid getting locked in an existing organizational structure, there is a need to be able to change and renew (Fredberg & Pregmark, 2018). However, even if change is inevitable, it is hard for both people and organizations to change, as they are creatures of habit (Galli, 2018). To further illustrate the difficulties of succeeding with a change initiative Balogun and Hope Hailey (2004) argue that approximately 70 percent of all change initiatives fail. By (2005) further argues that there are two issues regarding change where consensus prevails; the pace of change has never been higher, and all industries and businesses are affected.

There are different approaches to change and there are different ways of describing change. A change can be described by the rate of occurrence, by its magnitude, and by

how it comes about. The next section will briefly go through the different ways of describing change.

2.3.1 Rate of occurrence

By (2005) suggests that there are five types of change that are characterized by the rate of occurrence; discontinuous change, incremental change, bumpy incremental change, continuous change, and bumpy continuous change. Discontinuous change is described as one big change that is followed by a period of non-change, whereas both incremental and continuous change is described as an ongoing process where organizations can continuously change to respond to changing conditions (By, 2005). According to By (2005), bumpy incremental change and bumpy continuous change are characterized by periods of more intense change followed by periods of calmness and less change. The difference between incremental and continuous change is described as incremental being more connected to organizational strategies whereas continuous rather are departmental and operational.

2.3.2 Magnitude and scale

According to Palmer et al. (2006) there is first and second order of change, whereas first order change is a smaller change that might affect or introduce a process or method in the organization. A second order change is however when the entire organization changes due to for instance a change in strategy. Furthermore, the authors refer to tectonic change that is a more substantial change than a first order change, but not as extensive as a second order change. By (2005) mentions four other ways of categorizing the magnitude of change; fine-tuning, incremental adjustment, modular transformation, and corporate transformation. Fine-tuning and incremental adjustments are considered non-radical, where former is often on a departmental or divisional level and the latter on an organizational level (By, 2005). Modular transformation and corporate transformation are however considered radical, where the former is radical on a departmental or divisional level and the latter on an organizational level.

2.3.3 Approaches to how change comes about

Change can also be characterized by how it comes about, and By (2005) lists four changes that are characterized by this; planned, emergent, contingency, and choice. Of these four, planned and emergent change are considered the most well-established. Planned change has been around since the mid-1940's and was established by Kurt Lewin, who proposed that successful change consists of three phases: unfreezing, moving, and refreezing (By, 2005). In order to change, there is a need to unfreeze the current state to be able to discard the old ways and implement the new ways to move to the new, desirable state. When the organization has moved to the new state, they refreeze again (By, 2005). This

way of planned change has since been developed further by researchers e.g., a four-phase model that was developed by Bullock and Batten (1985). However, the planned approach has also received criticism over the years. It has been considered focused on incremental change and thereby not being applicable to all types of change. Furthermore, it has also been criticized for assuming that organizations operate in a non-changing environment. Lastly, it has been criticized for assuming that all stakeholders in a change initiative are open to and willing to implement the change in question (By, 2005). As an alternative, the emergent approach emerged, in which change is considered a bottom-up process rather than a top-down process, as is the case in the planned approach. The emerged approach to change also considers multiple internal and external factors to be influencing the occurrence of change in an organization, and that the factors can change rapidly (By, 2005). Beyond this By (2005) also mentions the contingency approach to change, which suggests that there is no one right way for all organizations but rather one right way for each one. Lastly, the choice approach suggests that organizations can choose to influence external factors rather than being forced to adjust to fit the external factors.

2.3.4 Barriers and ways to overcome them

There are multiple barriers that can arise when trying to succeed with a change initiative, however there are ways of overcoming most of these barriers. This subsection will describe these barriers and how an organization can overcome them.

According to Gill (2002), organizations often initiate change programs and fail to support these changes by updating policies and systems connected to the area of change. This can lead to incompatibility further down the way and thus resulting in both time and resources invested lost. Gill (2002) argues that if there is a lack of strong leadership and planning, there is a high risk of failing with a change initiative. Furthermore, another barrier to change is connected to the political systems that organizations can be viewed as, where a change can either increase or decrease the organizations power, influence on decisions, and sense of control (Nadler & Tushman, 1990).

Strebel (1996) mentions that when a change is initiated, this will alter the personal compact of the employee. The personal compact is described as both the stated and implied commitments and obligations between a company and the employee, that are defining their relationship. If the personal compact is not revised when initiating change, there is a risk that employees do not feel onboard with the change and in the worst case starts undermining the management (Strebel, 1996). The model itself can be perfect for the organization or company, but without the willingness or desire to change from employees and team members, the process to implement change will almost always fail.

Kotter and Schlesinger (2008) mention that one of the reasons for resistance to change is misunderstanding and lack of trust. This is also stated by Gill (2002) that argues that lack of trust and respect is a force of resistance among people. If people do not understand the reasons for the change and believe that it might cost them more than it benefits them, they will not be as open to change. This could be a consequence of lack of trust for the change initiator that might be founded in having experience of previous failures from change (Gill, 2002; Kotter & Schlesinger, 2008). Moreover, Kotter and Schlesinger (2008) suggest that different assessments of the situation is another force of resistance, where people do not see the situation in the same way as the change initiator and thereby do not agree with the benefits of the change or even believe that the change could end in more costs than benefits for both them and the organization. Both Garvin and Roberto (2005) and Nadler and Tushman (1990) mention that people are creatures of habit and are comfortable in their old systems. Thus, they rather not change if there is no direct threat or no perceived feeling of need to change, especially if they consider it to be connected to risks and uncertainty (Nadler & Tushman, 1990). If people do not understand the reasons for a change initiative or assess the situation differently than the change initiator there is a risk that the people subject to the change rather stays with their old ways than change.

To overcome these barriers, both Hiatt and Creasey (2012) and Strebel (1996) suggest that continuous communication plays an important role, as it is a way to establish a need to change and make sure that employees understand that the change is necessary for the organization. By communicating the risks of not changing, thereby giving the impression of the change being urgent and of importance for the organization, the change initiator can increase the odds of people agreeing to the need for change (Rogers et al., 2003). Furthermore, it is also stated that it is necessary for the change initiator to communicate the benefits for the people affected by the change as well as the benefits for the organization (Hiatt & Creasey, 2012). This is further supported by Harshak et al. (2010), who also state that it is crucial to be able to communicate and inform about the benefits of a change initiative. However, Tomlinson et al. (2004) mentions that overstating benefits might lead to people feeling disillusioned and experiencing a lack of trust towards the change initiators if these benefits are not reached.

Galli (2018) concludes that it is not change models that are the change, it is the people and in order to make people not resist change and to press the need for change, clear and effective communication is of importance. It is also of importance to make people feel included in the change. These conclusions are supported by Levasseur (2010), that argued that involvement and communication are means in achieving lower barriers and also by Gill (2002) that suggests that people are more open minded to something if they themselves have been part of creating it.

There is also a fear among people that they will lose things when changes are carried out, such as influence, routines, positions, power, networks (Lorenzi & Riley, 2000). This is also suggested by Kotter and Schlesinger (2008), as they mention parochial self-interest, which is described as a fear of losing something, as a force of resistance. A way of overcoming the resistance of parochial self-interest, suggested by Lorenzi and Riley (2000), is that the people affected can use ritual transitions as a way of grieving and overcoming the losses.

The last reason for resistance to change mentioned by Kotter and Schlesinger (2008) is low tolerance for change. This focuses on people's fear of not being able to acquire the new skills and behaviors that are requested after the change has been implemented. Gill (2002) also suggests that the lack of confidence and the fear of lack of know-how are forces of resistance, which could be considered to be connected to a fear of lack of support when the change is initiated. Furthermore, Lorenzi and Riley (2000) lists inadequate or poor-quality training and poor timing of training, either too early or too late, as reasons for failure, which could be seen as a rationale for the fears mentioned above. As a way of overcoming this, Kotter (1995) notes that an important step in change initiatives is to enable people to succeed by making sure that they obtain the confidence, knowledge and skills needed as well as making sure that they have the resources needed. As Abrahamson (2000) mentions, change can contribute to an increased workload as well as interfere with processes, this also stresses the need for resources to be available for the change recipients for them to be able to manage this.

Lastly, Thomas and Hardy (2011) states that resistance to change can be both demonized and celebrated. Demonizing the resistance can be a way for management to blame the failed change initiative on the resistance among people and celebrating the resistance to change means that management rather sees the resistance as a source of information (Thomas & Hardy, 2011). Thus, the resistance to change can be considered both as a barrier and as a way of retrieving valuable information that could be used as feedback. Furthermore, if celebrating the resistance to change, this could be considered an opportunity to involve the people affected by the change and let them contribute and thereby increase the likelihood for them to accept the change (Thomas & Hardy, 2011).

Levasseur (2010) suggests that neither management nor change recipients enjoy surprises, and by two-way communication this can be prevented. It can help reduce resistance as it can provide a platform for management to communicate the vision and scope of the change initiative as well as its benefits for the recipients. On the other hand, it can provide a communication channel for the recipients to provide insights and feedback to the management. This is also supported by Knowles and Linn (2004), that argued that open communication gives both the change recipients and the change

initiators a chance to address issues, opportunities and fears as well as respond to these addressed topics.

3. Methodology

The following chapter aims to describe the research methodology applied in this master thesis to answer the research questions. The methodology will include the research strategy and approach, the rationale for the methods for collecting and analyzing the primary and secondary data, the data analysis and research quality.

3.1 Research strategy

The basic case study comprises a thorough and in-depth analysis of a particular case (Bryman & Bell, 2011). This master thesis is a case study research of a single case company in question that requested to be anonymous. According to Eisenhardt and Graebner (2007) the case study approach is popular and commonly utilized in business research.

There are two main categories of business research - basic research and applied research (Sreejesh et al., 2014). Basic research is applied when the intention of the study is to discover new knowledge or to establish new facts in a particular field. Whereas applied research is practiced in order to find the uses of theories and principles in existent work or when solving problems (Sreejesh et al., 2014). This involves developing alternatives to the identified problems and finding the best alternative (Sreejesh et al., 2014). In this thesis, applied research was conducted to answer the specific research questions and to gain an understanding of the existing theories as well as to determine possible improvement areas.

The primary importance for effective planning and implementation of a business decision is accurate information about the internal and external environment of the business (Sreejesh et al., 2014). Furthermore, sufficient information is needed in order to analyze the research problem from a wide perspective. Thus, the research process was initiated by gathering information about the company's environment in order to gain an understanding of their organizational structure as well as the problem area that they had identified. To obtain the necessary information an exploratory research review was conducted to analyze the problem situation and evaluate possible alternatives. This was conducted through a methodical literature review and collection of data.

