Chapter 2
Creating Effective Customer Solutions: A Process-Oriented Perspective

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ABSTRACT

Global competition and declining margins have made enterprises in diverse industries increasingly aware that assuring low cost as well as high product performance and quality is no longer sufficient for long-term success. Integrating products and services into customized solutions can help firms to gain competitive advantage. Based on 11 in-depth interviews with managers from solution providers and an exploratory survey with 45 solution providers, this paper derives a value creation process as well as a set of critical activities and pitfalls within each step. Selling solutions requires relational processes between customer and supplier comprising analysis/consulting, design/configuration, implementation/delivery, and support/operation. To better understand the relational process, this perspective was adopted on creating solutions in order to identify crucial routines and activities. Two main capabilities within this process can be identified: customer interaction and project management. Both capabilities are required in order to deliver more effective as well as efficient solutions.

1. INTRODUCTION

The current situation in industrial markets characterized by global competition and declining margins challenges enterprises. Assuring low cost as well as high product performance and quality is no longer sufficient for long-term success. Firms have to find new ways of creating value for their customers through both: new services and technological innovations (Windahl, 2007). Thus, suppliers in diverse industries try to differentiate themselves by offering more customized and integrated solutions (Tuli, Kohli, & Bharadwaj,
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2007). This goes along with a strategic shift from merely offering physical products, spare parts, and support services to the more complex delivery of performance, optimization, and productivity (Galbraith, 2002; Windahl, 2007). Peter Drucker already stated in 1974 that “…what the customers buys and considers value is never a product. It is always utility, that is, what a product or service does for him…”

To illustrate this strategic shift we give an example of telecommunication industry: instead of offering a telephone system with the appropriate software, end devices, and services (installation, reactive maintenance, spare parts etc.) the value proposition of telecommunication firms nowadays is “telephony” which integrates all the components listed before. The provider is responsible for the availability of the telephone infrastructure and also delivers further services, like proactive maintenance, in order to ensure it. Thereby, the customers derive their value by using the telephone without needing to attend to the required infrastructure (components).

In practice, however, companies very often fail to implement an effective solution strategy due to lacking understanding of the success critical factors. Therefore this paper discusses customized and integrated solutions by focusing on the capability of value creation. There is evidence to suggest that it is not easy for suppliers to provide effective solutions that are also profitable (Tuli, Kohli, & Bharadwaj, 2007). Based on 11 in-depth interviews and an exploratory survey with managers from 45 solution providers we derive a four-step process of value creation in the context of solution selling. Thus, our work is a relevant completion of the exploratory results of Tuli, Kohli, and Bharadwaj (2007) who identified a similar four-step value creation process.

Suppliers must pay attention to this process view in order to realize sales opportunities and satisfy customers. The findings of the paper help firms to deliver more effective and efficient solutions to their customers gaining higher profits.

The outline of the paper is as follows. In the next chapter we give a definition of the phenomenon solution. Then, we discuss central characteristics of solution selling and present our empirical findings concerning the four-step process of value creation in the context of solution selling. In the final section managerial implications and directions for further research are provided.

2. THE SOLUTION CONCEPT

This chapter provides a general understanding of the concept of customer solutions. We define the term solution and discuss specific characteristics and implications of solution selling.

Definition of Solution

A solution can be defined as a customized and integrated combination of goods and services designed to meet customer's specific business needs (Sawhney, 2006; Stremersch, Wuyts, & Frambach, 2001). This definition highlights two key dimensions – the degree of integration and the degree of customization – which can be considered as the main sources of superior value for the customer (Doster & Roegner, 2000). Sawhney (2006) states that “…the value of integration and the value of customization represent the difference between the ‘whole’ (the value of the solution) and the ‘sum of the parts’ (the value of component products and services)…” Figure 1 shows schematically the value added of solution offerings ($\Delta_{\text{solution}}$) in comparison to traditional (standard) offerings like pure product selling or (pure) product-service bundles.

The incremental customer value created by the integration of a solution arises from two sources: marketing integration and technical integration (Krishnamurthy, Johansson, & Schlissberg, 2003). Marketing integration refers to ad-
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