



UNIVERSITY OF LAPLAND
LAPIN YLIOPISTO

PRODUCTIZATION OF PROFESSIONAL SERVICES
AND ITS IMPLICATIONS FOR MARKETING

Paula Immo

Master's Thesis

Master's Program in Service Management and Logistics

Marketing

May 2012

ABSTRACT

Title: Productization of Professional Services and its Implications for Marketing

Author: Paula Immo

Faculty: Faculty of Social Sciences

Degree program: Master's Program in Service Management and Logistics

Subject: Marketing

Master's thesis

Spring 2012

67 pages

The focus of this research is on productization of professional services in business markets, taking into account the customer and market driven way of operating. The objective is to define a customer and market driven service productization process. The research is a qualitative content analysis based on the current literature and prevailing theories of service development, service productization, services marketing and relationship marketing. As a result of the research, two productization processes are identified. The focus of the first process is on systemizing the internal working methods of a service firm via productization, while the focus of the second process is on productizing professional services in a customer and market driven manner. The latter is suggested to replace the traditional service development methods in both strategically planning the service offerings and in development of new and existing services. As the research is fully relying on theoretical frameworks, to further validate the research outcomes empirical studies on the topic are suggested.

Keywords: Professional services, service product, new service development, service productization and customer and market driven approach.

TABLE OF CONTENT

Abstract

Table of content

Tables and figures

1 INTRODUCTION.....	5
1.1 Focus and framing of the research	5
1.2 Key concepts	8
1.3 Structure of the research.....	10
2 SERVICE DEVELOPMENT AND PRODUCTIZATION.....	11
2.1 What are products and services?	11
2.1.1 Professional and engineering services	12
2.2 Service product.....	14
2.3 Developing services	15
2.4 Productizing services.....	20
2.4.1 Definition, benefits and challenges.....	20
2.4.2 Process of service productization.....	24
2.4.3 Internal and external productization	30
2.5 Summary	34
3 MARKETING PROFESSIONAL SERVICES	36
3.1 Services marketing	36
3.2 Relationship marketing	41
3.3 Summary	45
4 METHODOLOGY.....	46
4.1 Research data.....	46

4.2 Theory-based qualitative content analysis	46
4.2.1 Description and categorization of research data	48
4.2.2 Emergent patterns	50
4.2.3 Identified relationships.....	51
5 SERVICE PRODUCTIZATION PROCESS	53
5.1 Service productization process model.....	53
5.4.1 How to productize services?	55
5.4.2 What are the most important elements of productization in terms of creating value to customers?	58
5.4.3 What benefits the productization offers?	58
5.4.4 What implications service productization has for marketing?.....	59
5.5 Summary	60
6 CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH	61
6.1 Summary of the research outcomes.....	61
6.2 Reliability and validity	62
6.3 Implications for future research	63
REFERENCES.....	64

TABLES

Table 1. Academic research in service over time.....	5
Table 2. Promotional activities used by professional service firms.....	39
Table 3. Operand and operant resources help distinguish the logic of the goods- and service-centered views.....	40
Table 4. The focus of communication and created customer value of productized service offering versus the unstructured professional service.....	57

FIGURES

Figure 1. Productization crystallizes the service solution.....	25
Figure 2. Productization process.....	25
Figure 3. Affecting factors of productization process.....	26
Figure 4. Service business development via productization.....	27
Figure 5. Productization stages	27
Figure 6. Process diagram for the productification process.....	29
Figure 7. Service process as a whole.....	30
Figure 8. Systemizing internal working methods via productization.....	55
Figure 9. Customer and market driven service productization.....	57

1 INTRODUCTION

1.1 Focus and framing of the research

“A computing-driven revolution is under way in the global economy guided by the principle that every business must become a service business in order to survive.”

(Rust & Miu 2006, 49.)

Services were first noticed in academic research in the 1970s, and attention then was paid to differences between products and services. The characteristics of services were identified and they were the focus of the future research. These characteristics are intangibility, inseparability, variability, perishability, and lack of ownership (Kotler, Armstrong, Saunders & Wong 1999). In 1980s the academic research concentrated on service quality and in 1990s the attention shifted to making services financially accountable. Attention was also paid to direct contact with customers, more specifically to serving individual customers better. Today, the research is involved with customer relationships and customer value, value being the value delivered to customers and the value of relationships rather than the value of an individual sale. Table 1. offers a summary of the development of academic research in service.

Table 1. Academic research in service over time (Rust & Miu 2006, 51).

1970s	Service is different from goods
1980s	Measuring customer service and service quality Complaint management
1990s	Making service improvements financially accountable Direct marketing and CRM
2000s	Managing customer lifetime value and customer equity Profitable long-term relationships with customers Basing corporate strategy on service

In today's network and attention seeking economy, the business environment is more and more complex with technological advancements and developments, and global settings. It is part of everyday life for organizations to experience significant pressures from increased level of competition, rapidly changing market requirements, higher rates of technical obsolescence, shorter product life-cycles and the heightened importance of meeting the needs of increasingly sophisticated customers. The significance of services is still growing and it is challenging for service providers to maintain the value creation. It is urgent for companies to consider that today's customers only consume services, and products, which add value to them. This holds true both in consumer markets as well as in business markets. For example, in business markets the customers are not only interested in the products and services offered to them, but rather in what the offered products and services can actually do to them, the problems and challenges they can solve (Ford, Berthon, Brown, Gadde, Håkansson, Naudé, Ritter, & Snehota 2002).

Value delivery being the focal point companies are searching for new ways to do business. Successful companies have realized the importance of changing the mindset from technology driven to customer and market driven way of operating (Rust & Miu 2006). This way companies and organizations are able to view their offerings as solutions to customers' problems (Ford *et al.* 2002). Businesses, especially professional service firms, are recognizing that knowledge is a key element of adding value, as customers in business markets are demanding the greatest level of expertise and increasingly comfortable at selecting the professional services required from a moving array of providers. Professional service firms' competitiveness is based on its capabilities and competencies, that is on effective business processes and skills. (Dawson 2000.)

New distribution channels change the dynamics of the market and continuous pressure is put on profits and cost efficiency. Furthermore, business markets are facing the challenge of developing simultaneously both short term and long term profitability in the ever tightening global competitive business environment. To survive, innovative ways of operating and delivering value to customers are needed.

As a consequence, more attention needs to be paid to strategically planning the service offerings and service development. Traditionally, organizations have not had a formal planning process for new service offerings, as they have had for product development. New service offering development has heavily relied on competitive imitation, yet extensively involved customers during the innovation process to ensure customer orientation. (Martin & Horne 1993.)

Service productization can be viewed as one part of strategically planning the service offering, or as a way to develop new services. Productizing the current and offered services improves organizations' efficiency. Service productization offers clear objectives for organizations by focusing on analyzing and systemizing the working processes. Consequently, it creates possibilities for distribution of work and better utilization of employees' competences as well as rationalizing the working stages. (Sipilä 1996.)

As the trend is to be customer and market driven in today's business environment, service productization, or improvement of service development, alone is merely not enough to guarantee success. Customer and market driven approach call for strong marketing involvement and for this reason, the notion of marketing is also considered as part of the research.

As shown in the literature, service development still relies on imitating both the product development processes and the competition. It is also evident that service firms tend to reinvent the wheel again and again, so to say, rather than systematically utilize the achieved knowledge of previous customer projects and service development processes. To achieve more professional and systemized way of operating it is essential, for professional service firms operating in business markets, to productize both the processes of developing and delivering the services as well as the offerings. However, there is no model for productizing professional services taking into account the importance of value creation to customers. The productization processes presented in the literature are mainly limited to and concentrating on systemizing and standardizing the internal working methods, not so much taking into account the customer and market driven approach. As value

creation for customers is a focal point in today's competitive business environment, a productization model based on satisfying the customer needs is necessary.

Therefore, the focus of this research will be on productization of professional services in business-to-business environment, taking into account the customer and market driven way of operating, and its implications for marketing. The research takes a qualitative perspective examining the current literature and prevailing theories of service development, service productization, services marketing and relationship marketing. The research is fully relying on theoretical frameworks, indentifying the common and best practices of the prevailing theories drawing together a proposed model of service productization and further discussing the suggestions for future research.

Established research questions are: how to productize services; what are the most important elements of productization in terms of value creation to customers, or can such be identified; what benefits the productization offers; and what implications the service productization has for marketing. It is intended that as a result of the research, a generic customer and market oriented productization process model could be defined, applicable for professional services in business-to-business environment.

1.2 Key concepts

The key concepts of the research will be shortly explained in the following section. These concepts are professional services, service product, new service development, service productization and customer and market driven approach.

Professional services

In this research professional services are defined as the application of specialized competences through actions, processes and performances yielding into solutions to customer's problems and challenges. Professional services are researched in context of business markets.

Service product

Services are difficult to quantify and present as concrete to the markets due to their intangible nature. Therefore, it is advantageous for service firms to describe their services in a more product like manner. Service product, in this research, is defined in terms of attributes and characters adding value to customers, forming tangible manifestations to accommodate the diversity of service products (Hull 2003).

New service development

New service development process has been adopted from new product development process and follows similar development sequence. However, depending on the service characteristics, different matters are stressed at each stage.

A common sequence for new service development is idea generation, idea screening, concept development and testing, business analysis, development, testing, and commercialization. All of these steps are not always necessary, but will differ according to market needs, competition and the nature of the service. (Cowell 1988.)

Service productization

The word productization in this research refers to developing and describing the services as more of product-like offerings, consisting not only of intangible but also of tangible elements. Service productization means the transformation process in which the internal working methods of a firm are systemized; and a new service and strategic service offering development via productization in customer and market oriented manner.

Customer and market driven approach

Value delivery as a focal point, service firms need to change their mindsets from technology driven to customer and market driven way of operating (Rust & Miu 2006). This approach enables service firms to view their offerings as solutions to customers' problems and challenges and calls for strong marketing involvement. As a means for customer and market driven approach, service firms can utilize a mixture of marketing activities.

1.3 Structure of the research

First section of the research report introduces the focus and framing of the research. It identifies the purpose of the study and the matter investigated. The key concepts will be shortly discussed. Also, the research structure will be described.

Section two and three set the theoretical basis for the analysis. The existing definitions and interpretations are described to reveal the current concepts, theories and underlying assumptions. These sections lay the stage for the later analysis process, in which the official and academic viewpoints are compared and contrasted to define a comprehensive service productization process of professional services in business-to-business environment taking into account customer and market driven approach.

Fourth section describes the methodology used and the reasoning for it. The research data is categorized and emergent patterns as well as existing relationships are identified. The quality, amount and availability of the research data are also discussed.

In fifth section, based on the current and prevailing theories, a customer and market oriented productization process model is developed. The process is applicable for professional services in business markets. Also, the established research questions are addressed.

Finally, sixth section draws the conclusions elaborating the emerged understanding of the topic. It summarizes the outcomes of the research. The reliability and validity of the research together with the suggestions for future research are discussed.

2 SERVICE DEVELOPMENT AND PRODUCTIZATION

In the following section, a theoretical basis of the service development and productization part of the research will be set. The section begins with general definitions of products and services, also covering the topics of professional services and service as a product. The theoretical basis will rely on both the service and product development and service productization. However, service productization is not widely covered area in academic research and for that reason the literature also includes documents of consulting firms.