Quantitative research is in general terms described as a research strategy that highlights quantification when collecting and analyzing data whereas qualitative research rather emphasizes words (Bryman & Bell, 2011). The purpose of this master thesis is to investigate what challenges there are for a manufacturing firm transitioning from a

product provider to a service provider through a network of dealers. The investigation of drivers and challenges of servitization is qualitative research by its nature. Thus, in this explorative research a qualitative approach was more suitable whereby the purpose is to interpret and clarify the key concepts found in the area of research (Eriksson & Wiedersheim-Paul, 2008). According to Bryman and Bell (2011) quantitative researchers apply measurements in their research whereas qualitative researchers do not. It serves thus no purpose to trying to quantify the data gathered for the purpose of this thesis. Consequently, qualitative research was conducted in this thesis to acquire accurate information about the situation of the company.

Bryman and Bell (2011) further distinguish two different research strategies; inductive and deductive. Inductive research is often based on observations and as result of these observations theories are proposed in the research process. Thereby patterns and relationships are identified from the data collected and are used to generate theory. Furthermore, inductive research is based on learning from experience and existing theory can be used to formulate the research questions that will be explored in the research. In deductive research strategy a hypothesis is deduced by the researcher based on existing theory and then is either confirmed or rejected based on the conducted data collection (Bryman & Bell, 2011). A deductive research strategy is typically associated with quantitative research while an inductive strategy is often associated with qualitative research (Bryman & Bell, 2011). An abductive strategy is employed when both inductive and deductive strategies are applied iteratively (Dubois & Gadde, 2002). This allows researchers to move back and forth between the empirical and model worlds, allowing them to reposition themselves when new empirical data emerge (Dubois & Gadde, 2002).

This master thesis is based on a combination of both existing theory and empirical findings in the research. Initial interviews with the company were conducted in order to gather information and serve as a basis to understand the situation of the company as well as to consider the literature relevant for the research process. Subsequently a literature review was conducted to formulate relevant research questions as well as to serve as a base for the consecutive interviews with both the company and their network of dealers. New insights then emerged during the interviews with the dealers, thus bolstering the search for new relevant literature for the theoretical framework. In order to detect patterns and develop conclusions, this was done iteratively. As a result of this method, the authors of this thesis were able to base their conclusions on existing theory while also exploring and contributing to it. Thus, an abductive strategy was adopted, sometimes known as systematic combining.

3.2 Data collection

A combination of both primary and secondary data was collected in this master thesis in order to answer the research questions. The difference between primary and secondary data is determined by how it is collected. According to Saunders et al. (2016) primary data is acquired by a researcher in order to answer a specific problem, whereas secondary data is collected for a different study or purpose. Interviews with the company and their network of dealers were used to acquire primary data, which is an accurate primary data gathering method. As a secondary data source, a literature review of related case studies and academic references was conducted. Secondary data is a collection of information that can be used in framing primary data, and in this master thesis, it was employed to better grasp the research topic and to construct an interview guide. The various methods of data collection will be discussed further in this chapter.

3.2.1 Interviews

Interviews were conducted to acquire knowledge about the company and the underlying factors affecting their transition from product provider to service provider. Interviews were held with management and personnel from both the company, the financial solution provider (FSP) and the platform provider (PP) in order to deduce an analysis of the current situation and their business process. The interviews with the company, FSP and the PP were unstructured to gain a deeper understanding of the current situation and the challenges that the company had identified in their business process. In an unstructured interview the interviewer may only ask one question, after which the interviewee can respond freely, thereby the interviewer only responds to points that appear to be worth following up on (Bryman & Bell, 2011). Unstructured interviewing is characteristically very similar to a conversation. Moreover, the exploratory nature of the research motivated a semi-structured interview technique with the dealers. Predefined and detailed questions were combined with open-ended questions to act as a base for the interview guide (Yin, 2016). The interview guide for the dealers is presented in Appendix A. A semi-structured interview technique allows interviewees to speak honestly and develop on subjects that arise during the interviews (Bryman & Bell, 2011). This interview technique is appropriate when aiming to develop a better understanding of the interviewee's point of view (Easterby-Smith et al., 2015).

Probability sampling is a technique used when the chosen sample is random and may not be possible or appropriate to use within business research to answer the research questions (Saunders et al., 2016). Thus, a sample must be selected in another way and non-probability sampling offers a range of such techniques and was therefore used as a method in this master thesis. The primary contact person from FSP was provided by the company when the authors of this master thesis applied to conduct a master thesis

research for the company. The contact person then directed the authors to the individuals who, in their opinion, had the most expertise on the subject from both FSP and the PP. As a result, the primary contact person was therefore the authors' gateway person to the company. Following the initial interview with the primary contact person, the authors asked both the primary contact person and the other interviewees from the company and the PP to suggest persons and dealers who they believed would be fit to interview for the research.

Purposive sampling technique, also known as judgment sampling, is based on deliberately selecting participants based on their qualities (Etikan, 2016). Purposive sampling thus requires the authors to use their judgment to choose cases that will help them answer their research questions and achieve their goals (Saunders et al., 2016). In short, it is decided by the researchers what needs to be known and the participants are selected based on their ability and willingness to provide the information required. The authors were provided with a list of the company's approximately 300 dealers. The authors concluded that the 30 dealers that had signed up to be able to access the platform that was provided to convey leasing deals and had conveyed leasing deals to their end customers were best suited to interview in order to answer the research questions of this master thesis. Furthermore, the selection of those 30 dealers was based on their willingness to participate in the research. Since the selection was not random, the number of interviews held was determined by whether theoretical saturation is achieved. Theoretical saturation occurs when new interviewees repeat responses from previous study participants and do not contribute to new ideas (Esaiaasson et al., 2017). One of the interviewed dealers that was selected had signed up to be able to access the platform, however they had not conveyed any leasing deals. From the interview it was however clear that the dealer shared the same experience and expressed similar responses as the other dealers. The authors of this master thesis concluded that this interview was therefore relevant to include in the research as it also contributed to theoretical saturation.

A total of 12 interviews were conducted in this master thesis research. A summary of the conducted interviews is illustrated in table 3.1. Two interviews were held with the primary contact person from FSP in order to gain an understanding of the company's organizational structure and their process of transition from product provider to service provider. Another interview was held with a representative from the company that had been involved from the start in the company's process towards servitization. The purpose of this interview was the same as the one with the primary contact from FSP, however it also served to provide deeper insight of the company and FSP from a second source as well as to gain further information about the company's network of dealers. The authors conducted one interview with the PP to gain an understanding of the PP's platform as

well as their obligations towards FSP and the dealers. The other eight interviews that were conducted were held with the company's network of dealers that had agreed to participate in this research.

Table 3.1: Presentation of the conducted interviews including the interviewees position in the network, whether they have conveyed leasing deals and type of interview

Network position	Conveyed deals	Type of interview
FSP	-	Microsoft teams
FSP	-	Microsoft teams
The company	-	Microsoft teams
The PP	-	Microsoft teams
Dealer	Yes	Microsoft teams
Dealer	Yes	Face-to-face
Dealer	Yes	Face-to-face
Dealer	Yes	Microsoft teams
Dealer	No	Face-to-face
Dealer	Yes	Microsoft teams
Dealer	Yes	Face-to-face
Dealer	Yes	Face-to-face

All of the interviews were conducted by both of the authors of this master thesis. Due to the geographical location of the interviewees as well as the restrictions of the ongoing pandemic (COVID-19), some of the interviews were held virtually through the communication platform Microsoft teams' videoconferencing. During the interviews, both interviewers were in charge of directing the conversation as well as taking notes. Furthermore, all of the interviews were recorded after obtaining permission from the participants. The recordings were used in order for the authors to listen to them numerous times to verify that no critical information was missed when taking notes. After

the interviews, the notes were supplemented by listening to the recorded interviews again to fill in any gaps in the notes.

3.2.2 Theoretical framework

The literature review is a vital part of the master thesis and to the chosen subject area, it provides as the basis of the master thesis in which the research questions will be justified and thus build the research design (Bryman & Bell, 2011). Initially, a literature review was conducted in the beginning of the master thesis process in order to identify important concepts within the framework of servitization as well as to define the models found and how they would be applied in the thesis. Concepts that were important to clearly define were such as “product provider to service provider”, “servitization” and “manufacturing companies’ transition”. The theoretical collection of empirical data was iterative during the research, meaning that new information caught in the empirical phase was further treated and used to develop the theoretical framework. In order to gain deeper knowledge about the research area and the problems faced by the company, the first part of the literature review was aimed at acquiring data related to the research area. The knowledge gained from the first part of the literature review in combination with the knowledge gained from the interviews with the company and the PP was used to construct the interview guide for the dealers.

Following the end of the interviews and data collection, it was determined to expand the theoretical framework with theories relating to organizational change. This was determined based on the fact that the servitization introduced a change for all participants involved, thus was considered a critical factor to research. Furthermore, based on the information gathered from the interviews, some of the previous theories were developed while others were reduced. Adjusting the framework allowed the authors to improve it as well as ensure that it was still relevant to the research. Electronic databases such as Chalmers library and Google Scholar were mainly used to acquire relevant literature. Keywords such as *servitization*, *change management*, *challenges and drivers of servitization*, *manufacturing company service provider*, were used for finding the appropriate literature.

3.3 Data analysis

The analysis of the data collected was a recursive and iterative process that extended over the entire duration of this master thesis. This approach is frequently established in qualitative research and further supports the framework of grounded theory for data analysis (Bryman & Bell, 2011) that was used in this master thesis. Bryman and Bell

(2011) describe the framework as a method for detecting patterns in data that may be utilized to generate new theories. In grounded theory, the data is collected, via observation, interviewing, and document collection, until theoretical saturation is reached. Rather than relating the collected data to already existing theories, grounded theory aims to generate theory from categories grounded in the data (Easterby-Smith et al., 2015). This is achieved through coding which involves breaking down and dividing acquired data into component components and assigning names to them (Bryman & Bell, 2011). Consequently, these categories are the result of a methodical process of comparing various aspects of the data.

Throughout the process of writing this master thesis, the collected data was regularly coded. As mentioned all of the interviews were recorded and notes were taken that were used to relate pieces of information from the interviews to a particular category. New concepts were added, removed or sometimes changed as the analysis developed. When a pattern had been identified in the data the analysis continued until theoretical saturation was achieved. Finally, the categories were then arranged in the context of relevant literature about servitization and organizational change. The categories were summarized to three main themes: *platform, information and mindset*.

