

## **Success Factors for Innovation in B2B Services**

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### ***1 Introduction***

#### **1.1 Problem definition**

Manufacturing companies are being forced to differentiate themselves due to market displacement. The problem that arises when product Innovation are created is that imitations of these once glorious Innovation quickly enter the market in today's increasingly fast-paced world. These so-called me too products are often offered at a lower price, since, among other things, they do not involve high research and development costs. The result is very high price pressure. This phenomenon is also called commoditization, i.e. a company in the manufacturing sector is increasingly exposed to high price pressure, the margins are very low, and purchase decisions are made largely due to the price (Haahtela, 2010).

Commoditization is an issue both in business-to-customer (B2C) and business-to-business (B2B). However, it is precisely in the B2B sector that it is necessary to obtain the customer's long-term loyalty. It is also an advantage for price to not always be the criterion that is decisive for purchasing. Often, it is all the more important that customers experience a significant added value through a promised benefit and a service offering arising from the business relationship.

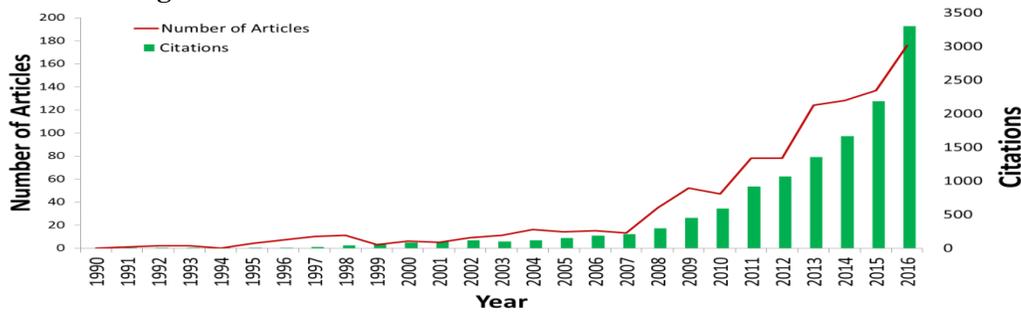
For example, servitization has been used since 1988, which means that manufacturing companies are increasingly being reoriented and service is becoming the focus of business activities. The aim is to be capable of coping with the increasing commoditization problem by differentiating the companies with an extensive service offering that is firmly anchored in the strategy (Raddats, & Easingwood, 2010).

However, even the most comprehensive service offerings of manufacturing companies are increasingly being imitated, and more and more commoditization is also taking place in this respect (Opresnik, & Taisch, 2015). For companies that are exposed to this competitive pressure, it is therefore indispensable to emerge from stagnation and to actively engage in searching for Innovation. Especially in the B2B sector, it is important to create more than just product Innovation. The talk here is of Innovation in B2B service, with the aim of creating value for both the company and the customer, in order to build up a long-term relationship and make a significant contribution to the company success.