2.1 What are products and services?

Kotler *et al.* (1999, 561) define product as “anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or need. It includes physical objects, services, persons, place, organizations and ideas”. The product can be divided into three different levels, which are the core product, actual product and augmented product. Each of these product levels delivers different things to customers. Core product represents the services or benefits that customers are really buying when acquiring a product. Actual product consists of such characteristics as quality, features, styling and packaging. Augmented product includes the additional services and benefits offered with core and actual products. (Kotler *et al.* 1999.) Adcock (2000) defines product in two ways. One is operational definition, when product is the end result of production; the other is marketing definition, when product is the means by which consumers’ needs are satisfied.

Services are defined as “activities, benefits or satisfactions that are offered for sale” (Kotler *et al.* 1999, 561). Grönroos (1990, 49) defines service as “an activity or series of activities of more or less intangible nature that normally, but not necessarily, take place in interactions between the customer and service employees, and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems”. Vargo and Lusch (2004a) define services as the application of specialized competences that is skills and knowledge, through deeds,

processes, and performances for the benefit of another entity or the entity itself (self-service). They also argue, that the services may be provided either directly or indirectly, for instance through the provision of tangible goods (Vargo & Lusch 2004b).

Five main characteristics are identified that differentiate services from products. These characteristics are intangibility, inseparability, variability, perishability and lack of ownership (Kotler *et al.* 1999). Services are perceived intangible in that they cannot be seen, tasted, felt, heard, smelled or displayed before purchase. Inseparability refers to services being produced and consumed simultaneously; they cannot be separated from the provider. Variability means that the quality of services varies depending on where, when, how and by whom services are provided. As it is not possible to produce services in advance, and store them for later use, services are perishable. Lack of ownership indicates that the service consumer has only limited access to the service; purchasing a service does not lead to ownership of anything physical. (Kotler *et al.* 1999.) These characteristics have had major impact on how, for example, marketing and sales of services are developed, how services call for different means of marketing than products. However, there are debates in the academic research of the validity of making distinctions between products and services (Zeithaml, Parasuraman & Berry 1985; Vargo & Lusch 2004a, 2004b) as well as on the validity of the before mentioned five characteristics of services (Lovelock & Gummesson 2004). This topic, together with the notion of marketing professional services, will be elaborated more in detail in section three.

The above mentioned definitions of services are very broad and general, making them applicable to a wide variety of services. The service types of interest in this research are business-to-business professional services, such as engineering services. These types of services call for more specific definitions and descriptions due to their complex nature. They will now be described more in detail.

2.1.1 Professional and engineering services

The market environment of professional service firms is increasingly complex with high technology. Professional service firms, in this research, are seen as

organizations using the specialist knowledge of its employees to deliver expert services to customers. In other words, a professional services firm is any firm that uses the specialist technical knowledge of its personnel to create solutions to clients' challenges, tailoring the offered solution according to the unique requirements of individual customers (Empson 1999). The key challenges facing professional service firms are to better manage knowledge and to extend the knowledge management to encompass all members of the extended enterprise, meaning both the organization itself and its customers. Knowledge is central to the value added to customers. (Dawson 2000.)

Gummesson (1979) define professional services as a subset which is different from other services by being mainly advisory and being operated by skilled professionals. Professional services include the services of advertizing agencies, management consultants, accountants, architects, engineering consultants and several others (ibid.).

Vaattovaara (1999, 11-12) identifies several definitions for engineering services as listed below:

1. Services are a series of activities with a starting time and an ending time.
2. The service starts with a situation and ends with a target. A service process thus produces a transformation from a start situation to a target.
3. The result of a service may be tangible system, or solution, or information that enhances the operation of a customer's value chain.
4. The service provider uses a high level of expertise in producing and delivering the service.
5. Interaction and co-operation with the customer is an essential part of the service process.
6. Services are typically tied to technical systems.
7. As distinct from normal to manufacturing, or bulk production, engineering services are concerned with tailored solutions for specific customer needs.

He summarizes the definition of professional engineering services as follows: "The professional engineering service is a series of expert activities and interactions between a customer and a service provider that eventually yield to tangible system

solutions or related information in order to enhance a customer's value chain" (Vaattovaara 1999, 12).

2.2 Service product

As noted earlier, services are characterized as intangible, inseparable, variable, perishable and lacking of ownership. A service is experienced and the reality of service entities must be defined experientially, as stated by Shostack (1977). Consequently, services are difficult to quantify and present as concrete to the markets. Shostack (1977) sees the management of tangible evidence paramount in making services more specific. As services are intangible and perishable, they are valued rather by their benefits than their features (Cowell 1988). For this reason, it is advantageous for professional service firms to describe their services as service products.

Hull (2003) describes the service product as something that customers pay for although the service product may be intangible. Service products can have tangible manifestations, despite their intangible nature, which help to accommodate the diversity of service products. For instance, the service products could be defined in terms of attributes and characters, which add value to customers. (ibid.)

Hull (2003) states that the use of goods model for services drives from the importance of delivery process. As services usually involve interpersonal activities and continuing transactions even after the sales of the service product, these are considered as critical parts of the delivery process. Sometimes interpersonal events turn out to be the most valuable parts of the service product delivery, as perceived by the customer. (ibid.) Rust and Miu (2006) point out that the delivery of service is different from the concept and design of service. They define service product as planning your work and service delivery as working your plan (ibid.).

The way that services delivery functions is vital in terms of customer satisfaction, followed by perceived service quality. As noted by Cowell (1988), the smoothly running service operations offer competitive advantage for organizations to

differentiate. Thus, Cowell (ibid.) stresses that efficient and successful system does not operate by chance but they operate by design.

Dolfsma (2004) points out that often services provided differ between customers, leading to service quality being experienced differently. He clarifies that there may not be difference in provided service quality but rather that the nature of service one customer receives may not be the same as the service another customer gets. Dolfsma (ibid.) also notes the significant role of perception in the field of service quality, causing the service quality control to be difficult. The features sought by one person in a service may be very different from those of another person seeking the same service, although the service offered is exactly the same. The underlying assumption of service quality comparability is more helpful for services that are more product-like (Gallouj & Weinstein 1997 via Dolfsma 2004).

2.3 Developing services

The aim of systemizing the service development is to develop competitive, profitable and innovative business, succeeding also in international markets (Jaakkola *et al.* 2009). The basis for service development is the business strategy of a firm, defining who the customers are and which customers are pursued, what products and services are offered and how they are developed, and what the degree of specialization and R&D is. The planning and development of services is tied into the competences and resources of the firm. (ibid.)

In the past, new service development has not received as much attention as new product development. Hardly any firm has methods to generate new service ideas and to develop and select in compliance with them (Dolfsma 2004). Services have rather been developed in ad-hoc basis (ibid.), responding to the occurring customer needs, more or less copying the methods of developing new products. Companies have relied heavily on competitive imitation in their service development (Martin & Horne 1993). A large share of organizations' R&D efforts in business is related to new service development (OECD 2000 via Dolfsma 2004). Thus, in today's

competitive environment, timely new product, or service, development has become even more critical.

Cowell (1988) lists several reasons for developing new services. Service firms have to realize that change is a way of life and they cannot afford to rely only on existing service offerings, because services become obsolete at some point in time. Due to tough competition service firms need to come up with new services to maintain and gain sales. Spare capacity and seasonal effects can be reasons for developing new services, aiming at decreasing the demand fluctuation and using up the spare capacity. Also, new services may be developed to reduce a risk of being dependable on only few services, or to seize possible opportunities raised from competitor exiting the market or upon the reveal of unmet customer needs. (ibid.) An organization's service and/or market strategy has an essential influence on the new service development. According to Cowell (1988, 298) the strategic options available are:

- attempting to sell more existing services to existing clients
- attempting to sell existing services to new clients
- attempting to sell new services to existing clients and
- attempting to sell new services in new markets.

Although the new service development is similar to that of new product development, new service development differs in its aspects and matters stressed at each stage (Cowell 1988; Dolfsma 2004). This is due to the distinctive characteristics services possess (ibid.). Because of the characteristics it is, for example, challenging to identify, weight and rank the elements that make up a service offer, as service concepts are rather vague (Cowell 1988). Also, the direct interaction between the service provider and the customer means that it is difficult to deconstruct services into modules and steps in the production process, which would be essential for allowing organizational learning (Dolfsma 2004). A tendency has been noticed for service firms to reinvent the wheel again and again (ibid.). The interaction usually calls for service customization. As customers are not looking for specific goods or services but rather solutions to their problems and challenges, it is useful to view new service development as placing a bundle of capabilities and competences at the

disposal of the client and to organize a solution (Gadrey, Gallouj & Weinstein 1995 via Dolfsma 2004).

A common sequence for new service development is idea generation, idea screening, concept development and testing, business analysis, development, testing, and commercialization. All of these steps are not always necessary, but will differ according to market needs, competition and the nature of the service. (Cowell 1988.) Even though defining development steps for services is argued to be arbitrary, formal approach is proper in case of services that are more product-like (Dolfsma 2004).

Developing and generating ideas may be done in several ways. Some companies have more formal ways of developing ideas, such as through marketing researches, while some do so by more informal means, like involving the organization in creating ways to deliver new service. In idea screening, it is evaluated which of the generated ideas are worth of further research. The ideas studied more will be developed as service concepts. The concept development explains the service in terms of specific consumer meaning build into the service idea. After developing the service concept, it will be tested. Through concept testing organizations will be able to find out the target customers' reactions to the concept. As part of concept development, service positioning may be performed. Service positioning visualizes the new service in relation to competitors' services or to other services in its own mix. (Cowell 1988.)

Business analysis is prepared to analyze the idea in business terms and its likelihood to succeed or fail. A thorough analysis covers needed resources, both physical and manpower, sales estimates, costs and profits over time, contribution to the range of existing offerings, and expected customer reaction and competitor response. Development requires changing the idea into actual service that is offered to markets. This stage involves additional investments required for hiring and training new employees, establishing communication systems and designing tangible elements of the service. Both tangible elements and delivery systems need to be considered. Commercialization means full-scale launch of the new service into the market. Before the launch, attention must be paid to matters like when to introduce the new service; where to launch (locally, regionally, nationally or internationally); to whom

to launch (this decision is normally made in earlier exploration in the development process); and how to launch the service. (Cowell 1988.)

Dolfsma (2004) sees the organization's service strategy and idea generation equally important in service development, while idea screening is more random due to co-production feature of services. According to Dolfsma (ibid.), testing rarely takes place in service development whereas business analysis and development fall into the commercialization step. He also argues the service development process to be organic, being easier to distinguish the development steps when services are more product-like (ibid.).

Yelkur and Herbig (1996) argue that traditional sequential product development process does not work anymore. They consider vital matter in product development to be concurrent marketing and communication between various departments at the early stages of the product development (ibid.). In industrial companies, product development is often seen as a business process stretching across functional departments aiming to design and produce new products (Drejer & Gudmundsson 2003). Hull (2003) has researched the simultaneous involvement of different functions also in service product development, and found it applicable to both service as well as goods industries. He concludes that the importance of simultaneous involvement of different functions varies depending on the innovation strategy used. If the innovation strategy is of novelty, early simultaneous involvement is paramount not only in the beginning of the development process but also at the subsequent stages. When the strategy is of major modification, simultaneous involvement is more important at the mid-stage of the development process. The strategy being that of maintenance, simultaneous involvement has rather negative effect on performance. (ibid.)