3.4 Research quality

It is important to consider ethical considerations such as confidentiality and anonymity when conducting research (Bryman & Bell, 2011). The research must honor confidentiality or anonymity if it is requested. The case company in question requested to be anonymous during and after the research was conducted. Therefore, no detailed information about the company or the participants was included in the master thesis. Furthermore, the authors of the master thesis asked for approval to record and take notes before the conducted interviews and ensured the participants that no sensitive information that would threaten their anonymity would be public.

Validity and reliability are two measures that are commonly used to discuss quality in scientific studies (Alvehus, 2013). It has been debated whether the concepts of validity and reliability are applicable in qualitative studies (Bryman & Bell, 2011). Seeing that this master thesis is qualitative and aims to investigate challenges encountered in servitization, the authors believe that alternative criteria for quality, such as the ones advocated by Lincoln and Guba (1985), are better suited. Lincoln and Guba (1985) propose four criteria's for qualitative studies: credibility, transferability, reliability and confirmation.

The term credibility refers to how "accurate" or "true" the findings are, and ultimately boils down to how consistent the findings are with reality (Merriam, 1998). One method of ensuring credibility is through respondent validation, which refers to the participants in the interviews confirming the results and thus confirming that the data interpretation is correct (Bryman & Bell, 2011). The ambition was to give the interviewees a summary of the transcribed data for confirmation. However, due to time constraints the confirmation was instead carried out during the interview itself and then compared to notes and recordings of the interview. Triangulation is another method used to determine the credibility of the study (Lincoln & Guba, 1985). Triangulation refers to cross-checking the findings by the use of multiple sources of data and methods (Bryman & Bell, 2011) which was conducted in this master thesis. The methodological approach as well as the theoretical approach is considered to give credibility to the research as multiple sources were used then compared and controlled in relation to each other. Furthermore, a non-random sampling technique was conducted as it was considered most appropriate for the qualitative research. It is considered to give the research credibility as this approach resulted in the greatest number of interviews that would also be most suitable for the purpose of the research.

Transferability refers to the degree of which the study is considered, by authors and readers, to be applicable in another context and is considered sufficient if sufficiently detailed information has been presented to enable comparisons (Lincoln & Guba, 1985). However, qualitative research that does not cover large samples over a lengthy period of time pose difficulties in generalizing quantitatively (Bryman & Bell, 2011). Therefore, qualitative research should therefore have a "thick-description", i.e., detailed explanations that serves as a database for others to use in making decisions about the transferability of findings to different contexts (Bryman & Bell, 2011). Transferability has thus been achieved in this master thesis through detailed descriptions of the methodology as well as the empirical and theoretical findings. However, since the case company is anonymous in this master thesis, the description of the company, its structure, products and network cannot be too detailed considering that it could compromise the anonymity. Furthermore, as a consequence of the single case study research applied in this master thesis no generalization to populations can be drawn from the findings. As Bryman and Bell (2011) argues, qualitative research is not representative of populations and the findings of case studies are rather generalized to theory.

Confirmability is concerned with ensuring objectivity in the research by making it apparent that personal values have not affected the results of the research (Bryman & Bell, 2011). Dependability is achieved by thoroughly reporting the approach throughout the research with traceable and well described documentation to further create transparency. This requires ensuring that full records of all phases i.e., problem

formulation, research participant selection, interview transcripts, data analysis decisions etc. are easily accessible (Bryman & Bell, 2011). To assure dependability and confirmability in this master thesis, detailed documentation of all processes has been conducted and thus also motivation and analysis to all decisions. Furthermore, the analysis as well as all the interviews were conducted by both authors of this master thesis in order to avoid subjective interpretation. However, due to the anonymity of the case company ethical decisions were considered more important thus resulting in sensitive information, detailed transcripts of the interviews and any names of the participants being left out of the research. This could result in traceable difficulties. However, provided that the research process has been detailed in all other accounts it allows it to be comprehended without difficulty.

4. Results

In this chapter the results from the study will be reported. Firstly, the information gathered from the company will be presented, thereafter the result from the interviews conducted with the company's dealers will be provided.

4.1 The company

The company is a global manufacturer within the machine tool industry and is based in Sweden. They are well established with a long history in their industry and are considered to be in the leading edge. The company's operations today largely consist of development and manufacture of machine tool products for both professional and private end customers. They have a broad range of product categories and therefore a broad range of end customers. This report is focused on one of the company's recently established subsidiaries, namely a financial solutions provider, which will henceforth be referred to as FSP. FSP's business idea is that they are responsible for development and administration of financing solutions to end customers and dealer financing. FSP has a partnership with a platform provider, which will hereinafter be referred to as PP, that is responsible for the operations of FSP. Furthermore, the report is focused on one specific product category that is highly seasonal, i.e., it is not used all year around. Figure 4.1 illustrates the relation between the company, FSP, the dealers and the PP

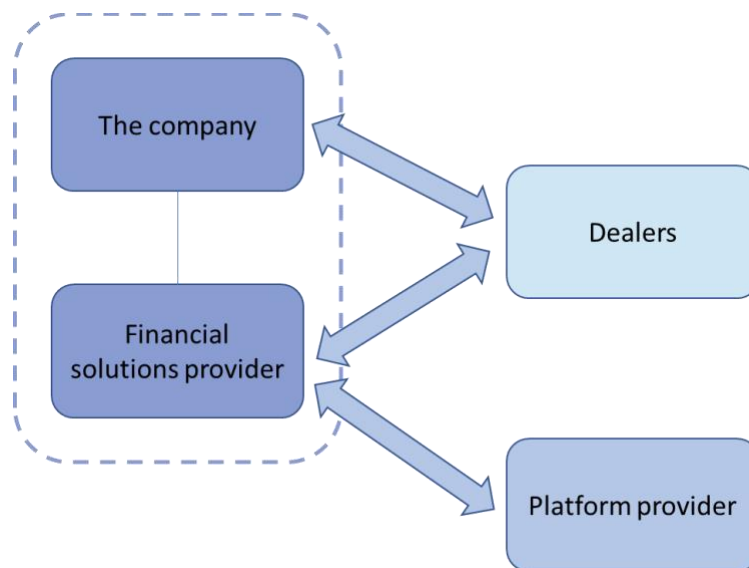


Figure 4.1: The relations between the company, FSP, the dealers and the PP (Source: FSP)

FSP was recently established with the vision to be a full-service provider delivering an operational leasing solution. The sales department of the company recognized the need to provide a solution in-house to thrive in the future and meet their customer demands. The company is currently providing its customers with a financial solution which is a partial payment solution that is provided by a third-party credit institution. This solution is made available for customers that are looking to buy and own their product but want a sale by installments. The company has seen the trend of servitization in manufacturing companies and moving towards a service offering. They perceived moving towards servitization would differentiate their offering, satisfy their customer demand, and improve their financial performance. Thus, the company recognized the need to go from product offering to service offering and as a result, FSP introduced an operational leasing solution for the end customers. FSP states that servitization is a megatrend that will have an impact on their business.

FSP observed a general global trend moving from ownership to usership where customers are becoming more interested in the use and value that the product offers rather than the product itself. Customers are perceiving products more as a commodity and expect a high level of expertise and solutions tailored to their needs. Furthermore, there is a growing demand for more affordable high-quality products and services and a growing interest in total cost of ownership solutions. Thus, there is a growing interest in flexible acquisition of capital goods. Furthermore, the post-purchase journey has a great opportunity to impact customers' perception of the company's brand. Finally, FSP recognizes additional lives of products as a driver for sustainability.

FSP stated that they need to make the shift from product provider to service provider where end customer engagement will play an important role. To shift the business from selling a product to offering operational leasing solutions, FSP recognizes that several steps need to be made. One such step is changing the customer perception of the company from a product manufacturer into a service provider. Figure 4.2 illustrates FSPs view of shifting from selling a product to offering operational leasing solutions.

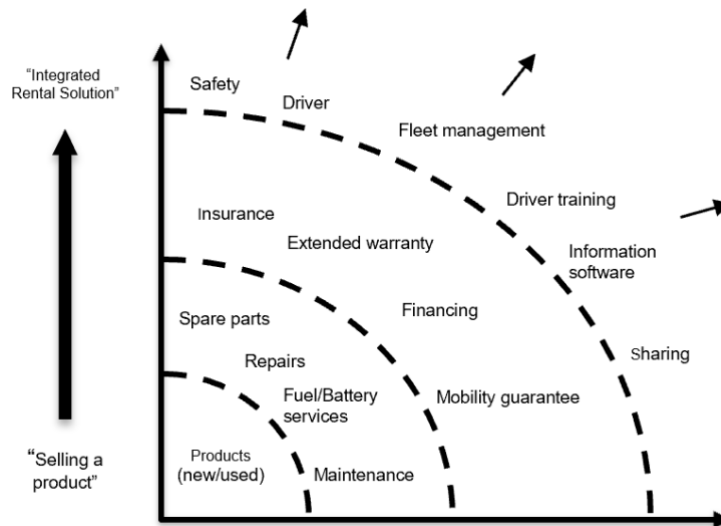


Figure 4.2: FSP's view of shifting from selling a product to offering operational leasing solutions (Source: FSP)

The main purpose for FSP is to create even better business possibilities and to increase revenues by; offering the customers carefree ownership of products throughout its life span, offering customers complete solutions (including possible financing, service, spare parts, storage, insurance, and other services), offering dealers financial solutions for products, demo-products, store fixtures and other sale supportive products and solutions. The main incentives, in offering operational leasing solutions, for the company are stated to be the following; knowing their customers better i.e., receiving information about their behavior etc., developing after-sales business, offering financial support for end customers, offering financial support for the dealer network, enabling more efficient key account business, support for growth and profit, less capital tied up or required, increased parts flow, control and production management and volume planning.

4.1.1 Dealers

As of today, the company has more than 300 dealers in Sweden, geographically spread to cover the market. The dealers are spanning from small family-owned businesses to big online businesses, and the company has categorized them into three different categories depending on the range of products they offer, how they promote the brand as well as their revenue. Every dealer has a sales representative from the company that supports and motivates the dealers in their purchasing process of products from the company. If a dealer is in the top category they will, for example, get better terms when purchasing products from the company. The dealers can choose to focus on one product category, thus not all of the dealers are offering the full range of products and therefore it is not all of the dealers that are offering the specific products covered in this master thesis. It is

worth noting that the dealers are not exclusively selling the company's products, in fact some are dealers for the company's competitors as well.