#### **1.2 Literature analysis**

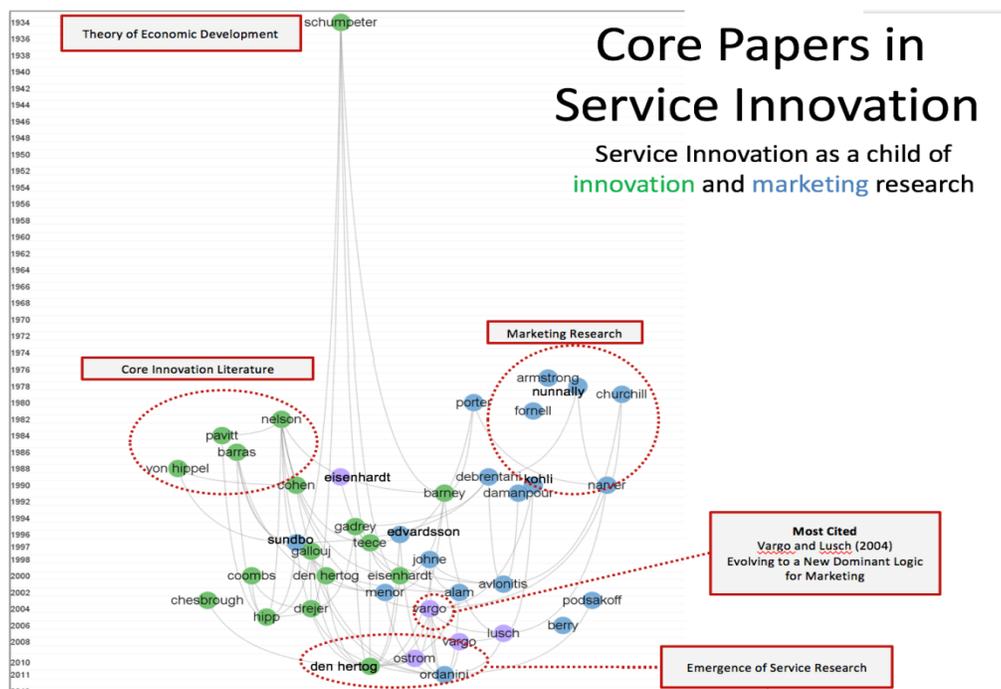
The following literature analysis provides an overview of the development and bibliometric network of the keyword "service innovation", using the programs CitNetExplorer and Vos Viewer. Over the last decades, the term "service innovation" has become subject of many discussions and publications, referring to the increasing number of articles and citations since 1990.

**Figure1. Number of articles and citations on service innovation**



Identifying the most important publications on service innovation, USA (268), England (203) and Taiwan (120) rank among to Top Countries by number of publications, followed by Australia (64), Finland (62) and Germany (52). Central to describing the success factors for Innovation in B2B services is the rise of the discipline service innovation, as a child of innovation and marketing research.

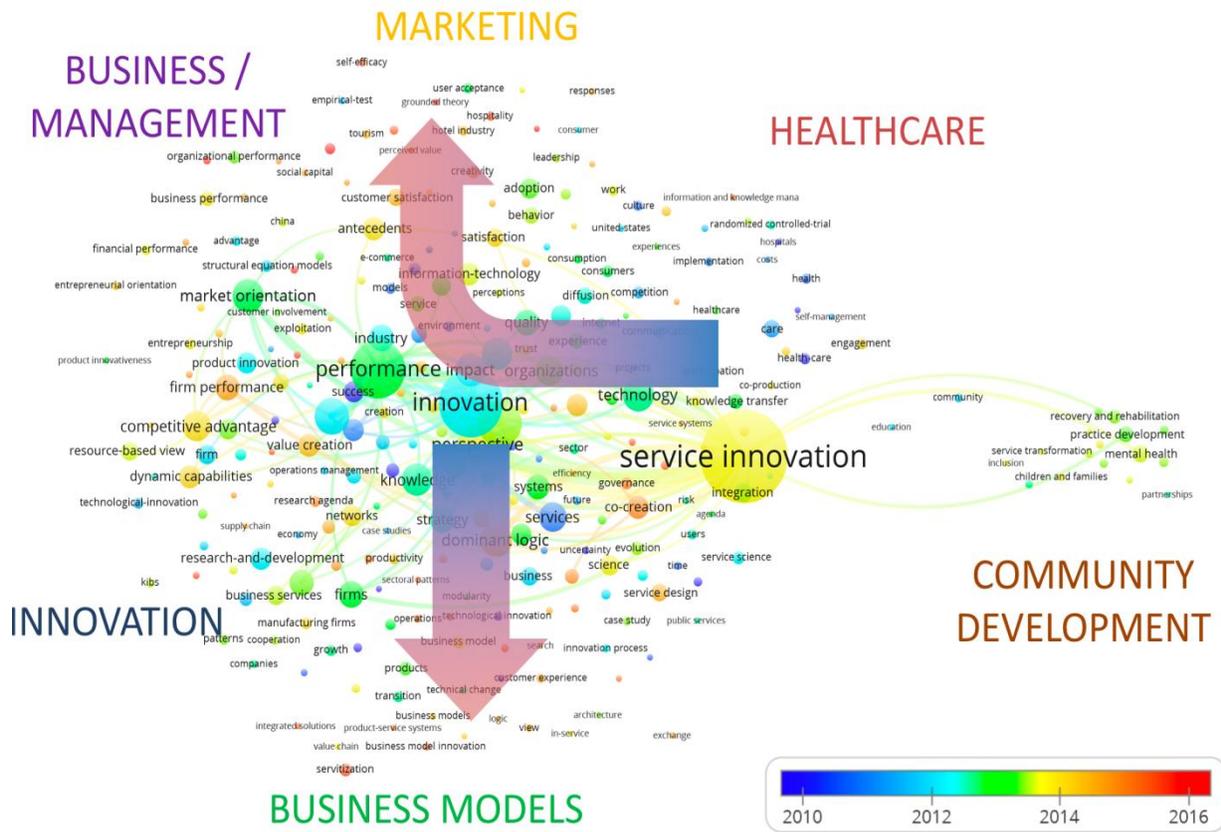
**Figure 2. Core papers in service innovation**