According to Cowell (1988) attention in design and launch of new service is demanded not only on the service product and service process but also on service personnel involved. As noted earlier in the literature review, the service personnel has a key role in affecting the service value, and should therefore be considered in new service development and launch too. Syson and Perks (2004) have taken the approach a step further, considering the new service development in network

perspective. As a result of their case study on financial services, Syson and Perks (2004) conclude that by taking a network perspective on new service development service firms are able to understand the process of resource exchange. Furthermore, it helps to identify the actors' involvement, the nature of resources and development of relationships (ibid.). Syson and Perks (2004, 263) also identify how the network perspective includes a dynamic view of developing services as "actors move in and out of the new service process; internal and external events can alter the value of resources to be exchanged; relationships are recursive and dictated by cycles of activity".

Terrill (1992) lists in his article ten aspects of new service development that should be taken into consideration in order to successfully develop new services. First, the organization should define its service offerings as it helps to prioritize resource needs and supports business strategies. He identifies four major groupings into which services can be broken: consulting, support, operational and physical services. Two former services require people and process focus whereas two latter require investments in systems and physical structures. Second, organizations should only consider new service strategies that are tied to business strategies. As a consequence, organization will be able to set the direction on what types of new services to concentrate and develop. If the business strategy is changed, the new service strategy needs to be reviewed accordingly. Third, formal yet flexible development processes should be encouraged. Formal process needs to be adhered to both new service objectives as well as customer needs. Fourth, a multifunctional team should be nominated for new service development and it is recommended to ensure that the team is maintained at least for six months. This way internal operational capabilities and valuable feedback are secured. Fifth, organizations should commit to communicating the new service as the key is to make the service offering tangible both internally and externally. Sixth, the new service concept should be protected against theft or copying by competitors. Next, the need to receive market feedback during the new service development is paramount, clearly determining the amount, form and frequency of feedback desired. Then, high service quality must be maintained right from the moment of the launch, followed by quality measurement through customer satisfaction. Finally, successful service organizations will focus less on operational capabilities and more on the delivery of the service to the

customer. A prerequisite for creating winning new service development is the establishment of leadership and process principles. Also, the role of communications is of importance, enhancing the awareness and ownership across the organization, facilitating the delivery of the new service. (ibid.)

2.4 Productizing services

Service productization is not widely covered area of research in the academic world. Even the name has not received a consensus as different terms are used. Some refer to commercialization of services and products, some use the term of modularization while others talk about productization or productification. In this research, term productization is used. By productization it is meant the process of transforming services to be more product-like. In the following section a more detailed definition and current research on productization will be covered.

2.4.1 Definition, benefits and challenges

Sipilä (1996) defines productization of professional services as defining, designing, developing, describing and producing services so that customer benefits can be maximized as well as service firm's profit objectives met. Service offering is fully productized when it is so well-defined that the right to use or ownership of the offering can be sold further (ibid.). In other words, service productization should be viewed as part of service development process or even as a synonym of service development. Jaakkola, Orava and Varjonen (2009) describe service productization as defining, systemizing, and partly standardizing new and existing service processes internally and/or externally. Parantainen (2008) defines productization as a way to make the service offering more concrete to the customer, so that the customer understands beforehand its content. Torkkeli, Salmi, Ojanen, Länkinen, Laakso-lahti, Hänninen and Hallikas (2005) argue that a productized service consists of productized offering and productization process. Productized offering defines the content, end result of the service process and price, as well as makes it all visible to the customer. Productization process defines the stages and objectives for delivering the productized offering. (ibid.)

Sipilä (1996) identifies several advantages of service productization. He states that service productization is professionalism, enables customization, enhances organizational learning and information exchange, improves efficiency and quality, makes marketing more effective, enables fixed pricing, and leads to improved management and profitability (ibid.). Torkkeli *et al.* (2005) identify the main internal advantage for a firm productizing engineering service to be the utilization of the solutions of prior customer projects and achieved knowledge by repeating the contents of the offering in different projects similarly. This, consequently, enables for example, the transfer of individual level knowledge and expertise to the level of organization as a whole, long term perseverance, increased productivity, increased service profit margin, better analysis of costs and profitability, ease of selling, clarity in internal distribution of work, personal development of professionals, and the normalization of service quality. These before mentioned benefits are organizational benefits, yet there also are advantages of productization for the customer. Such advantages are ease of buying, better certainty of the service outcome, easier and faster planning of service assignments, and the selling of the productized service in the customer's own organization will be less demanding. (ibid.; Jaakkola *et al.* 2009.) In their study, Jaakkola *et al.* (2009) interviewed several Finnish companies and accordingly the following benefits of productization can be identified: productized service communicates experience, productized service is easier to sell as the content and price of the service is visible to customers beforehand, productization increases growth and improves the margins as well as profitability, service quality and effectiveness increase through systematization, management and control of productized service is straightforward, and productization enables to transform the tacit knowledge to the use of the organization and improves learning. According to Parantainen (2008), productization benefits any service firm in several ways. For instance, a firm should, from time to time, systematically improve its service offering based on customer feedback, allowing a more customer-oriented attitude. As part of productization, the content of the service offering must be clearly defined, leading to better understanding of the related costs. When the costs are known, it is easier to plan and control the profit margin of the service offering, and, for the same reason, it is easier to apply customized pricing, if needed. When selling only expertise it is hard to build clear quality images into customers' minds, yet selling productized offerings facilitates the identity building, leading all the way to branding of the

offering. Also, productized offerings allow customers to easily understand what is delivered and at what price, decreasing the feeling of risk in the buying decision process. Productized offerings are easier to sell too, as they are clear entities from which the customer can pick a solution for his or her problem. (ibid.)

Productization is an excellent tool for information exchange. Professional service firms would need to highly value the possibility to invent something new, and to be able to transfer that knowledge to others in the organization (Sipilä 1996; Jaakkola *et al.* 2009). Through productization, experienced professionals can move to more challenging tasks while younger professionals can independently handle more, and better, things due to existing product support. As the ever tightening global competitive business environment calls for development of both short term and long term profitability, which cause a bit of a conflict, product orientation and productization can be of help. Productization enhances effectiveness by providing clear objectives and by making analyzing and systemizing of working methods necessary (Sipilä 1996). As a consequence, the working stages firm up and rationalize, providing potential to distribution of work and better utilization of employees' competences (ibid.). In the market, productized service is more easily identified and can be compared against other services (Sipilä 1996; Parantainen 2008). The customer's choice and buying decision are rather effortless as service offering is made more concrete through productization (ibid.). Any marketer can tell that it is less challenging to market something concrete rather than vague services. Also the service price is simpler to determine when a productized service is in question. The trend in professional service business is to get rid of cost based pricing and move towards fixed pricing (Sipilä 1996). However, the only indicator for appropriate pricing system used is not organization's internal matter but should take a broader consideration of competitive situation, industry traditions and customer experiences. Productization forces to clarify a firm's strategies and procedures. Productization means more planned way of working and focusing resources to strategically important actions. Overall, productization directs the attention to products and customers, thus serving better the stakeholders. (ibid.)

There also exist challenges and possible downsides of service productization. If a professional service firm does not have a clear strategy in place it is unlikely to have

well-functioning service productization processes either. To be able to productize service offerings, firms need to invest in strategic planning and management, systematic marketing, competitive analysis and service development abilities (Sipilä 1996). Not every firm is ready to make the needed investments. If productization is taking place, it is paramount to define which services could, and should, be productized, because it is not cost-effective or even possible to productize every service offered by a firm. Frequently, the most successful services and products are developed in co-operation with demanding customers, as part of customer projects, ensuring the customer orientation of the service development. Getting the right resources internally for the productization process may be of challenge for service firms. Too often the experienced experts are first choices for productization resources though they may not be enthusiastic about the work. Experienced experts may not realize the actual value of productization, seeing it rather as extra work which does not offer anything new to them. For this reason, firms should make sure that the available resources are enthusiastic and keen to perform the productization. (ibid.)

While productizing services, firms can fall into the trap of being too technology driven, forgetting the reason for the service existence, that is the customer. Productizes may fall in love with their service products and show the offerings applicability and feasibility based on their own views, not on the customers' needs. Product and technology centric approach may be avoided by allowing some degree of versions and alternatives from which the customer can choose the best suitable elements. (Sipilä 1996.) One major downside and challenge for service firms is the piracy, competitors copying the service offerings. As services are intangible and it is difficult to protect them by patents or trademarks, one surprising way to protect services is to publish them (Sipilä 1996; Torkkeli *et al.* 2005; Parantainen 2008). By publishing its services, more specifically productized services, firm marks its territories, so to say. As services are published, everyone entering the market with similar services is automatically viewed as a follower. (ibid.) Before publishing, or even starting to productize services, firms need to have internal operations running smoothly to support the productization. As productization is expected to lead to increased profits and decreased costs, it causes a possibility for downside if the opposite happens. Customers may not be ready to pay higher prices for productized

services as they may seem as normal and ordinary service products available at lower prices somewhere else (Sipilä 1996). However, if firms separate between the internal productization and external productization and service development and service launch, the above mentioned threats may be avoided. This way the internal abilities and what is launch externally are separated. Internally it is important to be at least one step ahead of the competition. (ibid.)

As noted earlier, organizations have a tendency to reinvent the wheel when it comes to service development (Dolfsma 2004). If professional service organizations lack of product orientation they seem to always start from the very beginning in their projects too (Sipilä 1996; Parantainen 2008). Although it has been argued that productization and standardization prevents customization (Rust & Miu 2006), productization is seen to enable profitable customization (Sipilä 1996; Lampel & Mintzberg 1996; Parantainen 2008). As the organization does not have to do the same things all over again, it will have more time to customize and maintain customer orientation in its operations.

2.4.2 Process of service productization

To be professional, organizations most importantly have to clarify their customer and product strategies – an organization cannot be professional if these vital matters are unclear. Parantainen (2008) states that as the organization start the process of productization, it first has to define its customers; to whom it sells, and as importantly, to whom it does not sell. Already this clarifies the business objectives of the organization. As the customers are defined, the firm should choose which problem or challenge of the customer it wants to solve, followed by the requirement specification of the offered solution. The main aim of the requirement specification is to document the customer needs. After those are fully identified and documented, the features of the service product can easily be derived. With the requirement specification as basis, the focus of the productization will throughout the process remain on customer needs, as illustrated in figure 1.

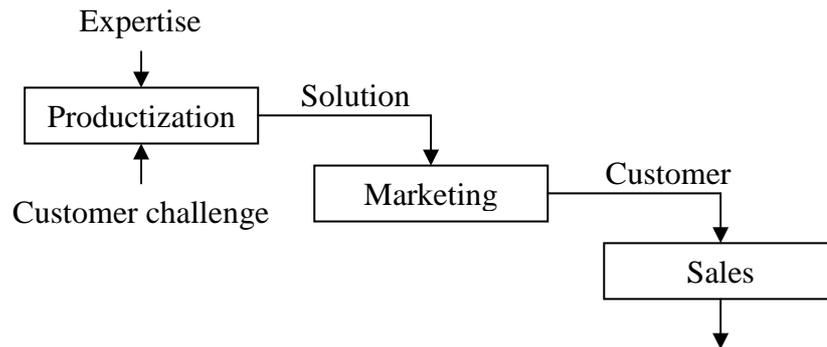


Figure 1. Productization crystallizes the service solution (Parantainen 2008, 13).