4.1.1.1 Incentives

When introducing the operational leasing solution for the dealers, FSP had identified the following incentives for the dealers to start transitioning from cash sales to operational leasing deals; strong financial support for the dealers, more developed aftermarket business, it drives the sales of spare parts and accessories, strength in the profit margins, deeper relations with the customers, removes the focus from product and price, and helps meeting the customers need for solutions. Further, FSP pointed at the benefits of used products as they could be used to compete with low-cost products and meet the needs of customers with lower demands and higher price sensitivity. Consequently, it was stated that used products could potentially be used for short-term rentals or as replacement products.

As the operational leasing solution includes maintenance services of the product, this would contribute to a more even cash flow during the year and secure service incomes during the operational leasing deal lifespan. FSP considered this a financial incentive for the dealers, and they also believed that the low residual value would provide another financial incentive for the dealers.

4.1.2 Customers

The company offers its products to customers within both the private end sector and professional end sector. The majority are private end customers, however the professional end customers have higher average business sales and therefore amount to the majority of the total share. The operational leasing solution is offered by FSP to both private and professional end customers. Table 4.1 lists FSP's identified benefits for their private end customers and professional end customers.

Table 4.1: FSP's identified benefits for private and professional end customers

Private end customers		Professional end customers	
Peace of mind	Extended warranty gives a sense of security	Peace of mind	Scheduled maintenance
	Scheduled maintenance		Repairs included
Carefree ownership	Get the job done without effort		Loan products during repair
Premium brand experience	Well working product due to regular service		Service notifications
	Always updated model		Service at any certified service partner
Beneficial financing	Monthly payments	Better liquidity	No money tied in equipment
		Premium brand promise	Only genuine Parts
			Service performed by certified technicians

4.1.3 The operational leasing solutions

The company formulated two different service offerings, the first is a predefined leasing solution and the second is a flexible leasing solution. Both operational leasing solutions include a set of services such as maintenance, repair, installation, insurance, and storage. The predefined leasing solution has a fixed price due to a fixed residual value and a fixed service cost for each product that is predetermined by FSP. Furthermore, the services that are included are also fixed and cannot be removed from the packaged service solution. On the other hand, the flexible leasing solution is more flexible in what can be included or excluded in the service offering. The residual value, the length of the leasing contract as well as service costs can be adjusted according to what is agreed with the end customer. However, there are limits to how much can be changed due to limits set by FSP regarding the residual value and length of the leasing contract. Table 4.2 illustrates the differences between the predefined leasing solution and the flexible leasing solution in terms of price, services, residual value, and length of the leasing contract.

Table 4.2: Differences between the predefined leasing solution and the flexible leasing solution

Leasing solution	Predefined	Flexible
Price	Fixed	Flexible
Services	Fixed	Flexible
Residual value	Fixed	Flexible
Contract length	Fixed	Flexible

It is useful to look at the product and cash flow between the company, FSP, the dealers, and end customers to get a better understanding of the structure. Similar to a traditional selling process, the dealers buy a stock of products from the company, thus transferring the ownership of the products to the dealers. At this stage, there is no distinction made whether the product is intended to be sold or leased to the end customer. When an operational leasing deal is made by the dealers to the end customers the product is then sold to FSP with the obligation that the dealers will buy them back from FSP after the operational leasing deal ends. Thus, when a deal has been made, the dealers send an invoice to FSP that includes the product itself and potential installation costs. FSP in turn pays the invoice to the dealers and begins to send monthly invoices to the end customers for the operational leasing deals. At this stage, the ownership of the products lies with FSP. When the operational leasing deal is ended, FSP sends a new invoice to the dealers for the residual value of the products that have been leased and the ownership transfers to the dealers. Figure 4.3 illustrates a description of the product and cash flow between the company, FSP, the dealers and end customers.

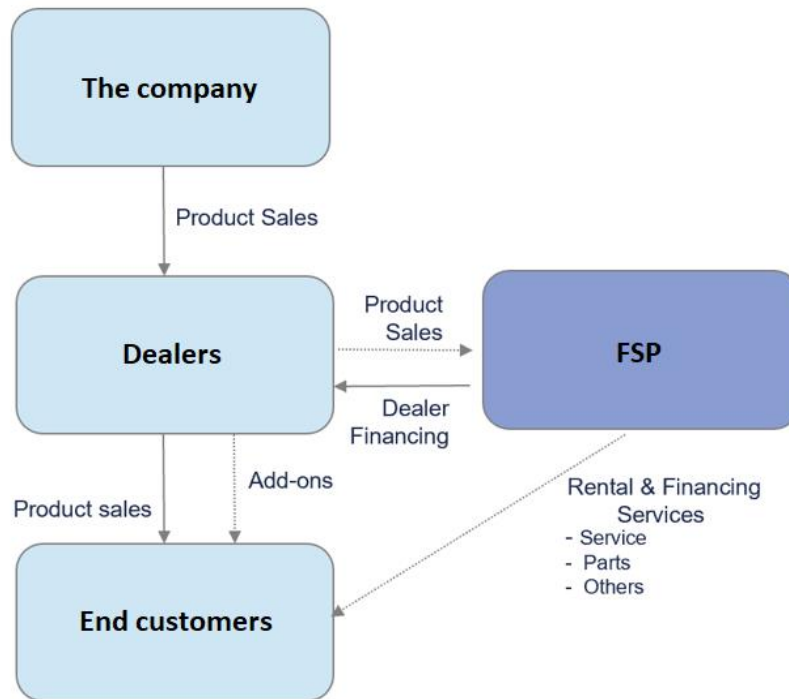


Figure 4.3: Product and cash flow between the company, FSP, the dealers and end customers (Source: FSP)

During the operational leasing period, FSP sends monthly invoices to the end customers for the product and included services. FSP also sends monthly payments during this period for the service costs to the dealers. However, it is noteworthy that the monthly payments to the dealers are made when the end customers have paid their respective invoices to FSP.

4.1.4 The rollout of the operational leasing solutions

FSP conducted a pilot during the year of 2020 in order to test and evaluate their flexible leasing solution and their platform. The platform provided by the PP consists of a website that the dealers use when conveying operational leasing deals to end customers, as well as systems for managing the contracts, customer information and invoicing the end customers. Approximately 40 of the company's dealers had access to the platform and could convey flexible leasing deals to their customers. However, the pilot coincided with the start of a global pandemic (COVID-19) and due to the uncertainty in the global market, FSP decided to constrain all costs and not promote the pilot to their customers, thus handing over the marketing responsibility to their dealers. During the pilot, FSP received feedback continuously and executed an evaluation workshop in order to assess and identify the most critical improvement areas. The following problem areas connected to the dealers were identified during the pilot and assessed as most critical in the workshop:

- Communication on value; clear examples of how the flexible leasing solution will increase sales, revenue, and simplicity for dealers
- Platform easy to use for dealers; the platform has to be easy to use for dealers, especially when the workload during peak season is high
- FSP related incentives for the company's sales department; incentives needed for the sales department as this solution takes more time to work with than just selling products

At the time of the rollout of the two operational leasing solutions to the dealers, there was still a global pandemic (COVID-19) going on, which made FSP decide to use webinars and digital meetings for the introduction. To further support the dealers, FSP and the PP provided manuals for the platform used for both the operational leasing solutions as well as support functions via mail and phone. A target approximation of the total amount of conveyed deals by the dealers was estimated by FSP, however, this estimation was not disclosed among the dealers during the rollout of the operational leasing solutions. Thus, at the time of the rollout, the dealers did not have a set target of conveyed deals to work towards. The point of time of the rollout also coincided with the beginning of the peak season for the company's products and therefore also the peak season for the dealers, according to FSP. Furthermore, it is relevant to note that the rollout of the operational leasing solutions to the dealers also coincided with an unfortunate shortage of products due to a global shortage of semiconductors. Another relevant aspect is that the PP conducted an update to the platform after the rollout that introduced a simpler version for the predefined leasing solution.

At the end of the first season of the operational leasing solutions rollout, there were approximately 150 out of the company's 300 dealers that had signed up to be able to access the platform. Out of these approximately 30 dealers actually conveyed leasing deals.

4.2 Results from conducted interviews

From the interviews with the dealers, three main themes, regarding the dealer's experience of difficulties when starting the transition to operational leasing solutions, were identified. In table 4.3 the three themes are illustrated along with their respective subthemes. The last section in this chapter presents a category of relevant information, collected during the interviews, that did not correlate to the three main themes.

Table 4.3: Identified themes and subthemes

Main themes	Subthemes
Platform	Complicated
	Time-consuming
	Back and forth between the parties
	Slow
Information	Release date (peak season)
	Digital meetings and webinars because of pandemic
	Unclear incentives
	Uncertainty regarding used products market
Mindset	Transition from product provider to service provider

4.2.1 Platform

The first theme identified as a difficulty among the dealers was the *platform* that the dealers had to use when conveying an operational leasing deal to an end customer. The platform was brought up as a barrier in all the conducted interviews with the dealers and thereby was the most recognized barrier. The biggest issue with the platform, that all the dealers mentioned, was that it was complicated and time-consuming, something that the dealers could not overlook when trying to convey operational leasing deals during busy periods. Some of the dealers acknowledged that the platform being time-consuming is not as big of an issue when dealing with professional end customers, as these customers are often involved in a quotation process and are therefore not as time sensitive. However, when dealing with private end customers that wish to complete the deal during their visit to the dealers, the time sensitivity aspect is higher, both for the dealer and for the end customer.

As there previously has been a financial solution offering sale by installments to end customers, that was relatively easy to use by the dealers, they tend to compare it to the platform for the operational leasing solution. Therefore, the dealers perceived that the platform as being too complicated and included many steps that had to be fulfilled in order to finalize the operational leasing deal with the customer. Thus, all the interviewed

dealers that used the platform to convey an operational leasing deal mentioned that they had been in contact with the PP to receive help during the process.

The dealers also mentioned that the updated platform for the predefined leasing solution was considered more appealing as it had fewer steps and was less complicated to understand than the previous version. Even though the dealers considered it more appealing, only one of the interviewed dealers actually used it more than once during the season. This dealer stated that they believed that operational leasing will become a growing part of their businesses in the future and that they recognized the importance of being an early adopter. Another dealer also stated a belief in operational leasing solutions as the future, but in contrast, they had only used the flexible leasing version of the platform with the complicated, and more flexible steps. However, this dealer marketed their own flexible leasing deal that they themselves designed, because they did not perceive the predefined leasing as appealing. This dealer expressed it as a necessary pain to use the more complicated version of the platform to be able to adjust the flexible leasing deals in the way they wished. Thus, with their own flexible leasing deal they could acquire better flexibility and better margins. However, the same dealer expressed that they had already invested a lot of time and effort into their flexible leasing deals, time and effort that most dealers cannot invest. Therefore, the dealer would recommend that the other dealers should as of now choose to offer the predefined leasing solution, until the platform for the flexible leasing solution has been simplified as well.