Early involvement in the discipline of service Innovation comes from the area of innovation research, such as often cited Gallouj and Weinstein (1997). Endorsing the importance of Innovation in the service sector, they analyze the elements of Innovation in services rather than distinguishing them from those elements of Innovation in manufacturing (Gallouj, & Weinstein, 1997). Another early contribution to service innovation from the innovation research discipline comes from den Hertog (2000). He focuses on understanding the role of services in innovation. According to den Hertog, knowledge intensive business services act as co-producer of Innovation. This relationship between services and innovation, together with key attributes such as intangibility and process-orientation, build the non-technical factors in service Innovation (Hertog, 2000; Linnemann, & Baaken, 2010). However, the term service innovation also emerges from the discipline of marketing research, with Vargo and Lusch (2004) identified as most cited and key publication in the field of service innovation. Following their approach of “Evolving a New Dominant Logic for Marketing”, they discuss the shift from a goods-centered to a service-centered logic of marketing, defined by intangibility, processes and relationships, such as the co-creation of value, rather than physical goods and transactions (Vargo, & Lusch, 2004).

Figure 3. Service innovation over time

# TREND OVER TIME



An important finding is the trend of service innovation publications over time. While there are more articles and citations, it is important to mention the shift from a focus on general management and services in healthcare towards the hospitality industry on the one hand, but business model innovation and servitization on the other hand.

### 1.3 Objectives and approach

The above literature review indicates a growing importance of service Innovation, based on the increasing number of articles and citations as well as the shift from general to more specific areas of interest. The current literature is dealing more and more with servitization, business model Innovation and the resulting added value. Nevertheless, Baines et al. (2009) point out that there are still only a few papers that provide practical help for companies to successfully create Innovation in B2B service.

Thus, the aim of this paper, based on the status quo of the literature and with regard to important future trends, is to present success factors that can help companies in the B2B area to create service Innovation and thereby differentiate themselves in the market, while meeting the rising customer expectations. In this way, the companies that have recognized the added value and the need for differentiation through a customer-oriented service offering are given the opportunity to generate a substantial and difficult to achieve competitive advantage, in order to increase the company's value in the long term. To this end, the following needs to provide a basic understanding in this regard. The next chapter will describe the terms servitization, value creation, service in B2B, and service Innovation in greater detail, with reference to the existing literature. In the third chapter, we will focus on the specific challenges that companies face when they opt for greater service orientation.