Sipilä (1996) depicts productization and service development planning process as described in figure 2. Developing new services call for visions, boldness, enthusiasm and determined ability to perform those actions needed to achieve the vision. Internal product description and related action plan direct the further actions of productization and service development. High-quality service and product ideas are usually developed in close co-operation with valued and demanding customers. Listening to customers and understanding their needs are the starting point for any service firm. Unsolved customer problems and challenges are always a possibility for a new service or product or part of them. (ibid.)

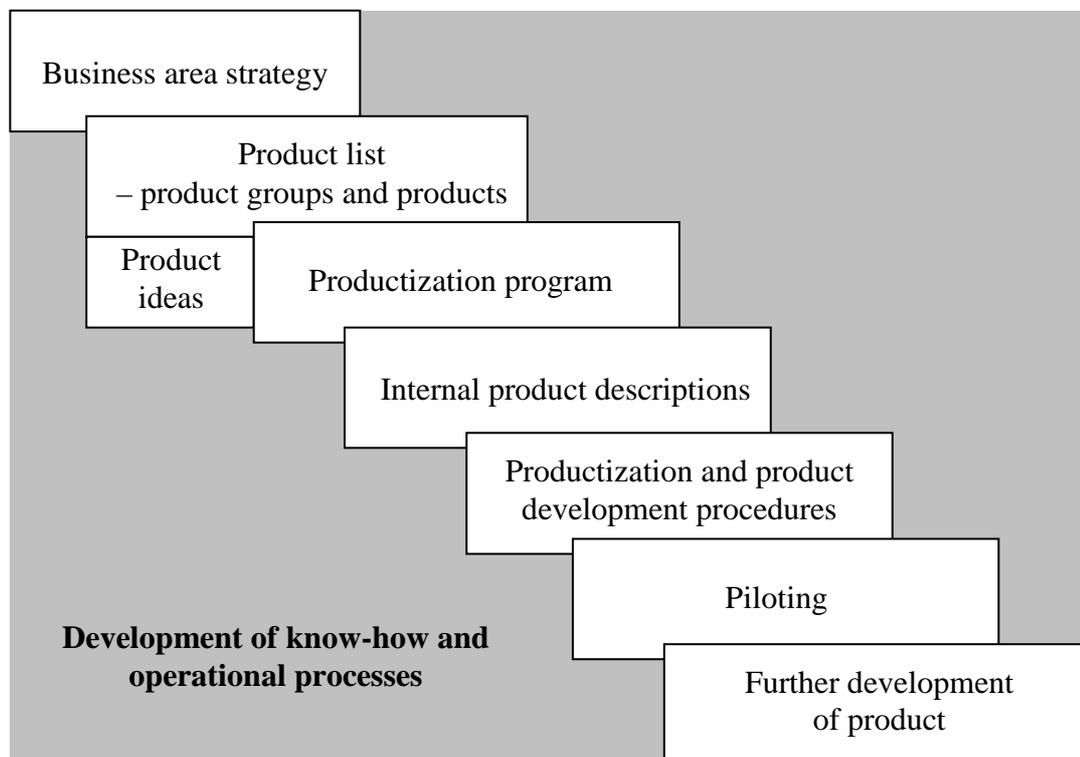


Figure 2. Productization process (Sipilä 1996, 37).

Torkkeli *et al.* (2005) argue that the productization of professional and engineering services is somewhat difficult and mostly restricted to productization of internal working methods and processes. Rather than defining a process model for productization, they highlight the affecting factors of the process, as seen in figure 3. (ibid.)

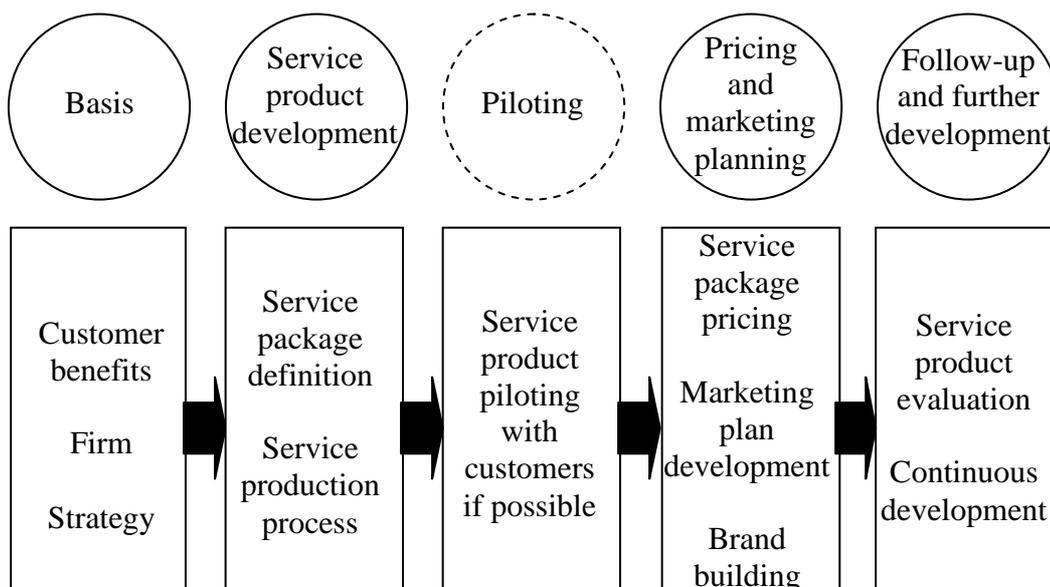


Figure 3. Affecting factors of productization process (Torkkeli *et al.* 2005, 28).

The main objective of productizing professional services, according to Sipilä (1996), is to improve both the customer benefits and impressiveness of own work. Parantainen (2008) sees the main objective to be the need to create and form a dedicated solution for a customer's problem. Jaakkola *et al.* (2009) define the main objective of productization to be the development and renewal of service business so that the customer value is maximized and the firm's profitability improved through increased quality and productivity. Productization can be utilized in service development even if the aim is not to develop a totally standardized service. Productization can benefit both the development of a new service innovation to repeatable service concepts and in enhancing the effectiveness and quality of existing services, aiming to improve the competitiveness through service definition, standardization, systematization and reification. (ibid.) Jaakkola *et al.* (2009) suggest a model of service business development via productization, as described in figure 4.

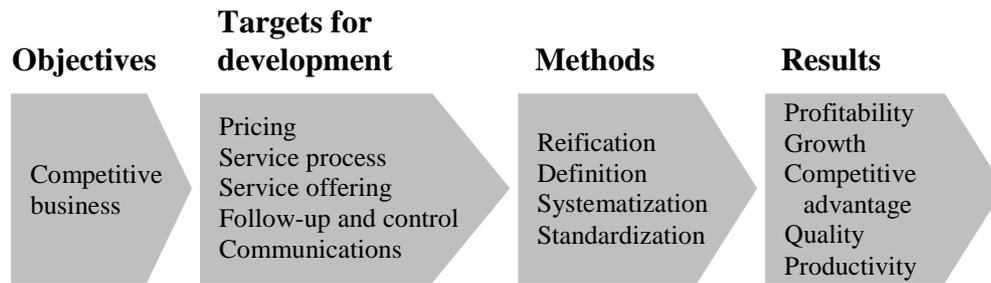


Figure 4. Service business development via productization (Jaakkola *et al.* 2009, 6).

Service productization is seen as part of service development process and it involves different stages. Sipilä (1996) identifies four different stages which are the formalization or productization of internal working methods, product support, productized service and duplicable service (see figure 5.). However, the actual service productization takes place when clear service entities or processes, which can be offered to customers as such or as customizable modules, are developed (*ibid.*).

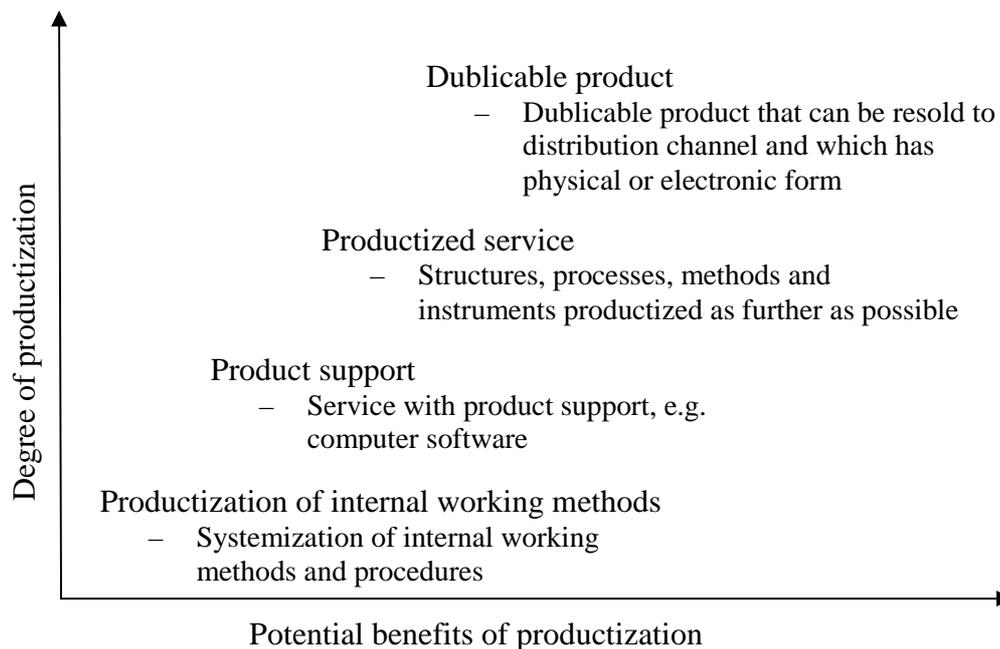


Figure 5. Productization stages (adopted from Sipilä 1996).

In his research of transforming services into products, Vaattovaara (1999) identifies the productification, a term he uses for productization, process to include four consecutive steps. These steps are product screening, product analysis and concept

construction, development of service package, and development of service implementation processes. Product screening consists of analyzing the business operations and identifying the alternatives for developing proper services or products. The identified opportunities are evaluated and a subset of service entities selected for further development, keeping the focus on services that deliver added value to customers. Product analysis and concept construction involves analyzing the information about the business unit in question, and customers and environment in context of the service product. Service products are then adapted and altered according to the findings of the analysis. A service package is then developed to concretize the elements and content of the products. Complete service packages are broken into modules in order to communicate the service contents to customers and to enable the management of implementation of the service. The final step, service implementation process, consists of concretizing how the service product is put into practice. This step is essential for each part of the service module as implementation is always an inevitable part of the service product purchased by customers. Three components of implementation can be named; product base, co-operation process between the customer and the service provider, and service production process. (ibid.) The productification process developed by Vaattovaara (1999) is illustrated in figure 6. on page 29.