Another reflection given by some of the dealers was that the process of using the platform included steps that demanded digital signatures in multiple steps from the end customers and also sending the deal back and forth between the dealer, the end customers and the PP. If the end customers missed out on signing in time, the process had to start all over again. This was especially a problem when the end customer needed more than one person to sign the deal, according to one dealer. The dealers expressed that it would be more desirable if a deal could be finalized in one sitting without having to send the deal back and forth and that all of the signing work could be conducted in one step instead of several.

The final issue brought forward by the interviewed dealers regarding the platform was the general performance of the platform. They perceived it to be slow and pointed out that this was considered to be a barrier and difficulty when conveying deals with end customers during peak season.

4.2.2 Information

The second theme identified as a difficulty when interviewing the dealers was *information*. This theme consists of multiple sub themes regarding the subject of information, such as; release date, no physical workshops, unclear incentives, and uncertainty regarding the used product market.

Starting with the release date of the operational leasing solutions, all of the interviewed dealers considered the timing of the release as inconvenient as it coincided with the start of the dealer's peak season. The dealers argued that this gave them very little time on how to use the platform and to read through the material that they were provided with in time to actually be able to convey any operational leasing deals during the upcoming season. As one dealer put it:

"Some days during peak season we do not even have time to eat lunch or read emails, let alone learn how to use a new platform."

Some of the dealers expressed the feeling that the complicated platform in combination with the time of release had a deterrent effect on them. Not only was the time of release not optimal, but the complicated platform also made them believe that it would take even more time to learn how to use it, time they did not have in the first place. When the dealers were asked about if there would have been a better time to introduce an operational leasing solution to them, there was no one answer, but a common answer was somewhere in the middle of the off-season period. If released too early after the season ended, they expressed a worry that they would not have any end customers to convey operational leasing deals to anyway and when the season is about to start, the time since the release might lead to them not remembering how to use the platform either. However, some of the dealers mentioned that professional end customers often want to start their purchase process in the period between seasons, this time could therefore be used to learn how to use the platform.

Another opinion among the dealers, that is connected to the information theme, was that physical workshops and learning sessions would have been helpful in the learning process. However, due to an ongoing global pandemic (COVID-19) during the release, the dealers only had the option to attend webinars and digital meetings provided by FSP and the PP. One dealer expressed that this was enough for them to grasp the overall concept of the platform, however that it is harder to apply this information in practice. Other dealers expressed that they believed that physical gatherings would be more beneficial to learn the use of the platform, discuss it and ask questions about it. This was also considered to have been extra helpful because of how complicated the platform was experienced to be.

Further, some dealers communicated that there was an uncertainty in what they would gain from promoting the operational leasing deals towards end customers. They recognized that operational leasing deals would contribute to yearly service incomes for them, however, some dealers expressed that many of their end customers already serviced their purchased products regularly, although maybe not every year. Other dealers believed the yearly service income would be a great benefit for them. The operational leasing deals would prompt end customers to service their products more frequently, thus the dealers recognized it as a good way to increase the workload during the off-season when services are made. Thereby, the dealers would receive more stable income streams during the year.

Connected to this service income, one dealer expressed that they had experienced issues regarding receiving payments for the service. They mentioned that some of their end customers sometimes experienced troubles in receiving their monthly invoice. When this occurred, the dealer would not get payments from FSP since the system is set up in such a way that the end customers must pay their invoices in order for the dealers to receive their payments. This in turn puts the responsibility on the dealers to make sure that their end customers pay their invoices to FSP in order for them to receive their respective payments. The dealer that brought up this concern, considered this set up as very inefficient and inconvenient. In the dealer's point of view, when conveying an operational leasing deal and delivering the agreed-upon product and service to the end customer, the dealer should get their monthly payments for the service part of the deal regardless of whether the customer pays their invoice to FSP or not. Furthermore, some dealers stated that the incentives for conveying flexible leasing deals were not enough, given the time-consuming process and complicated platform. One dealer mentioned that a kickback could have motivated them to promote the flexible leasing solution to a greater extent as that would provide compensation for the time it would take to finalize a flexible leasing deal.

Another uncertainty expressed by the dealers was the uncertainty regarding the used products market. Here the dealers could be divided into two categories, the ones that did not see the used product market as an issue and were certain that they could either sell or lease out the product again, and the other category of dealers that believed that there is no or a minimal market for used products at the moment and were uncertain if there will be a market for it in the future. In the first category, most of the dealers had experience in selling used products on some occasions and in their experience, there was a demand and market for used products. The dealers specifically mentioned the opportunity to attract a new market of end customers that would otherwise consider the product too expensive and would possibly resort to buying another product from a

competitor that offered a lower price. In the other category of dealers, there was a higher uncertainty regarding the used product market and all of the dealers in this category lacked experience in selling used products. However, when the dealers were asked about what the end customers would choose to do at the end of the operational leasing period, most of them believed that the majority would probably buy the product.

Most of the dealers expressed that not enough time had passed, and not enough operational leasing deals had been conveyed for them to be able to reflect on how the relationship to their end customers was affected. However, the dealers believe that the operational leasing solutions will contribute to better relationships with their end customers in the future. One of the dealers that had conveyed more deals than the average dealer, experienced that the relationship with the end customers that had operational leasing deals were better than the relationship with their buying end customers.

Another point that is noteworthy regarding the information theme is that traditionally the dealers receive information from the company through their respective sales representatives. When asked about how the dealers received information regarding the operational leasing solutions, most stated that their sales representatives mentioned it but the rest of the information came directly from FSP and the PP. However, most of the dealers did not perceive this as an issue since they believed that it was easier to go straight to the source i.e., to FSP and the PP to receive information. Furthermore, the dealers mentioned that their respective sales representatives are more involved in the purchasing process of products from the company rather than the transaction between the dealers and their end customers.

Finally, the two interviewed dealers with the highest number of conveyed operational leasing deals stated that they had shared feedback with FSP. However, they also expressed that there was a lack of feedback from FSP whether the information shared by the dealers was considered or not.

4.2.3 Mindset

The third theme that was identified in the interviews as being a difficulty is the lack of a service providing *mindset* both among the dealers and the company. All the interviewed dealers agreed that the future lies within transitioning from being product providers to service providers. They based this belief on the observation of servitization as a global trend. However, most of the dealers could not specify when this transition would occur in their market. Furthermore, the dealers stated that the operational leasing solutions could result in better opportunities to compete against online retailers that offer lower prices, thus identifying a change in the mindset to be an incentive.

There was an uncertainty among the dealers regarding how to promote the operational leasing solutions towards end customers. The dealers expressed that they had not invested any time towards thinking about how to market the operational leasing solutions and were uncertain how to express the benefits for new end customers.

Three of the interviewed dealers recognized the importance of having a service providing mindset rather than a product selling mindset, as illustrated by one of the dealers:

“Selling a product and selling a service is for them [the company] two different worlds. [...] I have changed my mindset completely. [...] They [the company] have to stop thinking about just selling a service, they have to understand their end customers' needs.”

The dealer further stated that they already offered their end customers the results that the end customers intended from utilizing the product instead of only offering them services that supported the utilization of the product. For instance, the dealer mentioned that when dealing with an end customer they would only discuss the end customers' needs and not specify what product that will be used to satisfy those needs. The same three dealers highlighted the importance of having a solution-oriented mindset that offers the end customer the results they are obtaining from utilizing the product, instead of only offering services that support the utilization. Furthermore, they claimed however that this mindset was not well-established among the company and their dealers. It was also mentioned by the dealers that the company still had a product selling mindset and if they aspired to succeed in becoming a service provider, they would need to change their way of thinking. This in turn would affect the company's dealers' way of thinking. One of the three dealers further illustrated this by mentioning that they believed that it would be better if the company had a product specifically designed to be leased by professional end customers.

4.2.4 Other findings

One dealer mentioned that the company had previously released other product offerings, and further claimed that those had been incomplete and therefore were not successful. With this experience in mind the dealer decided to wait and evaluate the success of the operational leasing solutions before investing time and money in it.

Further, only one of the dealers interviewed participated in the pilot conducted by FSP, this dealer was considered a considerable part of the pilot according to FSP. However, this was the same dealer that expressed that there was a lack of information regarding the feedback given to FSP.

The same dealer that participated in the pilot, had also identified that to achieve the benefits for the dealers of the operational leasing solution, they had to reach a critical mass in the number of conveyed deals.

Lastly, due to the shortage of products delivered during this time, some dealers expressed concerns with marketing the operation leasing solution towards end customers due to uncertainty in delivery. As one dealer stated:

“I did not dare put up the marketing material for the operational leasing solutions since I did not have any products. I could offer an operational leasing deal to an end customer, however I had to tell them that I did not know when I could deliver it.”

5. Discussion and analysis

The results of the previous chapter will be analyzed and discussed in this chapter. The analysis will compare the results obtained from the interviews to the theoretical framework and discuss how the identified challenges could be improved by the company. Section 5.1 provides an analysis and discussion of the servitization process in the company. Section 5.2 provides an analysis and discussions regarding the challenges identified as the company introduced an integrated service solution to their dealers. Finally, section 5.3 will present recommendations for practitioners.

5.1 Servitization in the company

The results revealed that the company recognized the global trend of servitization whereby end customers are demanding more customized solutions tailored to their needs and are moving from ownership towards usership. End customers are not as interested in the product itself, they are rather interested in the value created from utilizing the product. This is in line with the findings in literature by Vargo and Lusch's (2006) and Lay (2014) that services are not alternative forms of products, rather products are mechanisms that serve as alternatives aimed at service provision, thereby consumers need the functionality of products and the solutions that such products offer in applying them rather than the products themselves. Furthermore, end customers are demanding more solution-based offerings and the literature shows that services are taking the bigger part of the added value in end customer offerings (Vandermerwe & Rada, 1988). The findings of Lay (2014) also support that manufacturers are required to transition from offering products to meeting their end customers' demands by providing functionalities through their products and customer solutions.

