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When services are offered by small and medium retailers: what is the customer's perception?[1]

Cuando los pequeños y medianos detallistas ofrecen servicios: ¿cuál es la percepción del cliente?


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1. WHAT IS SERVITIZATION?

According to Vargo and Lusch (2004) we live in the era of services, which means that traditional product-based companies add services to their offers. If this is the case, can we still apply the concepts (such as the marketing mix) that marketers have been using for many years? Would it not imply that marketing strategies of businesses should pay much more attention to principles, theories and practices of services rather than using the previous frameworks for mainly products?

One of the new emerging concepts regarding a new theory for services is "servitization". Servitization is recognized as the process of creating value by adding services to products (Rada and Vandermerwe, 1988). So far, some companies are used to selling a product, forming a transactional relationship with their customers ("I sell you a product, you pay me, end of the relationship"). But selling services creates a relationship between the company and customer ("I provide you a service, we start a relationship, we keep in touch").

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EXECUTIVE SUMMARY

The concept of servitization or adding services to the existing product offer has been mainly used in the manufacturing sector but little or no attention has been paid to the application of this concept in the retail sector. The purpose of this exploratory research is to measure the perceptions that customers have towards local small and medium retailers regarding the services they offer. We also want to compare the profile of the customers that consider products and services the most important factor when choosing a retailer compared to the rest of the sample. Our findings show that there are a few differences between customers who would prefer more services compared to customers who state that services are not their priority.

RESUMEN DEL ARTÍCULO

El concepto de servitization o añadir servicios a los productos que ya se venden, se ha utilizado principalmente en el sector manufacturero, pero muy poco o nada a la hora de aplicar este concepto en el sector minorista. El propósito de esta investigación es medir cuáles son las percepciones que tienen los clientes hacia los minoristas con respecto a este nuevo concepto. También hemos comparado el perfil de los clientes que tienen en cuenta los productos y servicios como el factor más importante para elegir un minorista con el resto de la muestra. Nuestros resultados muestran que existen algunas diferencias entre los clientes que prefieren más servicios en comparación con cliente para los que los servicios no son su prioridad.

The growing interest in servitization by scholars, businesses and policy makers is rooted in the belief that a move towards servitization could create additional value for the organizations (Hewitt, 2002; Muller and Doloreaux, 2007; Baines et al., 2007). This new value derives mainly from the relationship created and takes form in terms of a different revenue model, differentiating from competitors, changing how the company is structured and even develops a new business model for the company.

Table 1. **Main findings in the servitization literature review**

Finding 1: Servitization is the innovation of an organisation´s capabilities and processes to better create mutual value through a shift from selling product to selling Product-Service Systems.
Finding 2: Since servitization was first coined in 1988, there has been a growing output of papers from the USA and Western Europe that appear mainly in managerial and business practitioner literature, with authors tending to be from Operations, Services and Business fields.
Finding 3: There are various forms of servitization. They can be positioned on a product-service continuum ranging from products with services as an 'add-on', to services with tangible goods as an 'add-on' and provided through a customer centric strategy to deliver desired outcomes for the customer
Finding 4: Examples of leading practice in the adoption of servitization are focused on larger companies supplying high-value capital equipment such as Alston, ABB, Tales and Rolls-Royce. These demonstrate how traditionally based manufacturing companies have moved their position in the value-chain from product manufacturers to providing customers with integrated solutions that can include multi-vendor products.
Finding 5: Servitization frequently occurs because of financial drivers (e.g.: revenue stream and profit margin), strategic drivers (e.g.: competitive opportunities and advantage) and by marketing drivers (e.g.: customer relationships and product differentiation).
Finding 6: The adoption of servitization by a conventional manufacturer principally presents challenges for service design, organisation strategy and organisation transformation.
Finding 7: There is a paucity of previous work that provides guidance, tools or techniques, that can be used by companies to servitize.
Finding 8: The principal research need is to engineer tools or techniques that practitioners can apply to help in service design, organisational design and organisational transformation.

Source: Baines and Lightfood (2013).