The elements described in the literature that can help to successfully implement a service orientation in the company will thus be listed as success factors. However, an important focus here is also on the necessary further development of the company's service offering and innovative strength. The conclusion determines the central results, while at the same time critically questioning them with regard to future topics of interest.

## **2 Background**

In addition to the potential added value that can be achieved by servitization, the following is also about the service aspect in the B2B area, along with the potential and necessity of Innovation in service. The current state of research on the subject is also to be represented.

### **2.1 Adding value via servitization**

#### **2.1.1 Definition**

The concept "servitization" gained importance for the first time in 1988 with Vandermerwe and Rada. They describe servitization in the following way: "Modern corporations are increasingly offering fuller market packages or 'bundles' of customer-focused combinations of goods, services, support, self-service and knowledge." (Vandermerwe, & Rada, 1988, p. 314) In addition, Baines et al. (2009) point out that service is generally not tangible, and is provided rather than produced.

A further development of the servitization definition is as a change whereby manufacturing companies focus on the service offering, or develop more and better service offerings, with the aim of satisfying customer demands, generating competitive advantages, and increasing the company's performance (Baines, Lightfoot, Benedettini, & Kay, 2009, p. 554). This definition should be regarded as a basis for this paper's further development. In addition to servitization, other concepts have emerged over time, which are referred to as service economy, hybrid value creation, or product service systems (Atos Consulting, 2011). However, no separate differentiation of the various concepts is made in the following in order to concentrate primarily on the success factors for companies.

#### **2.1.2 Reasons**

Services are important sources of income for companies. Apart from financial reasons, there are also other significant reasons. These include the differentiation potential as well as the creation of competitive advantages, since service offerings are more difficult to imitate due to their intangibility and work intensity, and are therefore more sustainable than products or product Innovation. This creates barriers for competitors. In addition, a comprehensive service offering can make a significant contribution to the customer relationship, which can lead to customer loyalty and repeat purchase behavior. Such a long-term and healthy customer relationship is especially desirable in the B2B sector (Baines et al., 2009; Kliewe et al., 2013).

It became clear in a study that, along with declining product-related profit margins and the creation of key competitive advantages, companies are also facing servitization due to ever increasing customer expectations. Some companies are also seeing the opportunity to use a comprehensive range of services as a lever to gain new insights into the needs of customers, in order to develop new products and more product-related profits (Atos Consulting, 2011).

The fact that servitization has many different reasons and advantages are also confirmed by Raddats and Easingwood (2010). They describe the focus on service orientation as one sustainable source of income, which often anti-cyclically has the effect of selling the original products. Moreover, companies are increasingly focusing on their core competencies, such that certain areas are outsourced. Manufacturing companies that already have a relationship with the company that outsources activities can often be given preferential treatment in the award of contract (Raddats, & Easingwood, 2010). Beyond that, it can be said that companies always seek the goal of maximizing profit and increasing value.

#### **2.1.3 Service paradox**

Even if it is clear that servitization has a lot of potential for success, it should be noted that an extensive service offering is often associated with very high costs. Thus, Gebauer, Fleisch and Friedli speak of the service paradox (2005). They have observed that many companies expand the service offering in such a way that an oversupply of services leads to very high costs without corresponding profits (Gebauer et al., 2005).

It is precisely because of the risk of the service paradox that it is important to be aware of how high costs can be avoided, and of what is entailed by the company focusing on increasing service orientation.

## **2.2 B2B and service innovation**

### **2.2.1 Service in B2B**

In B2B markets, a manufacturer's products are often a major component of the customer's production process. Therefore, on the one hand B2B customers depend on the functionality of the products, and on the other hand purchasing decisions are not necessarily made on the basis of the price, but rather on that of the additional added value they receive from the choice of supplier. In this respect, a product alone offers less and less differentiation potential, which is why manufacturers increasingly focus on a comprehensive service offering in the context of servitization, in order to strengthen the customer's added value (Atos Consulting, 2011).