When productizing services, the diverse service content must be taken into consideration. Vaattovaara (1999) identifies five types of services that make up the final service, namely service essence, enabling services, facilitating services, administrative services, and augmenting services. Jaakkola *et al.* (2009) also take the service content into consideration, making distinction between the core service, supporting services and additional services. Core service is the essentiality why the customer desires the service. Supporting services are those services that are necessary for the usability and availability of the core service. Additional services are those services that add additional value to the customer at additional costs. The supporting services need to be clearly identified in order for a firm to precisely know the needed resources and working processes for a service delivery. Additional services are a way of standing out from the competition and it is suggested that the additional services do not necessarily have to increase the margins but rather aim at increasing the flow of customers. (ibid.)

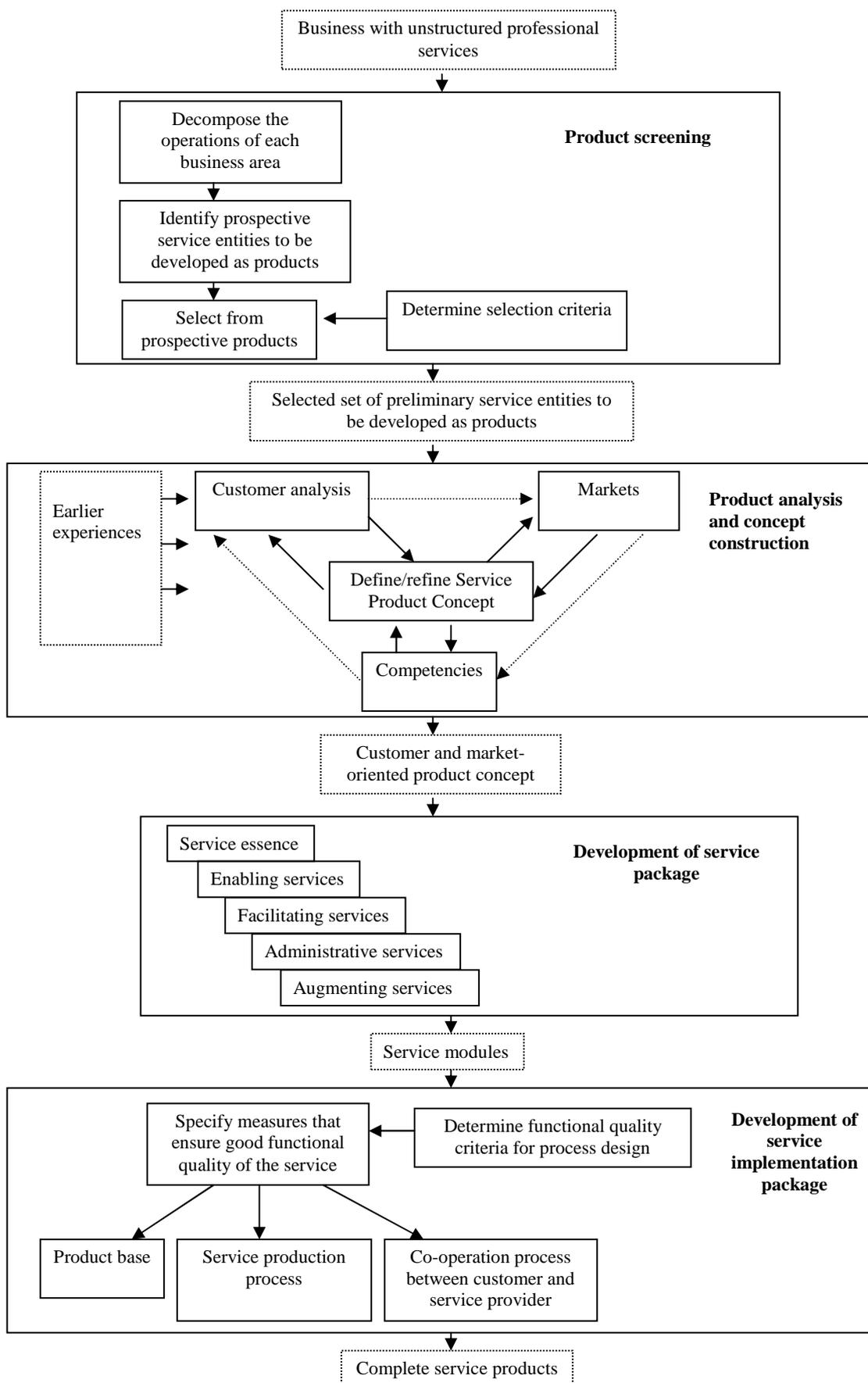


Figure 6. Process diagram for the productification process (Vaattovaara 1999, 40).

2.4.3 Internal and external productization

Productizing of professional services is more formalizing the working processes, way of action. The customer sees the different product versions and packages while internal processes are invisible to the customer. Therefore it is advantageous to differentiate between internal and external productization. Internal productization includes all those activities not visible to customer, activities happening inside the company, for instance internal product descriptions. External productization includes all those activities visible to customer, such as concretizing of the service product. (Sipilä 1996; Jaakkola *et al.* 2009.)

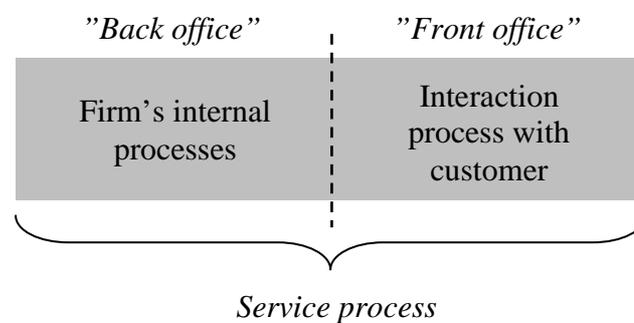


Figure 7. Service process as a whole (Jaakkola *et al.* 2009, 15).

Through internal productization, the way of action is more professional, creating useful databanks and maintenance systems. It also helps firms to ascertain that things done already earlier will not be repeated as such again, thus enhancing the cumulative learning and development of institutional memory of the firm. (Sipilä 1996.) The definition of service process should start with an exact description of service implementation phases. The description enables to clarify who need to participate in the service production, in what phases and for how long. As the resource needs are known, the further actions and costs can be planned and scheduled more effectively. The service process can be described as a simple function diagram, including the needed working phases as well as the participating persons, or more in detail with blueprinting method. Blueprinting is a mean to decompose the service process into bits and pieces and describe the methods used for performing each step of the process. Both internal and external phases of the service process are described in blueprinting. In addition to service production related

processes, the internal supporting services are necessary to consider in internal productization. Such supporting services are for example, documentation and invoicing. The supporting services influence the overall flow of services, costs and outcome quality. (Jaakkola *et al.* 2009.)

One way of internal productization is to develop modular offering where the internal activities are streamlined and considered as routine work while customers see it as tailoring the service offering according to their needs. As the delivery of service modules is routine work, the delivery time and production costs are decreased. Modularity enables several ways of operating, for instance, core service can be enhanced with customer chosen modules or the service can consist of only customer chosen compatible modules. Also, a standard package can be created which the customer can alter by changing or adding the needed modules. (Torkkeli *et al.* 2005.) Modular services enable the selling of systems rather than individual services (Kratochvíl & Carson 2005). Sipilä (1996) lists five modularization options from customer perspective: additional, customized, modules wanted by the customer are added to standard core offering; offering is always created by compatible modules chosen by the customer; maximum offering from which customer can choose the needed modules; several basic offerings of which the customer can choose; and basic offering that is continuously updated and refined.

In addition to describing the work methods and phases, the internal productization must cover the areas of targets, measurement definitions and tools, quality assurance methods, instructions and data management (Torkkeli *et al.* 2005). Internal marketing is also paramount as it is the mean for internally introducing new products and the common understanding of the offering. The clear definition of responsibilities in organizational level for productization project, management and development of offerings is needed too. (Sipilä 1996.)

As a summary, internal productization can be seen as developing the offering and related processes. It is the specification and systematization of service content and implementation guided by a firm strategy (Jaakkola *et al.* 2009). Without first productizing the internal activities, successful external productization is not possible. Internal productization is a prerequisite for external productization (Sipilä 1996).

External productization improves the visibility and reification of the service offering, thus concentrating at the customer and customer interaction. Productized services are easier to identify in the market, and to compare with competing services. As the productized services quickly give a comprehensive picture of what is offered, the customer's buying decision is made easier based on decreased feeling of risk. Especially with professional and engineering services, there often exists a knowledge gap between the buyer and the seller, making the sales process challenging from time to time. The customer is more easily guided and convinced with a concrete, productized service. Reification is the last phase of the productization process and it includes defining the offering, defining the prices, making the offering more tangible, and preparing marketing and sales material. (Sipilä 1996.)

External definition of the offering differs from the internal definition. The offering definition as part of external productization is based on the customer use cases, benefits and value, offering basic information about the offering in form of brochure or datasheet, or on the company web page, for example. The offering definition will also be discussed as part of the section 3 of the research, where the notion of marketing will be addressed.

Pricing is an important part of the productization and should be considered throughout the process. Distinct pricing is a way to reify the service offering to the customer, the customer knows what he or she gets and what it costs (Jaakkola *et al.* (2009). Main factors affecting the pricing are the costs, the market and competitive situation, and industry traditions (Sipilä 1996; Jaakkola *et al.* 2009). It is argued that through productization, a firm can move from time and resource based pricing to for example fixed pricing (Sipilä 1996). However, the pricing does not have to be based on one pricing principle, but can be a combination of such methods as outcome based pricing, resource based pricing, benefit and value based pricing (success fee), and access or licensing based pricing (Jaakkola *et al.* 2009). Clearly, the economic viability of any professional service firm depends on both maximizing hours billed and maximizing the margin between fee rates charged to clients and staff salaries (Empson 1999).

Jaakkola *et al.* (2009) argue that the customer is not interested in what the service production costs for the producer but is rather interested in comparing the cost of gained benefits and value against the competing services in the market. Productization decreases the feeling of risk in the buying decision process as the service benefits and price can usually be clearly defined. Productization also enables faster service delivery thus increasing the service profitability. (*ibid.*) As basis for pricing, Sipilä (1996) suggests the following matters and questions to be reflected upon:

- Basic targets and principles for pricing strategy
- What pricing models are used and in which situations
- Utilized price level
- Categorization of expert groups to different price classes
- Who is in charge of pricing
- When are discounts allowed, and what kind
- How does an ongoing customer relationship affect pricing
- How are reference and pilot projects priced
- Which services are free
- Are minimum prices used and when, what is the minimum margin
- Cost calculating, supplier billing
- Internal pricing
- Is pricing policy open and public, and to whom
- Exceptions in pricing.

In making the service offering more tangible, marketing is needed. However, professional service firms usually do not have appropriate marketing competencies in their organization, hence marketing is often perceived only as advertising, or it is considered to be more expensive than it in reality is (Lehtinen & Niinimäki 2005). Traditional ways of making the service offerings more tangible are the brochures, pictures, demonstrations in exhibitions or in-house, organizing and taking part in professional seminars, writing articles, comparison to competitors, warranties, and references illustrating the existing customers and related projects (Sipilä 1996).