1.1. Servitization in different sectors

So far, this concept of servitization has been primarily studied in the manufacturing sector and its interest has increased since the mid-1990s. When we look at servitization, it can be taken from distinct researcher communities, such as services marketing, service management, operations management, product-service systems and service science management and engineering, which are contributing to knowledge production in the servitization of manufacturing.

Baines and Lightfood (2013) recently collated the research into servitization, the main findings of which are summarized in the following table: (see **Table 1**).

Although servitization has been mainly researched in the manufacturing sector, there are other sectors where the concept has been applied. Barnett et al., (2013) analyzed a case study of a complex engineering service and suggested that in order to provide services, a paradigm shift needs to occur.

Another sector researched is local newspaper companies. Sánchez-Montesinos and Arias (2014) analyzed the relationship that exists between the firm's and individual's adaptation to servitization, and the concept of absorptive capacity in this sector. The results of the study show, not surprisingly, that the newspaper companies should improve the relationship with its clients: the reader and the advertiser.

As an example of the need for change in the ways that companies normally operate if they want to profit from servitization, Bustinza et al., (2013) studied the music industry in the UK and discovered that not all the consumers wanted to take part in processes of co-creation to add more value for them. One of the findings showed that the most numerous group of the sample named "Cautious Consumer" that represented 43% of the sample, did not have any interest on the co-created valued, preferring not to be part of the value chain and were interested in a limited number of transactions and information exchanges with the music firms. This conclusion highlights the importance of analyzing consumers' attitudes and the mechanism to induce them to value co-creation processes of services and, afterwards, design offerings that allow these groups to participate in the buying process in order to increase the revenues of the firm.

KEY WORDS
Servitization, Service-dominant logic, Customer perception, Small and medium retailers, Survey.

PALABRAS CLAVE
Servitization, Lógica del servicio dominante, Percepción del cliente, Pequeños y medianos comercios, Encuesta

2. CAN THE SERVITIZATION CONCEPT BE APPLIED TO SMALL AND MEDIUM RETAILERS?

BS To address our research problem, we have to adapt the definition previously stated for servitization to the retailing context as follows "the innovation of a retailer in its capabilities and processes in order to sell not only products, but products and associated services".

In a context where the competition is very intense and products are similar, adding services to the existing value proposal could make it more attractive for some clients and differentiate it compared to other competitors. Attracting a higher proportion of customers should be an area to explore in retailing.

So, we propose the following questions: Can the servitization concept be applied to the retailing sector? Can servitization be a framework to increase the competitiveness of retailers? Do all customers want more services?

As mentioned earlier, it could make sense to look for alternative theories to develop a better marketing strategy trying to offer (more) services. As such, if we take the service-dominant logic (S-D logic), Vargo and Lusch (2004) argued that customer value is co-created by the customer and the company. This means that customers appraise the value of goods they purchase in use, and that exchange value determination is always provisional upon later experience. In other words, customers determine what they value-in-use and the marketer can only offer value propositions (Ballantyne and Varey, 2008).

According to Vargo and Lusch (2012), service is the dominant logic for marketing. Service is an interactive process that is valued by the customer. From this perspective service becomes the unifying purpose of any business relationship (Ballentine and Varey, 2008).

Value comes from the ability to act in a manner that is beneficial to a party. Value is subjective and ultimately determined by the beneficiary, who in turn is always a co-creator of the value. It then follows that the consumer is also seen as an operant resource. Operant resources are usually not exhaustible, but rather are scalable, reusable, renewable, and creatable. Therefore, in S-D logic, competition is a matter of knowledge creation and application. It is about the comparative advantage in service provision (Lusch et al., 2007) and retailers are primarily service integrators. In conjunction with their own and other's knowledge and skills (including those of other value-creation partners) and the knowledge and skills of the consumer, this service-integration function allows the customization of variety (in Goods-Dominant Logic, captured as sorting and assorting functions) and application for maximum benefit (service) to the consumer's unique situation and uniquely determined value (Lusch et al., 2007).

In particular, retailers are now proposing themselves as suppliers able to simplify customers' lives, offering value proposition based on one-stop solutions. In so doing, they are acting in a Service-Logic, as the interaction within partners is concerned with solutions and phenomenological events (Lusch et al., 2007).