However, especially in B2B markets with many traditional and established manufacturers, it is noteworthy that innovation processes are still strongly related to products (Hsu, 2011; Munksgaard, & Freytag, 2011).

In this context, Ostrom et al. stress that service Innovation play a leading role in the creation of new markets and new business opportunities, but that B2B companies are not yet sufficiently developed to implement this in practice: [they] are sticking to what is called the 'invention model', centered on structured, bricks and mortar product development processes and platforms" (Ostrom et al., 2010, p.15). This makes it particularly important for managers of B2B companies to deal with the subject of service Innovation, in order to systematically establish a possible service orientation in the company's core.

### **2.2.2 Service innovation**

Customers are increasingly becoming the focus of all company activities, as Carlborg, Kindström and Kowalkowski have demonstrated in their 2014 literature review. The concept of service innovation is also being continually reinterpreted (Carlbor et al., 2014).

In this sense, service Innovation are being regarded as a cross-functional field characterized by heterogeneity and dynamics. Due to the market dynamics and the requirements for quickly reacting to changing customer demands, service Innovation are becoming increasingly important. Service Innovation must always be viewed as a dynamic process that breaks away from stagnation and rigid processes (Carlborg et al., 2014).

Service Innovation are only indirectly related to a product, being much more related to new business models. When talking about service Innovation, it often involves how a company changes itself and thus the business model, in order to meet the requirements of the markets and the customers (Atos Consulting, 2011). It is increasingly about redesigning and networking processes, rather than exclusively about new inventions (De Jong, & Vermeulen, 2003).

This kind of innovative force with regard to the service offering has a positive effect on the company's benefit and value offering, which positively affects the customer's perceived value-in-use. The customer's perceived value-in-use in turn positively influences the company's performance (O'Cass, & Sok, 2013).

The market for service offerings from manufacturing companies is growing steadily. It is therefore important that companies pursuing servitization also focus on future growth. The problem of the service paradox should be avoided along the way. To this end, companies must continually develop new service offerings and processes in order to always be differentiated and to fend off commoditization of the servitization (Chae, 2012). In the following the challenges for companies in creating service innovation will be examined.

## **3 Innovation in B2B service**

### **3.1 Challenges**

As pointed out by Gebauer et al. (2005), it is not rare for a service paradox to arise. Many companies are failing to actually make profits with their new service offering (Kindström, & Kowalkowski, 2014). This is particularly common in older companies, as the more mature the business model and the strategic orientation, the more difficult it can be to fundamentally change something (Atos Consulting, 2011).

### 3.1.1 External challenges

On the one hand, reasons for such a service paradox may stem from external challenges. It is well known that customers are not always willing to pay for a service, or that companies are unable to manage setting a reasonable price for the services (Atos Consulting, 2011; Kindström, & Kowalkowski, 2014). Moreover, the company and customer may have differing expectations. Customer expectations are constantly increasing and changing. Thus, service Innovation are not always predictable; they are ad hoc, i.e. reactive responses to the changing demands (Kindström, & Kowalkowski, 2014; Martinez et al., 2010). In addition, there are customers with different negotiating positions, and customers that are not all equally profitable. Not for all customers or customer groups are worth investing in a comprehensive service offering (Kindström, & Kowalkowski, 2014).

At the same time, the companies are operating outside of their usual environment, and are thus subject to new competition which they had not expected. Aside from existing service providers, these can also be their own suppliers or their own customers (Baines et al., 2009; Kindström, & Kowalkowski, 2014).

### 3.1.2 Internal challenges

Besides the external challenges, internal factors also play an important role. Companies must act in a service-oriented manner in order to move towards service Innovation. However, many companies believe that it is sufficient to have a basic service offering bundled together with the main product (Atos Consulting, 2011). This may lead to the fact that the service offering is still regarded as secondary, and that there is no cross-functional support (Baines et al., 2009).