Rarely adequate marketing strategies and plans, as well as productization plans, exist, or they are not comprehensive enough and not applied in every day marketing

activities. Marketing plan is a tool to align marketing operations to meet the customer expectations. As part of the plan, the targeted customers and related activities, both current and future possibilities, are identified. The activities are realized as different marketing programs and materials. (Lehtinen & Niinimäki 2005.) In marketing materials, as well as in sales materials, the offering must be described through customer benefits. The benefits should be communicated via presenting results, comparisons, references and examples (Sipilä 1996).

In short, the external productization can be seen as making the offering more concrete to the customer. It includes defining the offering, defining the prices, making the offering more tangible, and preparing marketing and sales material (Sipilä 1996). The notion of marketing will be discussed more in detail in the next section of the research.

2.5 Summary

As shown in the literature review, the theoretical basis for the study concentrates on the new service development as well as on service productization. In new service development it is vital for professional service firms firstly to clarify the business and service strategy applied. New service development usually follows the sequence of idea generation, idea screening, concept development and testing, business analysis, development, testing, and commercialization. All of these steps are not always necessary, but will differ according to market needs, competition and the nature of the service (Cowell 1988). In addition, concurrent marketing and communications, as well as simultaneous involvement of different functions, are regarded as paramount for new service development.

Service productization is viewed as part of service development process or can be considered as a synonym. Service productization is described as a process of four consecutive steps. These steps are product screening, product analysis and concept construction, development of service package, and development of service implementation processes. Service productization can be divided into internal and external productization. Internal productization involves systemizing and formalizing

the internal activities of a firm, those invisible to customer. Internal productization is a prerequisite for external productization. External productization means the activities visible to customer, such as reification of the service product and offering in forms of references and brochures, for instance.

3 MARKETING PROFESSIONAL SERVICES

“Good marketing means consistently delivering real value to customers”

(Kotler *et al.* 1999, 5.)

Marketing has traditionally been treated only as advertising and a way to get sales, yet today, it is more frequently perceived as a mean to understand the needs of your customers and satisfying them – bringing value to your customer. Kotler *et al.* (1999, 10) define marketing as “a social and managerial process by which individuals and groups obtain what they need and want through creating and exchanging products and value with others”. According to American Marketing Association (2007) marketing is an organizational function and a set of processes for creating, communicating, and delivering value to customers and for managing customer relationships in ways that benefit the organization and its stakeholders. The value delivered, as perceived by the customer, will determine the level of customer satisfaction. Marketing attracts new customers by promising superior value while keeping existing customers happy by delivering satisfaction (Kotler *et al.* 1999).

The key today is to be customer-centric, as engaging in customer interactions is far less expensive now and it is easier to tailor communications to diverse customers to provide distinct information and service (Rust & Miu 2006). Vargo and Lusch (2004a) rather use the term service-centered, instead of customer-centric, as they see that both participants of an exchange process, a firm and a customer, are active and thus it is more important what follows the transaction, short- or long-term relationship, rather than the transaction itself. Thereof, the service-centered view is both customer-centric and relational (*ibid.*). Hence notions of services marketing and relationship marketing will now be examined.

3.1 Services marketing

According to Kotler and Connor (1977, 72) “professional services marketing consists of organized activities and programs by professional services firms that are designed

to retain present clients and attract new clients by sensing, serving, and satisfying their needs through delivery of appropriate services on a paid basis in a manner consistent with creditable professional goals and norms". Gummesson (1979) argues that in professional service firms, a person who is a marketer must also be prepared to take part in the operation of assignments. Commonly, the marketing department has been mistaken to be identical to marketing function, yet the marketing department in a professional service firm is only a small part of the marketing function. The marketing function, in fact, spreads across all levels of the organization. (ibid.)

Lovelock and Gummesson (2004) suggest that services marketing should be based on a new paradigm rather than that of the distinctive characteristics of goods. They argue that in terms of four of the five identified characteristics, the four being intangibility, inseparability, perishability, and heterogeneity, far too many exceptions exist in their validity. They, instead, give three alternative suggestions to guide the new paradigm in services marketing. These alternatives are: abandon the field of services marketing and integrate it with general marketing and management; discard services as a general category and recommend that scholars focus on specific service categories, or; search for a new and more defensible characteristic of service that will differentiate it from other forms of marketing. They further suggest that the new differentiating characteristic could be nonownership. (ibid.)

Zeithaml, Parasuraman and Berry (1985) conclude in their research that differences in marketing exist even among service firms, not only between service and product firms. Professional service firms versus consumer service firms appear to be less interested in advertising in their marketing programs, and rather more marketing oriented in general. According to their study, professional service firms are more prone to contact customers after purchase to ensure satisfaction, to carefully choose their personnel in customer interface, and to frequently gather information about customer needs. Professional service firms are also seen to be more aggressive in responding to low and high demand periods. (ibid.)

Kotler and Connor (1977) note that professional service firms have three main objectives: sufficient demand, sustained growth, and profitable volume. The attributes to professional marketing are the following:

- Stating long-range marketing objectives and strategies.
- Developing annual volume, growth and profit objectives, and detailed plan and budgets broken down into individual responsibilities.
- Organizing regular training seminars to improve the professional person's effectiveness at marketing and personal selling.
- Assigning formal responsibility to one or a few people to organize, manage, and motivate the marketing activity.
- Setting up a system of controls and rewards tied to individual and group performance in attaining marketing goals.
- Ensuring that quality of professional work does not suffer as marketing activity is increased.
- Using only those marketing tools and procedures that are consonant with the industry's code of professional ethics. (Kotler & Connor 1979, 73.)

They also suggest that professional marketing is the answer to the professional firm's desire for sustained demand, growth, and profitability (*ibid.*). Thus six growth strategies for professional service firms have been identified from the marketing perspective. These strategies are: expanding service to existing clients; identifying and cultivating high potential prospective clients; widening and deepening personal referral sources; favorable awareness programs; service and market specialization; and replacing clients. Especially, cross-selling of services is a major source of growth for professional service firms. (Kotler & Connor 1977.) When defining the professional service marketing activities, Gummesson (1979) concentrates on promotional activities, such as the various ways of communicating and influencing the market. These activities are listed in the table 2. on page 39.

Normally, customers like to know in advance what they are buying, i.e. what the product features are and what the service will do for them. An important aspect of the professional's role in professional services is diagnosing the nature of the situation and then designing a solution. Customers may be uneasy about the uncertainty of the outcome, and it is the marketer's job to recognize this. A solution could for instance be to separate the product, or service, into two components,

diagnosis and implementation. The process of diagnosis can and should be explained to the customer in advance, since the outcome cannot always be accurately predicted. As the diagnosis has been made the customer does not need to proceed right away, but has the possibility to seek for another opinion. By contrast, the solution product can often be described in detail before hand, leaving the customer with a reasonable idea of what to expect. (Lovelock 1983.) Vargo and Lusch (2004a) argue that firms

Table 2. Promotional activities used by professional service firms (Gummesson 1979, 312).

-
- (A) *Personal selling including market research*
- Sales calls on own initiative
 - Sales call on inquiry
 - Proposals
 - Current contacts with certain important customers and prospects
 - Controlling time-consuming negotiations
 - Controlling suppliers or others who may influence sales
 - Surveying activities and events in the market
 - Developing know-how on individual prospects
- (B) *Advertising*
- Advertisements in daily newspapers
 - Advertisements in trade journals
 - Other types of advertisements: telephone directories, year books, etc.
 - Direct mail
 - Participation in advertising arranged by trade associations
- (C) *Public relations and other promotional activities*
- Conferences, symposiums, seminars, courses, etc. arranged by the professional firm
 - Participation in conferences, etc. arranged by a trade association or someone outside the professional firm
 - Participation as lecturer, seminar leader, etc.
 - Membership of associations
 - Dinners, lunches and other forms of entertainment
 - Invitations, e.g., to the professional firm's office
 - Exhibitions
 - Reference assignments
 - References to persons
 - Participation in professional contests
 - Arranging contests
 - Awarding fellowships
 - Publication of articles
 - Reprints of articles
 - Publication of books
 - Product sheets
 - Annual reports
 - Publishing a magazine for clients
 - Slides, films, etc.
 - Billboards and name-plates
 - Press releases
 - Press conferences, interviews
 - Gifts
 - Christmas greeting, anniversary greetings, etc.
-

can only offer value propositions to customers. They further argue a service-centered view to be the new dominant logic for marketing (ibid.) (see table 3. below).

Table 3. Operand and operant resources help distinguish the logic of the goods- and service-centered views (Vargo & Lusch 2004a, 7).

	Traditional Goods-Centered Dominant Logic	Emerging Service-Centered Dominant Logic
Primary unit of exchange	People exchange for goods. These goods serve primarily as <i>operand resources</i> .	People exchange to acquire the benefits of specialized competences (knowledge and skills), or services. Knowledge and skills are <i>operant resources</i> .
Role of goods	Goods are <i>operand resources</i> and end products. Marketers take matter and change its form, place, time and possession.	Goods are transmitters of <i>operant resources</i> (embedded knowledge); they are intermediate “products” that are used by other operant resources (customers) as appliances in value-creation processes.
Role of customer	The customer is the recipient of goods. Marketers do things to customers; they segment them, penetrate them, distribute to them, and promote to them. The customer is an <i>operand resource</i> .	The customer is a coproducer of service. Marketing is a process of doing things in interaction with the customer. The customer is primarily an <i>operant resource</i> , only functioning occasionally as an operand resource.
Determination and meaning of value	Value is determined by the producer. It is embedded in the <i>operand resource (goods)</i> and is defined in terms of “exchange-value”.	Value is perceived and determined by the consumer on the basis of “value in use”. Value results from the beneficial application of <i>operant resources</i> sometimes transmitted through <i>operand resources</i> . Firms can only make value propositions.
Firm-customer interaction	The customer is an <i>operand resource</i> . Customers are acted on to create transactions with resources.	The customer is primarily an <i>operant resource</i> . Customers are active participants in relational exchanges and coproduction.
Source of economic growth	Wealth is obtained from surplus tangible resources and goods. Wealth consists of owning, controlling, and producing <i>operand resources</i> .	Wealth is obtained through the application and exchange of specialized knowledge and skills. It represents the right to the future use of <i>operant resources</i> .

Grönroos (1998) argues that the object of marketing in service firms is the service process itself, as the service process is the solution to customers' problem. From customer's perspective the service process can be divided into the process itself and the outcome for the customer that it leads to. The object of marketing, namely the process, can be analyzed in terms of functional quality perception and technical quality perception. The functional quality refers to how well the process functions and technical quality refers to the resulted outcome for the customer. Thus understanding the service processes is imperative for any firm. (ibid.) Also, as marketers have a better understanding of the nature of their product, or service, they can recognize which characteristics their own service shares with other services, and learn to look beyond their immediate competitors for new ideas as to how to resolve marketing problems (Lovelock 1983). Professional service firms have, at least in the past, thought of themselves as distinct from others and looked only to the direct peers and competitors as examples on confronting key business challenges. Professional service firms must understand that the fundamental nature of their business is the same, and that the competitive challenges they are facing are actually similar. (Dawson 2000.)