Other studies analyze the innovation in retailers' business models (Sorescu et al., 2011) or how a retailer creates value for its clients. Innovative business models are increasingly important in order to create a sustainable competitive advantage in the market. The authors propose that the innovations in business models in retailing are better appreciated as changes in these three areas: 1) in the way activities are organized; 2) the types of activities that are carried out; and 3) the level of participation of the actors involved in these activities.

Although there is important research interest on servitization, some authors comment on the number of clients who are asking for more services. In the case of retailing, this is very important due to a tendency of offering less services such as self-service or low cost and low service offerings (Rosenbloom & Dupuis, 1994). As discussed before, in the music industry four types of customers where identified and two of them, representing 41% of the sample, could be involved in co-creation activities (Bustinza et al. 2013).

In this context, it seemed necessary to analyze a broad sample of customers to better understand the profile of those willing to have more services.

As far as we know there are very few papers devoted to servitization in retailing and so there is a gap to fill in this area. From this perspective, the present study aims at discovering the perceptions that customers have related to small and medium retailers and analyzing the profile of a customer willing to have more services in retailing. So from a broad sample of customers we want to identify those that would like to have more services, and in this subsample explore what kind of service they would desire. Finally, we wish to explore how the active role of the customer could co-create value in the servitization process.

3. CONSUMERS´ PERCEPTION ANALYSIS

For the purpose of our research, we wanted to compare the customers that give more importance to the services offered in terms of online and offline behavior, demographic profile and expectations to those who do not pay attention to such services. In order to identify these consumers, we designed a question for identifying the most valued attributes when choosing a retailer. We asked customers what they valued the most and we provided seven categories: Price (quality-price relationship), Proximity, Professional Attention, Intangible assets (being trust worthy, or innovative or been in the neighborhood), Offer products and services, Convenient Location and Good Offer (different brands, quality of products).

Not surprisingly, only a small group of customers (5.9%) declared the "offering of Services besides the Products" to be the most important issue when choosing a retailer. So we decided to name them as the "pro-servitization" group from the whole sample and, subsequently we carried out our analysis of this subsample to ascertain a profile of them. We then compared this subgroup with the rest of the sample. Student´s t tests and chi-square tests were conducted to discover if differences in the answers of both subsamples were significant from a statistical point of view.

Table 2. **Technical data**

TECHNIQUE	Telephone interview using CATI (Computer Aided Telephone Interview), through structured survey, with open and closed questions.
TARGET	Last consumers that make their usual purchase in the municipality subject of study.
DATE	From 9th to 20th of July 2015
SAMPLE DESIGN, SIMPLE SIZE	966 telephone interviews sampling error of e=± 3,1% confidence level of 95,5% when p=q=0,5

Source: own elaboration.

Regarding the mean age of customers, the "pro-servitization" group was 45.9 years old while the rest of the sample was 44.7 years old; the difference was not statistically significant. However it is worth noticing that the "pro-servitization" sample is skewed to younger and older groups compared to the rest of the sample as indicated in **Table 3.**

Table 3. **Age Distribution of both subsamples**

AGE RANGE	TOTAL (N = 956/956)	PRO-SERVITIZATION (N=57)	REST OF SAMPLE (N=909)
From 16 to 24 years	11%	11%	11%
From 25 to 34 years	19%	21%	18%
From 35 to 44 years	22%	19%	22%
From 45 to 54 years	22%	16%	22%
From 55 to 64 years	18%	21%	18%
From 65 to 70 years	9%	12%	9%

Then, we examined if there was any significant difference among both groups, according to the life-cycle criteria. The results are presented in **Table 4**.