There may also be conflicts at the organizational level, since service orientation is fundamentally different from product orientation (Baines et al., 2009). Many companies lack the necessary knowledge to orient themselves strategically to service and customer requirements and to actually implement this in practice (Atos Consulting, 2011). Moreover, company cultures are firmly anchored and very difficult to change. This is the case with a change within the company from a product culture to a service culture (Atos Consulting, 2011). On the basis of such cultural challenges, there may be resistance from the employees, who ultimately share responsibility for the service offering's success. This can particularly be the case for companies that already have firmly anchored, in-depth structures and a culture (Baines et al., 2009).

Manufacturing and marketing a product is often the core competency of companies that are pursuing servitization. However, selling appropriate service offerings is significantly different and more complex (Baines et al., 2009; Kindström, & Kowalkowski, 2014). There is a risk that the sales staff will continue to focus on the product, and not on the product-service offering (Martinez et al., 2010). The offered service is seen by many employees as an addition to the product, not as an independent, value-creating element. There is a risk that the benefits and added value that the customer gains with the additional service offering, will not be clearly communicated and therefore not understood and internalized (Baines et al., 2009). Sales staff who only sell the product can lose sight of what the customer needs and appreciates (Kindström, & Kowalkowski, 2014).

On the other hand, Opresnik and Taisch (2015) emphasize the increasing commoditization of servitization, and warn that there are ever more service offerings, which are becoming a habit rather than a competitive advantage and a differentiation characteristic. Companies need to focus on new services that are more difficult to imitate than traditional service offerings (Opresnik, & Taisch, 2015).

However, overall Kindström and Kowalkowski (2014) identify a great challenge in that there is too much of a focus on service innovation, without considering the entire business model. The problem may arise that the big picture is lost sight of (Kindström, & Kowalkowski, 2014).

### 3.2 Success factors

There are a variety of factors that should help companies focus on servitization, while at the same time pursuing a path that allows for more than servitization alone - a way to facilitate service innovation. The big challenge of focusing not only on individual elements of the business model, but also on the big picture, is however one that not all companies are achieving thus far.

### **3.2.1 Servitization success factors**

An important basis for the success factors has been developed by Gebauer et al. (2005). They developed a guide for managers that is intended to help them successfully establish service offerings within the company (Gebauer et al., 2005, p. 22).

The need for a clearly defined service development process is emphasized, which, among other things, involves identification of customer demands via market research and workshops with lead customers. They also emphasize the "Value Proposition to the Customer" (Gebauer et al., 2005, p.22). In this step, it is important to increasingly focus on customer orientation, and to also impress this upon the employees.

An important focus is also that of relationship marketing, involving a fixed price for all services within a period, continuous communication between customers and service staff, along with training of the sales staff, in order to actively offer the service, to better understand the customer's benefit, and to make the service offering more tangible for the customer (Gebauer et al., 2005, p.22).

A clearly defined service strategy is also recommended for responding to customer demands, market potentials, and service trends in a targeted manner. This is intended to enable companies to differentiate themselves through their service offering, while at the same time creating the necessary awareness and acceptance within the organization.

An independent service organization is equally important. The aspects of independent responsibility for results, individual goals associated with bonuses, and a high-performance sales department is particularly emphasized. Since manufacturing companies have often developed their own culture, it is also important to raise awareness for a service culture, whereby the service offerings are no longer seen as a necessary evil intended to promote sale of the products, but as a value-creating, value-added activity (Gebauer et al., 2005, p.22).

In their 2009 literature review, Baines et al. (2009) also highlight key success factors that should help manufacturing companies to take advantage of servitisation's potential. In addition to the factors mentioned by Gebauer et al. (2005), Baines and colleagues emphasize the dynamics underlying a service process. The customer's constantly changing expectations and demands mean that it is important to not only offer standard services but also fully customized services, insofar as this is actually worthwhile. It is important to have the right employees, who understand the customer and his or her demands (Baines et al., 2009).