This corresponds to the company's perception that moving towards servitization would differentiate their offering, satisfy their customer demand, and improve their financial performance. They identified several drivers for them as a company as well as for the dealers in offering operational leasing solutions. Comparing these drivers to the literature, the company identified marketing, strategic and financial opportunities. The literature suggests that marketing opportunities such as the ones identified by the company i.e., satisfying customer demand and deeper relations with end customers, support the company in developing services to prolong their product offering, creating long-term relationships with end customers and promoting sales, thus selling more products (Gebauer et al., 2008). This favors both the company and their dealers.

Furthermore, the identified strategic opportunities; differentiating the offering, removing focus from product and price, are related to achieving a better competitive

strategy through product differentiation (Gebauer et al., 2008). Finally, in terms of financial opportunities the literature suggests that services are a more even source of revenue (Gebauer et al., 2008) and that service revenues can generate twice as much as a new product sale (Wise & Baumgartner, 1999). This can be achieved in the operational leasing solution through yearly maintenance services thus providing secure service incomes during the operational leasing deal lifespan. This further corresponds to Vandermerwe and Rada (1988) that mention that companies, like this one, that have been in services in a marginal way are realizing that increasing amounts of profits and revenue are accounted for by the service end of the business. The operational leasing solution will, for the company and their dealers, generate a more developed after-market business, such as increased sales of spare parts and accessories.

Customers are demanding more solution-based offerings and the literature implies that services are taking the bigger part of the added value in end customer offerings (Vandermerwe & Rada, 1988). This is also stated by Mathieu (2001), that end customers demand more value that is connected to both the products and services offered and they also want more customized relationships. The level of service is, according to the author, an effective way to sustain relationships. By offering operational leasing solutions the company has realized the importance of meeting such demands and have identified the added value that it generates. The added value that is offered to the end customers through the company's operational leasing solutions are listed in table 5.1.

Table 5.1: FSP's identified benefits for private and professional end customers

Private end customers		Professional end customers	
Peace of mind	Extended warranty gives a sense of security	Peace of mind	Scheduled maintenance
	Scheduled maintenance		Repairs included
Carefree ownership	Get the job done without effort		Loan products during repair
Premium brand experience	Well working product due to regular service		Service notifications
	Always updated model		Service at any certified service partner
Beneficial financing	Monthly payments	Better liquidity	No money tied in equipment
		Premium brand promise	Only genuine Parts
			Service performed by certified technicians

The operational leasing solution was therefore introduced as a means by the company for servitization. According to Baines et al. (2009), differentiating through low prices, product innovation and technological superiority is becoming more difficult. While customer services, such as repair and maintenance, have traditionally been offered by the company through their dealers, literature further suggests that such activities have previously had a minor strategic role and have been considered to be a necessity to be offered as opposed to being considered to be a strategic asset (Lay, 2014; Mathieu, 2001). However, by offering the operational leasing solutions the company realizes the strategic asset of these offerings and include more than the traditional services previously offered. As such, many of the mentioned drivers identified by the company correlate to the findings in literature. Figure 5.1 depicts the hierarchy of the servitization rationales.

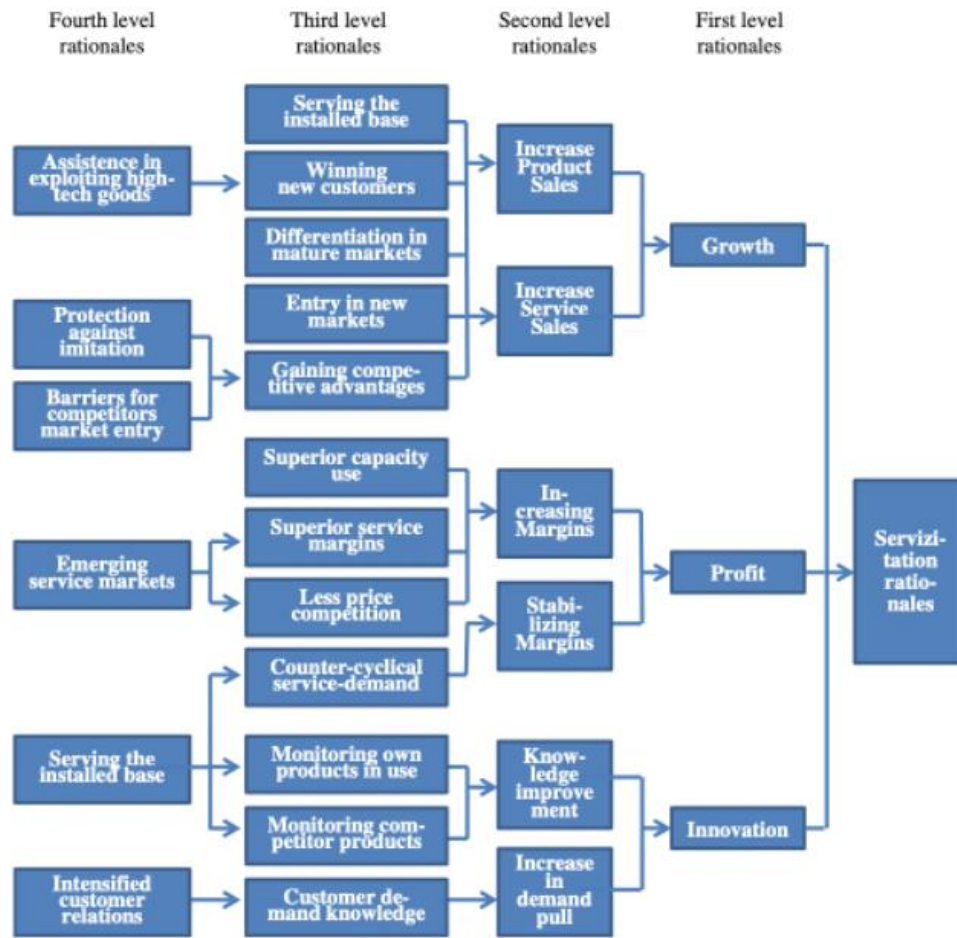


Figure 5.1: Hierarchy of servitization rationales (Lay, 2014)

Hereby, the rationales depicted in the figure 5.1 and the company's identified drivers, will be compared. The company's operational leasing solution offers a monthly cost, thus no upfront cost for the end customers, this also provides an apparent total cost of ownership for the end customers. Furthermore, the operational leasing solutions assist in exploiting the company's product, all of which can be appealing for winning new end customers. Moreover, as the operational leasing solution is an integrated offering of products and services this protects against imitation and creates barriers for competitors, thus yields a competitive advantage for the company. This offering is also a way of differentiating the product in mature markets. All of the above results in increased product and service sales which in turn generates growth for the company and their dealers.

Due to emerging service markets generated by the operational leasing solutions and that all operational leasing deals include yearly services, service revenues will increase and result in superior service margins as well as less price competition. Moreover, with the yearly services of the installed product base a counter cyclical service demand will arise,

counteracting the company's seasonal fluctuations. All of which will result in increased and stabilized margins and contribute to higher profits for the company. Furthermore, the yearly service of the installed product base will also result in the possibility for the company to monitor and collect information about their products in use. Consequently, the company will gain more knowledge, thus fostering innovation. Lastly, as the operational leasing solutions intensify relations with end customers, customer demand knowledge will increase and an increased demand pull will emerge, further resulting in innovation possibilities for the company.

The company has established the subsidiary FSP with the purpose to provide an integrated service offering in partnership with the PP, this correlates to the trend mentioned by Vandermerwe and Rada (1988) of moving towards creating more specialized services around manufactured products and setting up particular companies and divisions for these service activities. However, Gill (2002) argues that organizations often initiate such change programs and fail to support these changes by updating policies and systems connected to the area of change. This is due to the traditional manufacturing practices conflicting with that of service management principles that Mathieu (2001) argues for.

The operational leasing solutions include services that support the product, thus services are considered to be secondary to the product. According to Lay (2014) this poses challenges and threats to the company's servitization process considering that there is a tendency, according to Martinez et al. (2010) and Vandermerwe and Rada (1988), that companies return to focus on the product itself rather than the integrated offering.

To sum up, the company's identified drivers for servitization concur with the findings in literature. The operational leasing solution is an integrated service solution mainly consisting of services that have previously existed for the end customers. Moreover, the value of the operational leasing solutions for the company and the dealers resides in offering the integrated service solution and procuring the benefits related to it such as increased service revenues from yearly services. Furthermore, end customers could previously choose if they wanted a service when purchasing a product and when they would need this service. However, the flexible leasing solution provides the end customer the opportunity to personalize the leasing solution and include only the services they need. This could increase the value for the end customers as they could make a leasing deal while only paying for the services they consider are worthy. However, the value for the company and the dealers minimizes with this offering as the benefits of the leasing solution would decrease i.e., less yearly services thus less increased service revenues. Thus, it could be more beneficial to not be able to exclude maintenance and repair services from the operational leasing solutions.

5.1.2 Level of servitization

The literature proposes two different logics (Vargo & Lusch, 2006) and based on this it can be noted that the company has started to migrate from the more goods-dominant (GD) logic towards a service-dominant (SD) logic. However, seeing that the operational leasing solution offered by the company includes mainly services that can be considered as means to increase the products value, there is still an evident GD logic in the company. Thus, the product is still the main focus and in order to embrace the SD logic the product needs to become the facilitator instead with the main focus on the services, thereby making the company more customer centric (Vargo & Lusch, 2006). The operational leasing solutions include services that mainly support the product which is in line with Mathieu's (2001) distinction of services that supports the product and services that supports the end customers utilization of the product.

According to Tukker's (2004) product-service system (PSS) the company's business model is product-oriented i.e., it is mainly organized toward the sale of products with some add-on services. However, with the establishment of FSP, the company's business model is shifting towards use-oriented services. By offering operational leasing solutions, FSP is use-oriented, whereby their business model is not organized around the sale of products. Furthermore, the ownership stays with FSP, and the product is made available to their end customers through product lease, as Tukker (2004) suggested. Result-oriented services are according to Tukker (2004) based on an agreement between the provider and end customer with no predetermined product involved. As the operational leasing solution offered by the company is mainly still focused on the product i.e., the price of the operational leasing deals is determined by the product, they have yet to reach these result-oriented services.

Moreover, positioning the company along the proposed product-service continuum could further help to determine where in the process of servitization the company is (Oliva & Kallenberg, 2003). As the operational leasing solutions integrate more product-related services the company is moving along the axis from being a pure-product provider towards a pure-service provider. Applying the framework proposed by Pereira et al. (2011) the company could be seen to be moving along the axis from product-oriented to use-oriented, as stated before. FSP however, are mainly use-oriented and would therefore be positioned further down the axis from the company. Figure 5.2 illustrates the company's and FSP's position in their transitioning process from product provider to solution provider.