Table 4. **Distribution of the subsamples according to the cycle of life**

LIFE CYCLE	TOTAL (N = 956/956)	PRO-SERVITIZATION (N=57)	REST OF SAMPLE (N=909)
Less than 35 years old, living alone	2%		2%
More than 35 years old, living alone	13%	17%	13%
Monoparental family	14%	10%	14%
Couple with children less than 10 years old	9%	9%	9%
Couple with children 11 to 15 years olds	5%	2%	5%
Couple with children older than 15 years	24%	24%	24%
Couple without children / with other family members	20%	14%	20%
Other types	13%	24%	13%

As shown, results do not provide any specific pattern for our "pro-servitization" group as differences are not statistically significant.
Then, we analysed the "Level of education" of both samples to learn that, although there is no significant difference from the statistical point of view, our "pro-servitization" group seemed to be less educated than the rest as shown in **Table 5.**

Table 5. **Distribution of samples according to "Level of education"**

LEVEL OF EDUCATION	TOTAL (N = 956/956)	PRO-SERVITIZATION (N=57)	REST OF SAMPLE (N=909)
No studies, Unfinished Primary studies	3%	8%	3%
Primary studies	13%	23%	13%
Secondary studies or similar	12%	3%	12%
Vocational Training studies	16%	17%	16%
Postsecondary studies, High Vocational training studies	18%	22%	18%
Medium University studies	11%	3%	12%
High University studies	23%	22%	23%
Postgraduate studies (PhD, Master)	2%	2%	2%
No answer	0%		0%

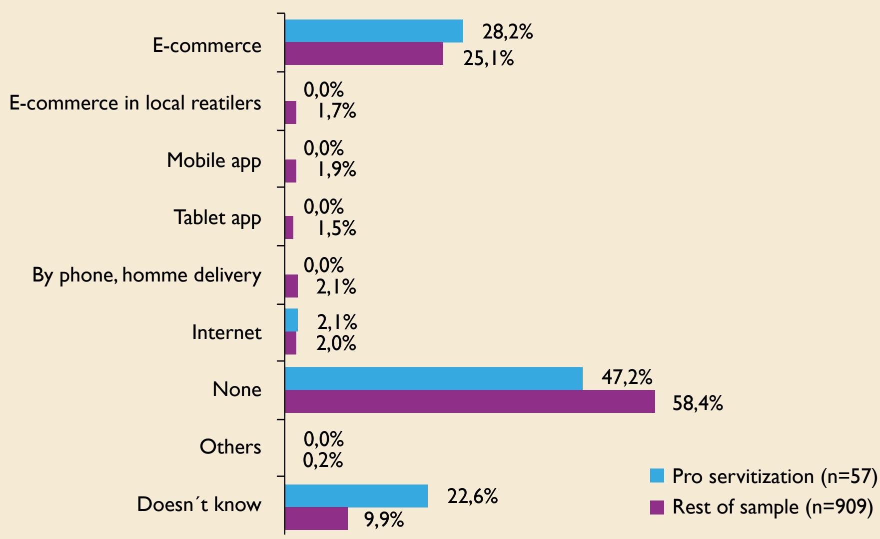
After that, we examined the differences between both samples under the "Current occupation" variable, to reveal that the "pro-servitization" group had more "retired" people than the rest of the sample, although again, differences were not significant. **Table 6** shows the distribution for this status.

Table 6. **Distribution of the samples according to "Actual occupation"**

CURRENT SITUATION	TOTAL (N = 956/956)	PRO-SERVITIZATION (N=57)	REST OF SAMPLE (N=909)
Employed	55%	48%	55%
Unemployed	14%	12%	14%
Retired, pensionist, disabled	13%	27%	12%
Rentist	0%		0%
Student	8%	3%	8%
At home	8%	7%	8%
No answer	2%	2%	2%

We paid special attention to digital characteristics such as e-commerce and social network. For example, the e-commerce phenomenon: although our "pro-servitization" subsample seemed to embrace this kind of buying to a greater extent compared to the other group, again, differences were not statistically significant. Answers to this item are summarized in Graphic 1.

Graphic 1. **Distribution of both groups according to "Online behaviour"**



Then, we studied the activity of both subsamples in "Social networks", which showed that the "pro-servitization" group seemed to be more active in social networking, although differences continued to be non significant.