Consideration and implementation of the factors described above should have a positive effect on the acceptance of services in product-oriented companies, in order to escape the so-called service paradox.

### **3.2.2 Service innovation success factors**

Other authors are also concerned with the success of service Innovation. Many of these elements overlap, or are based on the guide by Gebauer et al. (2005), but the primary focus is not on individual elements, but rather on the need for a multidimensional perspective on service Innovation.

Atos Consulting opts for such an approach, by clearly speaking of a company-wide transformation process and of a business model that must be fundamentally revised (Atos Consulting, 2011). It is stressed that an awareness of the service offering must be created: "services are no longer a department but a state of mind" (Atos Consulting, 2011, p.22).

Likewise, Martinez et al. (2010) deal with this transformation process and associated challenges and success factors. They emphasize, among other things, that companies must develop a passion for service in order to meet customer expectations. The employees must be capable of putting themselves in the customer's shoes - "[to] think like a customer" (Martinez et al., 2010, p.459). The entire organization also needs to reorient itself, and an infrastructure must be created that enables "knowledge sharing routines" (Martinez et al., 2010, p. 460). According to Kindström and Kowalkowski (2014), the holistic approach will create an enormous competitive advantage, since competitors generally only imitate individual elements of a business model (Kindström & Kowalkowski, 2014). It is therefore all the more important that all other aspects of the business model be modified along with a change, and, if necessary, that they be adapted.

In order to implement the strategy, Kindström and Kowalkowski advise highlighting its urgency, along with creating a structure involving personal stakeholder responsibility for results (Kindström, & Kowalkowski, 2014). Moreover, a point is broached which Opresnik and Taisch (2015) are also currently focusing on. A lot of data is collected and maintained. In fact, there is a great potential to use this data for new service offerings.

Together with new information and communication technologies, it is possible to recognize and influence customer demands (Kindström, &Kowalkowski, 2014). The employee is a decisive criterion for the transformation process in each step. Since they are in close contact with the customers, they need to be thoroughly trained and sensitized. They must be able to recognize the value-in-use for customers. Sales staff must see their role as being a problem solver rather than a product salesperson. The focus must be on selling the benefits and functionality that the customer will receive (Kindström, &Kowalkowski, 2014).

The service paradox has to be kept in mind at the same time. To this end, it is important to segment and prioritize customers. It is recommended to have an extensive customer portfolio that also takes acquisition of new customers into account. In this regard, the lifetime value potential of customers can be assessed, and corresponding customer strategies can be derived (Kindström, &Kowalkowski, 2014).

Not infrequently, companies opt for cooperation with third parties in the creation of new services. It is important to divide profits, costs, and losses in this endeavor. Corporate culture plays an important role throughout the entire process, and management is required to emphasize and enact the importance of service orientation, and to control internal communication (Kindström, &Kowalkowski, 2014).

### **3.2.3 Innovation in the B2B sector**

Three crucial skills are necessary for a successful transformation from a product-oriented to a service and customer-oriented company (Kindström, Kowalkowski, & Sandberg, 2013):

#### *1. "Sensing Capability"*

Both direct customer contact by the employees along with collection and analysis of incoming customer data make it possible to discover new innovative ideas and processes.

#### *2. "Seizing Capability"*

The responsibilities, interfaces, structures, coordination and priorities of existing customer relationships must be continuously evaluated and, if necessary, adapted.

#### *3. "Reconfiguring Capability"*

This is probably the most important skill that a company needs to have - the right culture has to be created, and many management tasks are required, such as change management, but also a refined sense of the right balance between product and service offering.

In addition to the highlighted success factors, or the elements that positively influence service Innovation, it is important to develop an awareness that service offerings can be imitated more and more rapidly, and thus they are not a general remedy for market displacement. Therefore it is indispensable to always take trends in the service sector into consideration, as Gebauer et al. (2005) have pointed out.