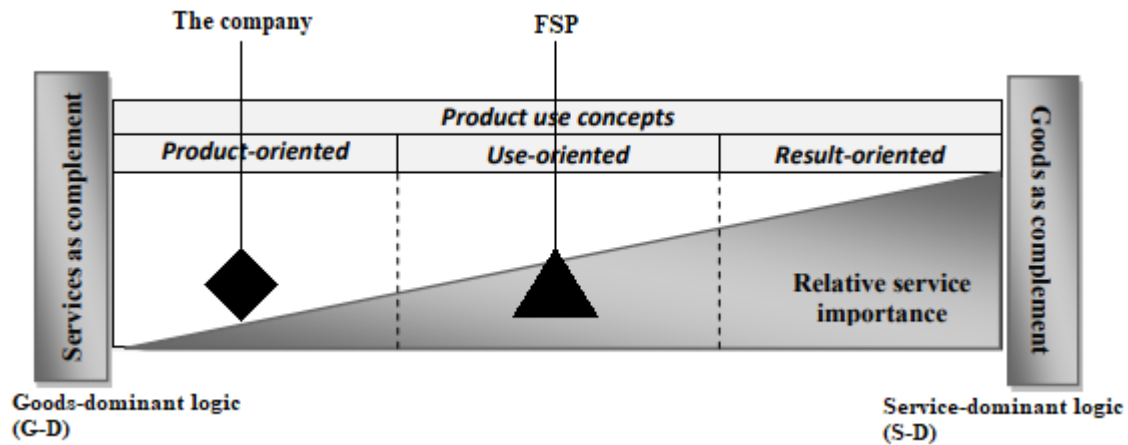
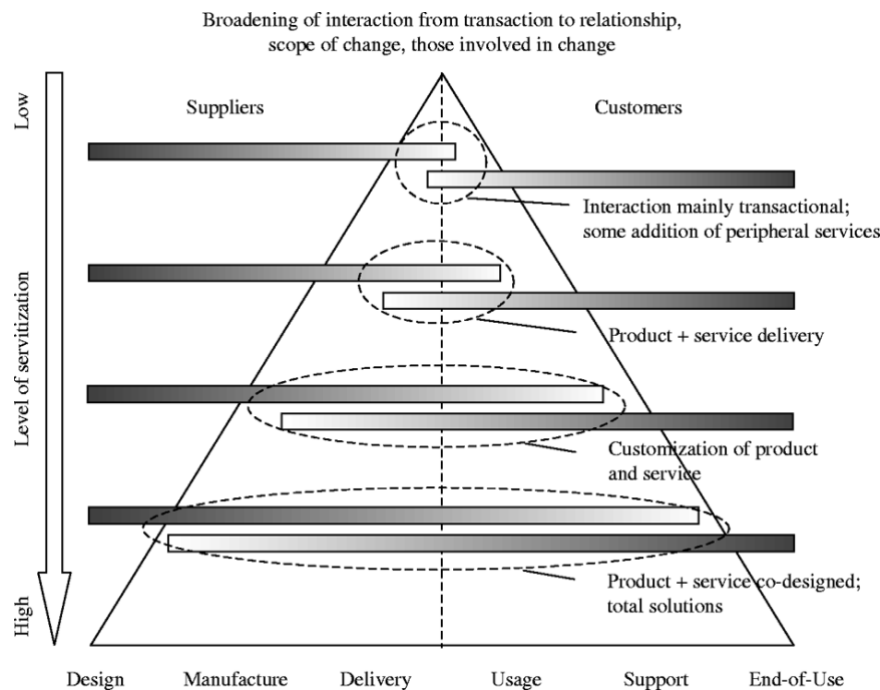


Figure 5.2: The company and FSP positioned on the product-service continuum based on Pereira et al. (2011)

Considering that the company and FSP are within the same organization and offer the same products to the same end customers through the same dealers, having different orientations can be contradicting. This is mainly due to those different orientations require different capabilities, facilities, mindsets and so forth. Thus, in their transition towards being a service provider the company and the FSP's business processes would counteract each other.

Another way of illustrating where the company is positioned in terms of level of servitization, the framework proposed by Martinez et al. (2010) can be used. As mentioned, the operational leasing solution is mainly focused on the product with integrated services. Furthermore, the interaction with end customers is higher than before although limited to usage and delivery of the product and services. In the framework proposed by Martinez et al. (2010) the company would be positioned in the second lowest level of servitization, see figure 5.3.



*Figure 5.3: Servitization continuum: a view of the customer-supplier interface
(Martinez et al., 2010)*

5.2 Challenges when introducing an integrated service solution to dealers

The dealers all stressed the fact that the platform, provided by FSP and the PP, was very complicated, time consuming and slow. Provided that the platform can be considered to be undeveloped, this arguably poses challenges, for both the company and the dealers, in the implementation of integrated service offerings. This is in line with the challenges identified in literature. Martinez et al. (2010) argues that lack of reliable infrastructures within the organization will result in failure to meet end customers' demands. Thus, servitization requires the company to have the capabilities and facilities that enable them to be competitive in the service offering market (Martinez et al., 2010; Vandermerwe & Rada, 1988) as well as adapting the necessary organizational structure and processes (Baines et al., 2009; Gebauer et al., 2008; Vandermerwe & Rada, 1988).

Considering that the platform was perceived to be complicated this resulted in increased workload for the dealers during both training and use. The literature states that this can occur with change. As Abrahamson (2000) mentioned, change can contribute to an increased workload as well as interfere with processes, this also stresses the need for resources to be available for the change recipients i.e., the dealers, in order for them to be

able to manage this. Furthermore, the literature points out that intensive exchange of information and know-how is required (Martinez et al., 2010) as change resistance can develop from lack of know-how and fear of not being able to acquire the skills and behaviors that are needed after the change has been implemented. Moreover, the increased workload coinciding with a disadvantageous time of release, culminated in the dealers not being able to acquire the know-how needed. This could further increase the change resistance among the dealers. Moreover, this further stresses the importance of adequate and qualitative training as well as good timing of training. A way to overcome this according to Kotter (1995) is for the company to enable the change recipients to succeed by making sure that they obtain the confidence, knowledge and skills needed as well as making sure that they have the resources needed. Thus, it requires the company to improve the infrastructures i.e., the platform that is needed in order to offer an integrated solution.

The dealers are used to providing the end customers with the same services that are included in the operational leasing solutions, however they were provided in a traditional way i.e., selling products and selling services as add-ons. The dealers are comfortable in this way of working and since they do not see an urgent need to change to provide a more integrated offer, the complicated platform acts as a hindrance rather than an enabler for change. The low tolerance for change is mentioned by Kotter and Schlesinger (2008) and further argued by Garvin & Roberto (2005) and Nadler & Tushman (1990) that mention that people are creatures of habit and are comfortable in their old systems. Thus, they would rather not change if there were no direct threat or no perceived feeling of need to change, especially if they consider it to be connected to risks and uncertainty (Nadler & Tushman, 1990). To overcome these barriers, the literature suggests that continuous communication plays an important role, as it is a way to establish a need to change and make sure that employees understand that the change is necessary for the organization (Hiatt & Creasey, 2012; Strebel, 1996). This would further argue that the company needs to communicate the need for change to establish a sense of urgency and a motivation for the dealers.

The dealers did in fact perceive uncertainty regarding not just how to use the platform but also regarding the incentives of the operational leasing solutions brought forward by the company. This could arguably be considered as a further hindrance for the dealers to invest time in learning and using the complicated platform. This resistance of change is related to Kotter and Schlesinger's (2008) argument that change recipients do not assess the situation in the same way as the change initiator, thereby the estimation of the benefits achieved will not amount to the investment made. In order to minimize this risk Harshak et al. (2010) suggests that it is crucial to be able to communicate and inform the benefits of a change initiative. However, Tomlinson et al. (2004) mentions that

overstating benefits might lead to people feeling disillusioned and experiencing a lack of trust towards the change initiators if these benefits are not reached. Thus, the company needs to make a proper assessment of the dealers benefits before communicating them, thereby reducing the risk of overstating them.

Furthermore, it is noteworthy that the dealers are independent of the company as well as having suppliers that are competitors of the company, thus they are not required to change their business processes unless they want to themselves. Hence, if they do not perceive it to be beneficial for them to offer an integrated leasing solution for the company towards their end customers, they can decline the company's proposition. As a result, it is essential that the company assess the dealers benefits properly as well as communicate them accordingly. Furthermore, the company needs to take into consideration the amount of investment the dealers are willing to put into the proposed change of business processes that is required in offering the integrated service solution. This is also a consequence of the dealers having other suppliers as they can make trade-offs and compare incentives with the company's competitors. The company is regarded as a strong brand in their market and the dealers gave the impression that they therefore would rather promote the company's brand to their end customers. Nevertheless, it requires greater investment from the company as well as requiring them to have greater knowledge of their competitors' offerings to their mutual dealers.

An interpretation of lack of trust was identified during the interviews with the dealers when one dealer mentioned that the company had previously released other product offerings, and further claimed that those had been incomplete and therefore were not successful. With this experience in mind the dealer decided to wait and evaluate the success of the operational leasing solutions before investing time and money in it. This relates to Gill (2002) and Kotter and Schlesinger's (2008) argument that having experience of previous failures from change might result in a lack of trust. It is therefore noteworthy for the company to keep in mind that previous experiences with the dealers are factors that need to be considered when introducing them to changes in the business.

Moreover, relating to the incentives of the operational leasing solutions, one dealer expressed the need to reach a critical mass. The dealer argued that they identified that the benefits of the operational leasing solutions were realized once the number of conveyed deals had increased. This goes in line with Fang et al. (2008) that stated that in order to achieve the positive effects services need to reach a critical mass. However, it is questionable if all the dealers have the possibility to reach critical mass considering that some of them operate in less populated areas thus having fewer end customers.

Levasseur (2010) argued that involvement and communication are means in achieving lower barriers. In line with this, Gill (2002) argued that people are more open minded to change if they themselves have been part of creating it. Since it was expressed by some dealers that there was a lack of feedback from FSP whether the information shared by the dealers was considered or not, this can result in resistance to further investment in the change. However, according to Thomas and Hardy (2011) resistance to change can be both demonized and celebrated. If FSP chooses to celebrate the resistance to change, this would, according to Thomas and Hardy (2011) provide them with the opportunity to involve the dealers and let them contribute with their feedback, thereby increasing the likelihood for them to accept the change. This can further be prevented by two-way communication according to Levasseur (2010) thereby giving both FSP and the dealers a chance to address issues, opportunities and fears as well as respond to the addressed topics, which is supported by literature (Knowles & Linn, 2004).