Knowledge industry requires extensive training to develop the vital skills and judgment needed for satisfactory service delivery. The work of professional service firms is customized according to the current situation, and the customer each time purchases expertise required to devise a tailor-made solution. This poses a challenge in meeting both marketers and operations managers' desires, as the first seeks for added value and the latter for reduced costs through standardization. (Lovelock 1983.) Also, a single service can rarely be categorized as either standardized or customized service; usually a service contains both characteristics, which vary to a certain extent even between different customer segments within a firm (Järvinen, Lehtinen & Vuorinen 2003).

3.2 Relationship marketing

Grönroos (1994) defines relationship marketing to be establishing, maintaining, and enhancing relationships with customers and other partners at a profit, so that the

objectives of all parties involved are met. Relationship establishment is divided into two parts, attracting customers and building relationships. Christopher, Payne and Ballantyne (1991) divide the relationship marketing from traditional marketing in that the concern of the first is on both getting and keeping customers while the concern of the latter is only on getting customers. Thus the emphasis is moving from transaction focus to relationship focus (ibid.; Sheth & Parvatiyar 1995). Also, the focus is on value creation in which the relationship engagement is equally important than the outcomes of the exchange (Sheth & Parvatiyar 1995). The characteristics of relationship marketing can be identified as follows (Christopher *et al.* 1991, 9):

- Focus on customer retention
- Orientation on product benefits
- Long time-scale
- High customer service emphasis
- High customer commitment
- High customer contact
- Quality is the concern of all.

Relationship marketing results in long-term relationships with customers leading into significant improvements in terms of financial and market performances (Christopher *et al.* 1991). However, the relationship marketing impacts a variety of areas, not only that of customer markets, but also employee markets, supply markets, internal markets, referral markets, and influencer markets. Undoubtedly, customer markets are the primary focus, yet in order to provide the best value propositions, the firms need to acknowledge the other above listed markets too. Emphasis in customer markets is on long-term relationships, whereas in referral markets it is on getting the referral sources, such as intermediaries, connectors, and agencies, to do the marketing for you. In supplier markets the emphasis is on long-term close relationship aiming at a win-win situation rather than a win-lose situation. Employee markets concentrate on attracting new suitable and trained employees, and influence markets concentrate on such markets that indirectly affect the business of the firm, such as the regulatory or governmental agencies. Internal markets, instead, concentrate on all members of the staff to provide the best presentation of the company and successfully handle all interactions with the customers. The firms should develop some form of strategy to address these markets in order to enhance

the relationships. Conversely, not all these markets require a written marketing plan, but emphasis should rather be on implementation of the desired strategy. (ibid.)

A paramount factor of the relationship marketing approach is the promise concept. Any firm giving promises of any kind may attract customers and initially build relationships, yet those relationships are maintained only if the given promises are kept. Another factor is trust, as there has to be a belief in the counterparts' trustworthiness that derives from the expertise and reliability. (Grönroos 1994.) Customers hire professional service firms because they believe they have complex and significant problems beyond their own capacity to resolve (Empson 1999). Therefore it is important for professional service firms to manage perceptions. The customer's purchase must be made on the basis of trust. This trust is derived from two primary sources: the relationship that develops between the individual customer and the professional during the sales process or through previous experience of working together; and the reputation which the individual professional and the firm as a whole has developed in the external market. Indeed, for professional service firm staff seeming to be knowledgeable may be more important than actually being knowledgeable as professional service firms persuade customers that they possess unique and valuable expertise, derived over the years of solving complex problems and challenges for customers. (ibid.) Customers trust is based on the belief that service firms actions will reflect the customers' interests, and that service firms will act accordingly (Dawson 2000). The development of trust is a matter of interaction over time because, down the line, trust is about personal relationships rather than organizational relationships, developing when the customer expectations are consistently met. (ibid.)

The rebirth of direct marketing with one-to-one connection between firms and customers has led to the growth of relationship marketing orientation (Sheth & Parvatiyar 1995). In relationship marketing the customer interface is broad, often involving people whose main duties are in operations, yet they have to perform crucial marketing tasks as they are in direct contact with the customers. Interactive marketing requires that all parts of the firm are involved in taking care of the customer relationships, and collaborate with and support each other in order to

succeed. The more the firm adopts the relationship marketing approach, the more it has to understand the service elements of its offerings. (Grönroos 1994.)

When forming a relationship marketing strategy, the underpinning concept is the delivery of value to the customer. As identified also earlier, customers do not buy products or services, but they buy total offerings from which they expect benefits and value. The offerings of a firm form a complex set of value-based promises making the understanding of exactly what the customer is buying of paramount importance. In other words, customers in relationship assign the value to the perceived benefits they receive matched against their expectations. (Christopher *et al.* 1991.)

A vital outcome of good customer relationships is the new business opportunities that can naturally be uncovered in the course of interaction. The closer the relationship is with the customer, the better opportunity the service firm has for identifying the openings for services, and better chance at winning the business without formal competition. (Dawson 2000.) As the relationship between a firm and its customers is critical to the firm's survival and success, Bendapudi and Berry (1997) suggest that firms should identify which customer groups to target for relationship marketing. Since the process of acquiring and maintaining the customer relationships requires investments, service firms benefit from identifying the customers that are most likely to maintain and remain in long-term relationship with the firm. The environmental, partner, customer, and interaction variables all have an effect on customers' receptivity to maintain a relationship with a service firm. (*ibid.*)

Möller and Halinen (2000) argue that the different exchange contexts and characteristics, however, require different types of relationship marketing, also posing different managerial challenges. Two identified distinct types of relationship marketing are market-based relationship marketing and network-based relationship marketing. The market-based relationship marketing involves managing the customer base of a firm, posing a major challenge on treating large number of customers individually yet profitably. The key managerial tasks consists of planning marketing activities for regular customers, mastering customer portfolio analyses, using databases and technology to manage customer interface and restructuring the marketing organization accordingly. Network-based relationship marketing involves

the management of interdependencies between the business actors, posing a challenge on involving in broader and deeper interaction with external partners. The managerial tasks include coordinating the activities with different actors and mobilizing and controlling the critical resources. (ibid.)

3.3 Summary

Marketing in professional service firms has traditionally been treated only as advertising and a way to get sales, yet today, it is more frequently perceived as a mean to understand the needs of customers and satisfying them. The value delivered, as perceived by the customer, will determine the level of customer satisfaction. “Smart companies aim to delight customers by promising only what they can deliver, then delivering more than they promise” (Kotler *et al.* 1999, 12).

Marketing is a way to make professional services more explicit to the customers, making it easier for the customers to understand what they are buying. From the customer’s perspective, the service could be divided into two parts – the process of delivering the service and the outcome of the process. From the firm’s perspective, the division could be made between the diagnosis and the implementation, as the firm is offering solutions to customers’ problems and challenges.

The professional service firms’ relationships with their customers are rich in interaction, providing specialized expertise requiring a high-level of customer contact. Those professional service firms that hang only on to their expertise, without recognizing the importance of relationships and sharing knowledge with their customers, will soon find themselves supplanted by competitors willing, and able, to make their clients more knowledgeable. (Dawson 2000.)

4 METHODOLOGY

In the following section the quality, amount, availability and applied limitations of the research data are addressed. The research method used, together with the reasoning for the chosen method, will be described and the techniques and procedures for gathering and analyzing the data are discussed. The collected data is categorized as well as the emergent patterns and the relationships are identified.

4.1 Research data

The research data is gathered through documents and secondary data sources, around existing theoretical frameworks. Main sources of the data are professional journal articles, books and research reports, but also working documents of consulting firms and related web pages are used. The quality of the data is guaranteed by using the theoretical frameworks presented in acknowledged professional journals and in theory books written by noted researchers. The gathered data is limited around the identified topics which are professional services, service development, service productization and marketing, more in detail services marketing and relationship marketing. The availability of research data is adequate, although the theoretical frameworks for actual service productization process mostly come from consulting firms' working documents and guidebooks for firms.

4.2 Theory-based qualitative content analysis

The purpose of the research is to study how to productize services in business-to-business environment and what implication does productization have on marketing. The research compares and contrasts the existing theories based on which conclusions are drawn. It is expected that as a result of the study a general model for service productization can be identified, taking into consideration the customer and market driven approach. As the research searches to answer question 'how', it

indicates towards qualitative rather than quantitative research method. Furthermore, the method used in this study is a theory-based qualitative content analysis.

The content analysis can be broken into separate steps. The first step is to describe and categorize the collected data; second, the data is unitized in order to recognize emergent patterns; next, the relationships between the data are recognized and categories to facilitate those are developed; finally, the hypothesis is developed to reach conclusions (Saunders, Lewis & Thornhill 2000). The first three steps are discussed here, while the last step is elaborated in more detail in section 5.

The content analysis consists of practices and operations used for generating observations, and of rules according to which the observations can be further rewritten and interpreted in order to evaluate their meaning. Furthermore, content analysis includes both simplification of findings and problem solving. Although these phases are described as separate, in reality they often are integrated. When simplifying the findings, the literature is examined only from a certain theoretical methodological viewpoint. In other words, attention is paid only to what is essential in terms of the theoretical frame of reference and the research questions. In so doing, rough observations of the findings can be drawn. After this, the observations are narrowed down by linking and integrating some of the observations together through finding a common feature or denominator. When solving the research problem in qualitative analysis, the meaning of the phenomenon is interpreted in terms of generated clues and available hints. Based on these clues and hints, the underlying assumptions of the findings, not necessarily directly visible, are concluded. (Alasuutari 1999.)

In this research some of the findings simplifications are already done in the literature review, where only the chosen parts of the existing literature are presented, limited to that part of the literature which is essential in terms of established research questions and theoretical frame of reference. Only the most relevant notions of the reviewed literature are included in the literature review, already allowing the numbering down of the amount of observations. The essential theoretical frameworks included in the study are those of professional services, service development, service productization, services marketing and relationship marketing. However, the findings are further

simplified by categorizing and identifying the emergent patterns and existing relationships. The categorization, emergent patterns and identified relationships are discussed more in detail in the upcoming subsections.

The solving of the problem, so to say, in this research takes place in section five. The meaning of the research findings are further analyzed by interpreting the findings through identified emergent patterns and relationships. Thereupon the established research questions can be answered based on the gained understanding. As mentioned in the introduction, the established research questions are: how to productize services; what are the most important elements of productization in terms of value creation to customers, or can such be identified; what benefits the productization offers; and what implications the service productization has for marketing.

4.2.1 Description and categorization of research data

Services and professional services are defined in various ways in the presented theories. As described in section two, services are defined, for instance, as the application of specialized competences (skills and knowledge) through actions, processes, and performances for the benefit of another entity or the entity itself (Vargo & Lusch 2004a) whereas professional services, more specifically professional engineering services, are defined as a series of expert activities and interactions between the service provider and the customer, eventually yielding into tangible solutions or related information to enhance the customer's value chain (Vaattovaara 1999).

Because of their process nature, services are difficult to quantify and present as concrete to the markets. Services are rather valued by their benefits than their features (Cowell 1988), making it advantageous for professional service firms to describe their services as service products and productized offerings. These could be defined for example in terms of benefits and use cases adding value to the customer, as offerings to solve customers' problems or challenges.