## **3.3 Trends**

In this respect, Opresnik and Taisch (2015) are currently working on the benefits of Big Data in servitization, in light of the increasing commoditization of servitization (Opresnik, &Taisch, 2015). Information is a third dimension along with product and service, which arises when services become the focus. However, thus far few suppliers have generated added value from this mass of data. Along these lines, Opresnik and Taish supplement a fifth V to the Vs of Big Data: Value (Opresnik, &Taisch, 2015). However, the basis for this is that the data that has emerged is newly processed. This means that changes in customer behavior can be detected very quickly, or the data can be sold to third parties. But the big challenge in this context is the frequent lack of access to the data.

In the form of "organizational silos" (Opresnik&Taisch, 2015, p.9), the data is present somewhere around the company. The Service Science Factory (SSF) of Maastricht University has highlighted six megatrends that can help companies find potentials for future service innovation. These trends include "mass to me", "central authority to network authority", "ownership to access", "estimated self to quantified self", "passive to empowered", and "work to play", which are gaining importance in both the B2C and in the B2B sectors.2

## **4 Conclusion**

### **4.1. Summary of key results**

Due to increasingly complex customer requirements, manufacturing companies must continually redefine their competitive advantages to continue creating value for the company. Many manufacturing companies see great success potential in differentiation via a holistic service offering that focuses the business model on the customer's demand for benefits in a targeted manner. They are increasingly moving on from marketing a pure product, which generally is only a means to an end. For example, Hilti International focuses on the fact that its customers buy a drill because they want to drill a hole for certain reasons, not because they need a drill. Accordingly, the company has developed a new business model, which is in the form of providing the customer with a service offering (Opresnik, & Taisch, 2015). However, since servitization alone is also becoming more and more competitive on the market, companies need to consider the service offering as a continuous and dynamic process pertaining to the entire company, and not just individual elements of the business model. Facing rapidly changing market conditions, increasingly complex customer needs, along with constantly updated service trends, for many manufacturing companies service innovation can be a decisive differentiation criterion that helps to generate long-term and valuable competitive advantages.

Since this involves a holistic transformation process, there are numerous recommendations in the literature for adapting individual elements of the business model. However, in order to avoid losing sight of the great number of management tasks that are entailed, it is recommended that a target, strategy, and action plan be developed, which is structured according to the three fundamental abilities that Kindström and colleagues define as decisive for success: Sensing, Seizing and Reconfiguring (Kindström, Kowalkowski, & Sandberg, 2013). Nevertheless, papers such as those of Gebauer et al. should not be neglected. They provide an important basis for understanding and for the requirements of servitization.

Finally, it is important to be aware of the real value of service innovation, and to communicate this across all organizational levels, thus enacting a service culture. It is also advisable to always keep in mind the trends of the time and to be aware that the change from a product culture to a service culture requires a great deal of time and understanding, and that the tasks and elements of change management are not to be neglected.

#### **4.1 Critical reflection and outlook**

The subject matter addressed in this paper is a topic that is currently being intensively discussed. This is also evident in the large number of utilized and underlying journals. However, it has also become clear that many papers are on a general level, or are oriented towards case studies.

It would be desirable for there to be more practice-oriented articles on the subject, which deal with very specific elements of service Innovation and the transformation process. Specific techniques and methods are still not widespread in this context. Just as interesting and relevant for companies that are exposed to the service paradox, are specific recommendations as to the correct pricing for services. For example, Gebauer et al. (2005) have already proposed agreeing on a fixed price for all services within a period. However, pricing methods that are relevant to practitioners are still very rare.

Ultimately, it is clear that service Innovation are part of a holistic and cross-sectoral discipline, in that, among other things, discussions regarding leadership, change management, but also cultural differences should be well received - and this also applies to individual industries but also to different business models, to global, transnational companies, to wholesale, retail, but also small and medium-sized companies.

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