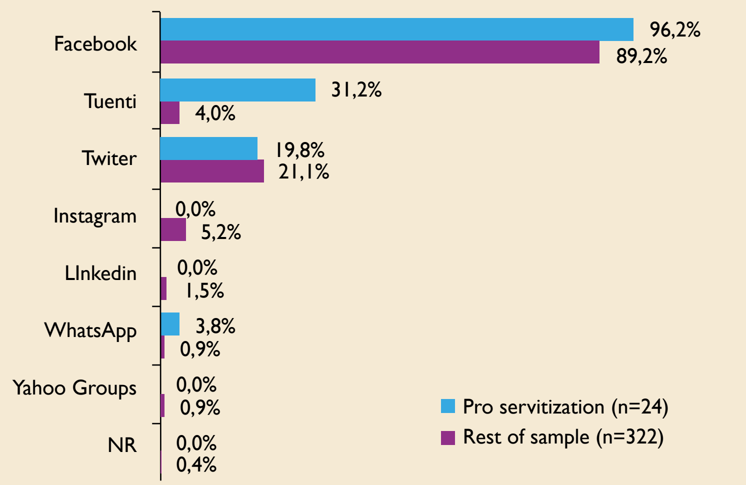
Delving further into "Participation in Social Networks" we studied the ones used by both samples, to discover that there was no significant differences between both subsamples as shown in **Graphic 2**.

But we found differences in the pattern of purchase. Analysing the main day of purchase of both subgroups, we discover that our "pro-servitization" subsample seemed to choose all days more than the other, and differences were statistically significant only for Saturdays. Results are summarized in **Graphic 3**.

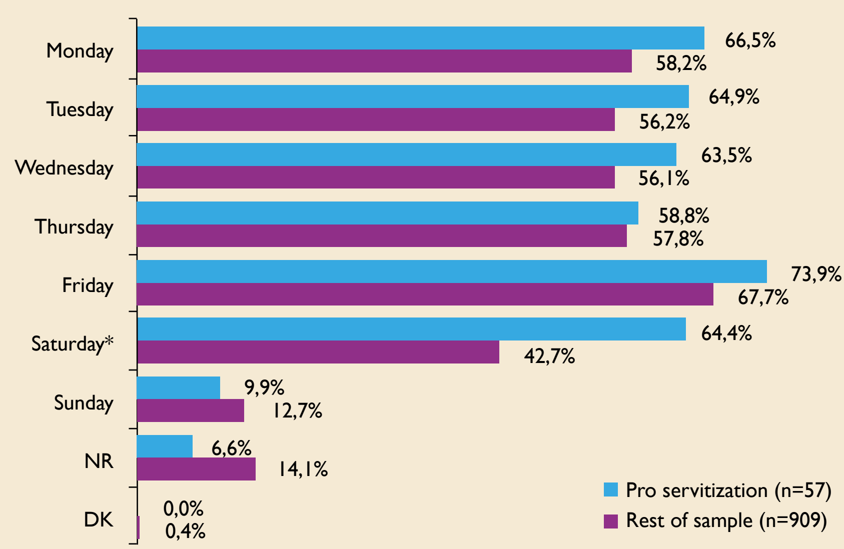
Closer examination was used to determine if our "pro-servitization" subsample was more active in a given period of time (Morning, Noon, Afternoon) during each day of the week. The results showed that, differences were statistically significant only on Mondays and Tuesdays, buying less on mornings and more on afternoons in both cases (differences in noon buying were not significant).