The company introduced the operational leasing solutions to the dealers and by estimating a target approximation the company had an unspoken expectation on the dealers to promote it further to the end customers. However, Strebel (1996) stated that when initiating change, the personal compact must be revised in order to align with the change. As the dealers expressed an uncertainty regarding how to promote the operational leasing solutions, it can be argued that the personal compact had not been revised as the company had not identified this uncertainty and addressed it. Further, this also connects to what Levasseur (2010) stated, that two-way communication is a way for the company to identify issues. As Kotter (1995) states, it is of importance for the company that the change recipients obtain the confidence, knowledge and skills needed in order to succeed. It can therefore be argued that the company should have invested more in training the dealers to ensure that they felt confident in how to promote the operational leasing deals.

The literature argues that stronger cooperation between the company and its supporting network is required considering that an integrated offering calls for more insight into their customers' problems and applications. Thus, intensive exchange of information and know-how is also required (Martinez et al., 2010). This could help the company minimize the uncertainty among the dealers regarding how to promote the operational leasing solutions to the end customers. Thus, in order to meet end customers' demands, manufacturing companies need to embrace the product-service culture and the thinking of end customers as well as acquiring a passion for service (Martinez et al., 2010).

Some of the dealers recognized the importance of having a service providing mindset, however they also recognized that the company lacked this mindset and thus it affected the dealer's mindset. The literature further suggests that the service thinking mindset is

also required by the companies' network on account of the higher degree of partnership required by them to supply integrated offerings (Martinez et al., 2010; Oliva & Kallenberg, 2003). In order to meet end customers demand, the transition requires the company to align their mindset with both their dealers and end customers perspective in order to offer service.

Furthermore, with the conducted analysis in mind one can argue that the dealer's level of servitization in comparison to the company's is spanning the entire axis of the product-service continuum, as can be seen in figure 5.4. This is due to the fact that approximately 90 percent of the dealers have yet to convey an operational leasing deal, thus they can be considered to still be product-oriented. However, the one dealer that offered their end customers a solution-based offering could be considered to be on the result-oriented end of the axis. The rest of the dealers that conveyed operational leasing deals to their end customers can be categorized as use-oriented. Comparing the company's level of servitization to the dealer's level of servitization it is arguably clear that the orientations are not aligned towards servitization. Thus, by not being aligned there is a risk for challenges to arise, such as lack of comprehension of the service strategy and resistance due to friction between the different parties of the network.

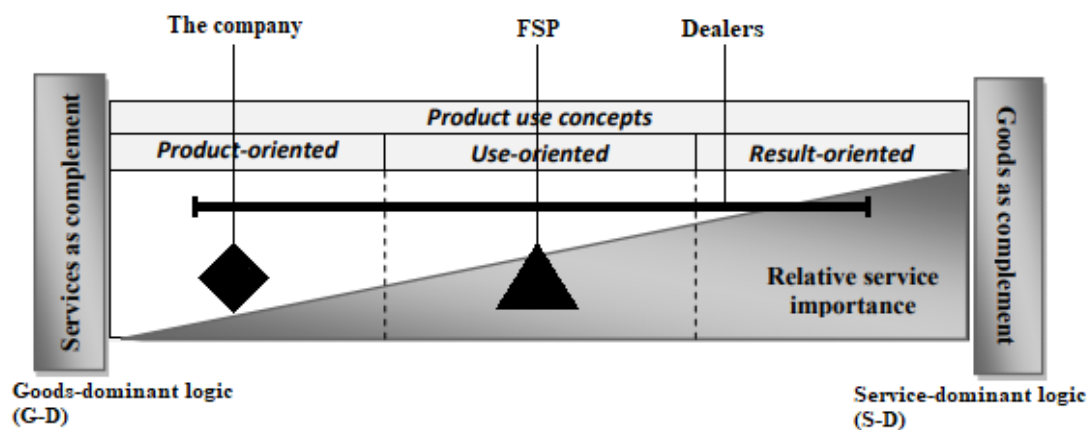


Figure 5.4: The company, FSP and the dealers positioned on the product-service continuum based on Pereira et al. (2011)

Finally, although the results coincide with the previous servitization literature to a large extent, it can be discussed whether the challenges identified are more connected to the change initiatives, rather than to servitization itself. However, as the servitization process is a process of change this can be considered to be an expected result.

5.3 Recommendations for practitioners

The discussion and analysis of the master thesis provides insight into the challenges encountered by a company when they introduce an integrated service solution to their network of dealers. Based on these insights the authors suggest three main recommendations for practitioners that can be implemented in order to reduce the effects of these challenges.

A manufacturing company that has previously offered services through their dealers to their end customers have an advantage when introducing an integrated service solution through their dealers. This is due to the fact that the dealers already have the capabilities and facilities needed in order to offer end customers services. However, the manufacturing company needs to provide their dealers with adequate supporting systems in order to realize the value of the integrated service solutions. Therefore, the first recommendation for practitioners is:

- Assuring that there are adequate supporting systems in place.

This is exemplified in this case study by the inadequate platform that was provided as a means to convey leasing deals to end customers. This resulted in the platform being mainly an obstacle rather than an enabler, thus the dealers did not recognize the value of the benefits of the integrated service solution when using the platform. For the company of this case study this would mean that the first recommendation would be to revise the platform.

Having all the adequate supporting systems in place would result in minimizing the investments required by the dealers when offering integrated service solutions. Thus, the dealers would recognize the value of the integrated service solution to a greater extent, and it would therefore minimize the barriers when conveying leasing deals to the end customers and increase the incentive to promote it towards the end customers. Consequently, this could entice more dealers to implement the integrated service solution as the value would be perceived to be more apparent.

Moreover, having the supporting systems in place, many of the difficulties relating to lack of information would be reduced. However, it is still crucial to minimize uncertainty and clarify the incentives regarding the implementation of an integrated service solution. Thus, to further bolster the incentives and minimize the uncertainty of offering an integrated service solution the second recommendation for practitioners is:

- Improving information through better communication.

By engaging in a more open communication with the dealers, the manufacturing company can communicate information more straightforward and transparently. This could also provide an opportunity for the dealers to sense that they are part of the process and to be able to provide better information back to the company.

Finally, the first two recommendations would arguably go a long way in a manufacturing company's servitization process. However, this would not get the manufacturing company to transition from being a product provider to a full-service provider. To achieve this, the third recommendation is:

- Establishing a service thinking mindset throughout the entire network and not just within the organization.

With a service thinking mindset throughout the entire network the company can align their practices better with their dealers and have a relationship-based business strategy that better meets end customers' demands. By establishing a service thinking mindset, the resistance due to lack of comprehension of the service strategy would likely minimize among the dealers. This would also benefit the company as the dealers perform an important role as they are closest to the end customers thus could mediate information about their needs to the company.

6. Conclusion

The purpose of this master thesis was to investigate what challenges there are for a manufacturing firm transitioning from a product provider to a service provider through a network of dealers. The purpose was addressed by conducting a case study of a manufacturing firm and their dealers including 12 interviews. Two research questions were formulated in order to reach the purpose of the master thesis. This chapter aims to answer the research questions thus fulfilling the purpose of the master thesis.

What challenges are encountered when a manufacturing company introduces an integrated service solution to their dealers?

From this research it can be concluded that many of the challenges that are encountered when a manufacturing company introduces an integrated service solution to their dealers concurs with the findings in literature regarding challenges in the adoption of servitization. Product providers' traditional managerial methods are not appropriate for a manufacturing company aiming to become a service provider. If the organizational network does not incorporate a service thinking mindset, manufacturing companies will encounter challenges in meeting their end customers' demands and face resistance from within their network. Furthermore, these challenges are increased if there is a lack of information as well as adequate processes i.e., supporting systems for implementing an integrated service solution. Uncertainty regarding how to implement and promote the integrated service solution as well as realizing the value of it can cultivate further resistance among the dealers. This can result in a return to focus on the product itself rather than the integrated service solution, specifically if the services are considered to be secondary to the product, which further poses challenges and threats to the manufacturing company's servitization process.

How can these challenges be reduced by the manufacturing company when transitioning from a product provider to a service provider?

Based on the findings of this master thesis there are three main suggestions on how to reduce the challenges that are encountered when a manufacturing company introduces an integrated service solution to their dealers. Firstly, assuring that there are adequate supporting systems in place that will enable the dealers to realize the value of the integrated service solution. Secondly improving information through better communication in order to minimize uncertainty and bolster incentives for the dealers. Finally, establishing a service thinking mindset throughout the entire network and not just within the organization in order to successfully transition from a product provider to a service provider thereby meeting customer demands.

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Appendices

Appendix A – Interview questions for dealers

- Have you used the company's leasing platform?
 - If yes, what is your opinion of it?
 - What types of changes would you like to see regarding the platform?
 - If no, why not?
- Who is your primary contact in at the company?
 - Can you describe your type of communication?
- What information did you receive from the company regarding the integrated leasing solution?
 - How did you receive this information?
 - What is your opinion on the information that you received?
- What advantages and disadvantages of the integrated leasing solution do you see?
 - How do you see the integrated leasing solution from an economic perspective?
 - What do you think about having to buy the product for its residual value after then end of a leasing deal?
 - How do you assess the market for used products?
 - Do you have any previous experience of selling or renting out used products?
- Do you have a target regarding number of conveyed deals, if so what do you base it on?
- What types of end customers do you have?
- Which end customers would you say are interested in a leasing solution?
 - Thoughts on why?
- What kind of feedback have you received from your end customers regarding the leasing solutions?
- Can you describe the services you offer today?
- How often do you recognize that your end customers receive maintenance and repair for their products?
- What do you think the market will look like in 5 years or 10 years for these products?
- Do you have experience of selling a product to selling a service?
- Did you participate in the company's pilot of the integrated leasing solution?
 - What feedback did you provide?
 - Have you seen a difference between the pilot and the official launch?

DEPARTMENT OF TECHNOLOGY MANAGEMENT AND ECONOMICS
DIVISION OF INNOVATION AND R&D MANAGEMENT
CHALMERS UNIVERSITY OF TECHNOLOGY
Gothenburg, Sweden
www.chalmers.se



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