We also wanted to know if there was any significant difference in the

Graphic 2. **Use of different "Social-Networks" in both subsamples**

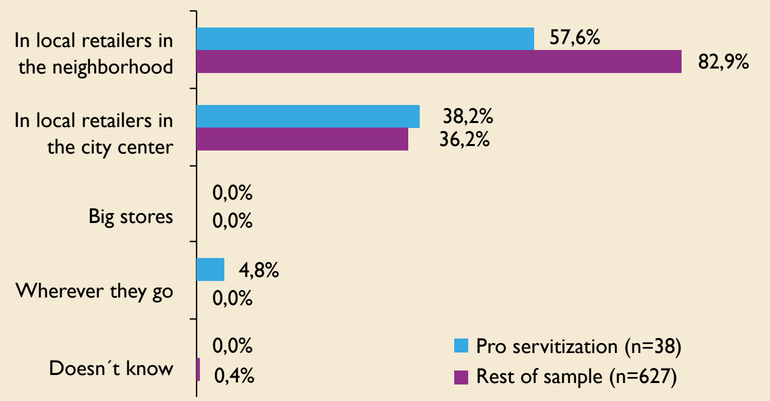


Graphic 3. **Distribution of according to the main day of purchase**

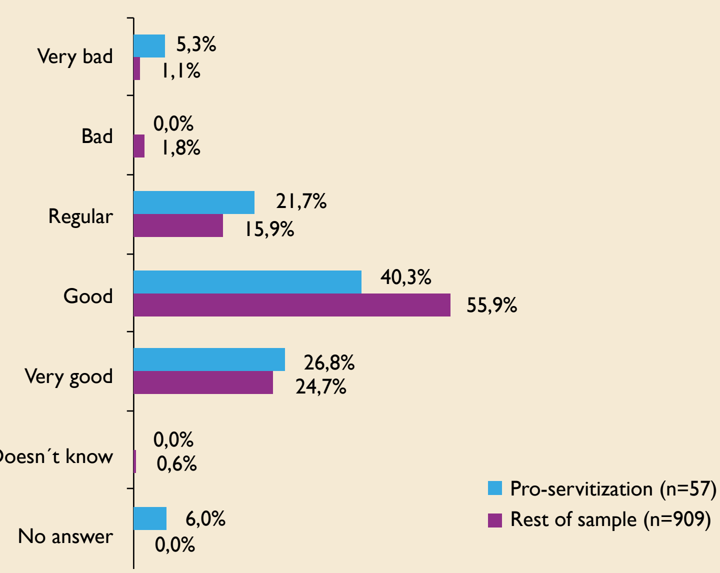


amount of money spent in their "Last Purchase" in a set of given categories, and although our "pro-servitization" subsample seemed to have spent more in Travelling and in Computers, there was no evidence that the differences were statistically significant for any item.
Another aspect we looked at was the type of store in which both

Graphic 4. **Distribution of both groups according different types of "Local retailers to purchase"**



Graphic 5. **Distributions of both groups on "Perceptions about local retailers"**



subsamples tended to buy from. Differences were statistically significant, showing that our "pro-servitization" group bought in local stores less in the neighborhood and more in the city center. **Graphic 4** displays the answers to this item.

Then, we analysed the "Perception about the local retailers" that both subsamples had. It seemed that our "pro-servitization" group showed contradictory opinions on this item: either very bad or very good, compared to the rest; but, again, differences were not statistically significant. Results are provided in **Graphic 5**.

Finally, we studied the "Satisfaction with local retailers" in both subsamples to learn that differences were not statistically significant.

4. CONCLUSIONS AND RECOMMENATIONS TO RETAILER

It seems that the customers of small and medium retailers are not yet interested in the services offered. From our point of view, this result could be a consequence of consumers taking for granted the offering of services in retail, and so, they rarely think about services in a conscious way. But, similarly, it might not be a priority for customers, or they do not know what services could be applied to retail. Therefore the concept of servitization for customers would still be somehow unknown and "regular" attributes such as price, quality and so on, would continue to be valued the most by consumers.

Nevertheless, when we compare the consumers who value the services offered when they buy a product to the rest of the group, there is no statistical evidence of differences in age, life-cycle, education, job, or use of social networks. However, there are statistical differences regarding their offline purchase behavior, that is, they differ in the day and the time when they make a purchase and the place where they buy from.

This research has yielded some important implications for retailers. Although the concept of servitization does not appear to be of primary concern for the average consumer so far, small and medium retailers should test, as entrepreneurs do, different possibilities in servitization to compete with larger stores. Therefore, the identification of the customer's perception and the possibility to offer new services in order to increase the value provided could increase the competitiveness of the small and medium retailers. They should therefore try to identify these customers that want to receive more services and identify ways to co-create value with them. At least, in this way they could work with innovators and early adopters to be prepared when the big wave arrives.

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NOTES

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