In the past, services have been developed in rather ad-hoc basis (Dolfsma 2004), responding to occurring customer needs. Companies have relied much on competitive imitation in their service development (Martin & Horne 1993). Though, the service development calls for more formal way of operating (Cowell 1988; Terrill 1992; Dolfsma 2004). A common service development process includes idea generation, idea screening, concept development and testing, business analysis, development, testing, and commercialization (Cowell 1988).

However, the mere service development process on its own is not enough to guarantee success. A vital matter is the simultaneous involvement of different organizational functions in the service development, including concurrent marketing and communications between various departments already in the early phases of development process (Yelkur & Herbig 1996; Drejer & Gudmundsson 2003; Hull 2003). Also, as customers are not looking for specific goods or services but rather solutions to their problems and challenges (Gadrey *et al.* via Dolfsma 2004), the customer interaction in the service delivery process usually calls for some degree of customization, thereof placing additional pressure on the development process.

The above mentioned challenges of the service development, adopted straight from product development, call yet another focus on the development process, that of systemization. The aim of systemizing the service development is to develop competitive, profitable and innovative service business (Jaakkola *et al.* 2009). One way of systemizing the service development is service productization. Service productization can be viewed as one part of strategically planning service offerings or as a way to develop new services (Sipilä 1996). Through service productization a firm can focus on analyzing and systemizing its working processes, both internally and externally.

Productization of professional services includes defining, designing, developing, describing and producing services so that both customer benefits can be maximized and service firm's profit objectives met (Sipilä 1996). Service productization is systemizing and partly standardizing new and existing service processes, and making the service offering more concrete to the customer (Jaakkola *et al.* 2009; Parantainen 2008). It consists of a productized offering, defining the content, end result of the

service process and price, making the offering visible to the customer, and of productization process, defining the stages and objectives for delivering the productized offering (Torkkeli *et al.* 2005).

4.2.2 Emergent patterns

The emergent pattern of professional services in the current literature is the complex nature of the services. Still, services are seen as something intangible and perishable, and due to their process nature, the service delivery process outcome is difficult to define. Although this is generally true, in business-to-business professional services customer challenges and problems should drive the focus and strategy of the service firm, providing visibility, and hopefully understanding, of the underlying and essential customer needs. With this knowledge, and with systemized service development and delivery processes, the service firm is able to describe its offerings as solutions to the customers' challenges and problems, providing information about the value and benefits of the solution rather than listing mere features and characteristics. The services thus become more product-like and start to lose the vague intangible nature and the outcome is easier to define and make visible to the customers.

In service development, the emergent pattern is to create more formalized ways of developing new services and further developing existing services. While the service development in the past has mostly relied on competitive imitation, developing services in ad-hoc basis to meet the occurring customer needs, the today's rapidly changing business environment call for more systemized ways of working in order to survive. Service productization improves the effectiveness by providing clear objectives and by forcing the service firm to analyze and systemize its working methods. No service firm can afford to reinvent the wheel again and again, but should utilize the solutions of prior customer projects and achieved knowledge by repeating the contents of the offering similarly, to the extent applicable, in different projects.

Marketing professional services, it is urgent to consider that increasingly sophisticated customers only consume services that add value to them, also in

business markets. Value delivery as the focal point, service firms need to change their mindsets from technology driven to customer and market driven way of operating (Rust & Miu 2006). This approach enables service firms to view their offerings as solutions to customers' problems and challenges and calls for strong marketing involvement. As a means for customer and market driven approach, service firms can utilize a mixture of services marketing and relationship marketing activities.

4.2.3 Identified relationships

There exist several relationships between the prevailing theories of professional services, service productization and marketing of professional services in business markets. As suggested by Lovelock (1983), customers usually want to know in advance what they are buying, making it paramount for the professional to diagnose the nature of the customer's situation and then designing a solution accordingly. As the outcome of the service delivery may seem uncertain to the customer, it is the marketers responsibility to communicate and influence the market, in other words the customers, leaving it with a reasonable idea of what to expect. This calls for customer and market driven approach, making it vital to involve marketing. However, it is of paramount importance to notice that the marketing function in a professional service firm is often mistaken as marketing department, whereas the function actually spreads across all organizational levels. Thereof a marketer in professional service firm can be a person whose main duties are in operation of assignments but who is in direct contact with customers, thus performing marketing tasks.

A solution for decreasing the customers' uncertainty of the outcome is to divide the service into two separate parts – that of diagnosis and implementation. The process of diagnosis can be explained in advance to the customer, even though the outcome may be hard to predict. The solution, instead, can often be described in detail before hand, giving the customer a reasonable idea of what to expect. To be able to perform the diagnosis and implementation separately, and to be able to describe them for the customer, a systemized way of working is necessary for the service firm. Here comes the service productization into the picture.

According to services marketing principles (Grönroos 1998) the object of marketing is actually the service process that can be analyzed in terms of functional and technical quality. Functional quality refers to how well the process functions overall, and technical quality to the resulted outcome for the customer. This fully supports and is applicable to service productization – the service productization consists of productized offering and productization process, where the first can be seen to refer to technical quality, the resulted outcome for the customer, and the latter to functional quality, how well the process functions overall.

5 SERVICE PRODUCTIZATION PROCESS

In the following section, the established research questions are addressed. The most relevant issues consequently are: how to productize services; what are the most important elements of productization in terms of value creation to customers, or can such be identified; what benefits the productization offers; and what implications service productization has for marketing. The gathered research data is interpreted for further understanding. The objective of the research is to build a general customer and market oriented productization process model applicable to professional services in business markets. The proposed process model is presented in this section.

5.1 Service productization process model

To begin with, customers hire professional service firms because they believe they have complex and significant problems beyond their own capacity to resolve (Empson 1999). This already directs to the fact that professional service firms should be customer and market driven in their operations. Yet the current definitions for professional services seem to lack the paramount aspect of the customer expectation. Customers seek for a solution to their problem or challenge rather than random benefits. The professional services are based on transferring the expert knowledge of the firm, wherein the knowledge refers to the capacity to act effectively (Dawson 2000). For that reason, the professional services are hereinafter defined as the application of specialized competences and knowledge through actions, processes and performances yielding into solutions to customer's problems and challenges. As a result, these solutions can enable better business decisions and enhance the business capabilities of the customer.

As the only way to survive in the global competitive business environment is by creating real value for the customer, the service productization model is proposed to take over the traditional service development, replacing it both in developing new services and in strategically planning the service offerings. Though, this proposal is limited and applicable only to professional services in business markets.

Productization of professional services is a customer and market oriented way of operating, focusing on value creation to customers. However, as shown in the literature review, the current productization models concentrate more on the internal productization of services, hence considering mostly the systematization of internal processes. There is the danger of concentrating only into the needs of the organization, focusing only into technology rather than on customers. Although the productized service might be the one that is also sought after by the customers, the technology focus drives the later stage of the productization, making the service product more concrete and communicating it to customers, to concentrate on wrong factors. The focus should be in the customer throughout the whole productization process, even if the firm is only looking for more systemized ways of working internally. It is not enough to consider the customer only in the external productization process.

External productization is seen to be equally important part of the productization, as mentioned in the literature, but it is not as widely covered in the productization processes. Sipilä (1996) identifies the external productization to include defining the offering, defining the prices, making the offering more tangible, and preparing the marketing and sales materials. On the other hand, Vaattovaara's productization process ends with the complete service products. Jaakkola *et al.* consider the productization as a way to develop service business and describe the process accordingly, while Torkkeli *et al.* admit that a process of service productization is difficult to define and rather highlight the factors affecting the productization process. Also, common for the proposed productization processes in the literature is that they merely indicate and consider the involvement and importance of marketing and communications in the process, though the subject is covered in discussions. As a result a new paradigm for productizing services is suggested. One model is identified concentrating more on systemizing the internal working methods of a service firm. Yet, rather than identifying between internal and external productization, a comprehensive productization process with customer and market driven focus is identified as another model. These will next be discussed more in detail.

5.4.1 How to productize services?

As proposed, two different ways of utilizing service productization can be identified. Those are: systemizing the internal working methods via productization; and a comprehensive customer and market driven service productization. Each process will now be presented.

Systemizing internal working methods via productization

Evident from the literature, a productization process, which systemizes the internal ways of working of a service firm, can be summarized and defined from the existing processes as follows:

1. Identify and screen new service ideas
2. Service product analysis and concept construction
3. Service product development
4. Service product piloting (if applicable)
5. Service product implementation
6. Further development of service products.

The first phase includes decomposing the business operations and identifying and selecting the prospective services to be developed as products. Second, the service is analyzed in terms of earlier experiences, competencies, customers and markets and the concept is defined. Next, the service product is developed via varying modules in order to concretize the elements and content of the service product. Then, in the implementation phase the service product is put into practice. After reviewing and controlling the working methods, they are refined and further developed according to achieved knowledge. The process is illustrated in the figure below.

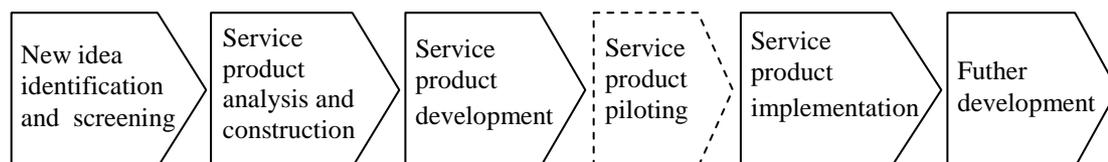


Figure 8. Systemizing internal working methods via productization

Customer and market driven service productization

The today's competitive business environment forces service firms to consistently create value to customers. Accordingly, it can be argued that the mere internal focus on the service productization, mostly embracing the needs of engineering and operations organizations of the firm, is not enough. Thereof, a productization model taking a customer and market driven approach is suggested. This model is a tool for professional service firms to offer complete solutions to customers' problems and challenges rather than offering unstructured professional services. The customer and market orientation heavily relies on marketing involvement. The suggested model includes the following steps:

1. Identify customers
2. Select the customer problems to be solved
3. Requirement specification of the offered solution
4. Internal and external service product description
5. Service product development
6. Piloting (if applicable)
7. Market launch
8. Further development of service products.

The process should start with first identifying who are the customers, to whom the firm is selling – and as importantly – to whom the firm is not selling. As a result, the target market is defined. As the customers are identified, the problems and challenges the customers are facing are examined. Of the existing and identified problems and challenges, the firm should determine the ones to be solved. The overall strategy of the firm should lay the basis for choosing which problems are to be solved, so that the new service developments are aligned. After this, the requirements must be specified, documenting the customer needs. If the customer needs are carefully identified and understood, they lay the basis for further development process and ensure the focus is on the customer and market demands. Based on the requirement specification the service product features are determined and the service product descriptions are defined. It is vital to understand that two service product descriptions are needed, one for internal use utilizing the development, and another for the external use, communicating the service product as an offering, a solution, to the market. Also, the external product description

document is the basis for all the messaging of the offering in the market. Next, the modules of which the service product consists, are defined and developed, followed by service product piloting with customer, if applicable. Piloting mostly is applicable if the new service is developed as part of an existing customer project. If piloting is applicable, the service firm is able to get valuable feedback of the offering and further develop it, if needed, before actual market launch. Market launch, then, is the actual launch of the productized service offering, making it public and available at the market. The further development is carried out according to customer and market feedback, which should be continuously gathered. The process is illustrated in the following figure.

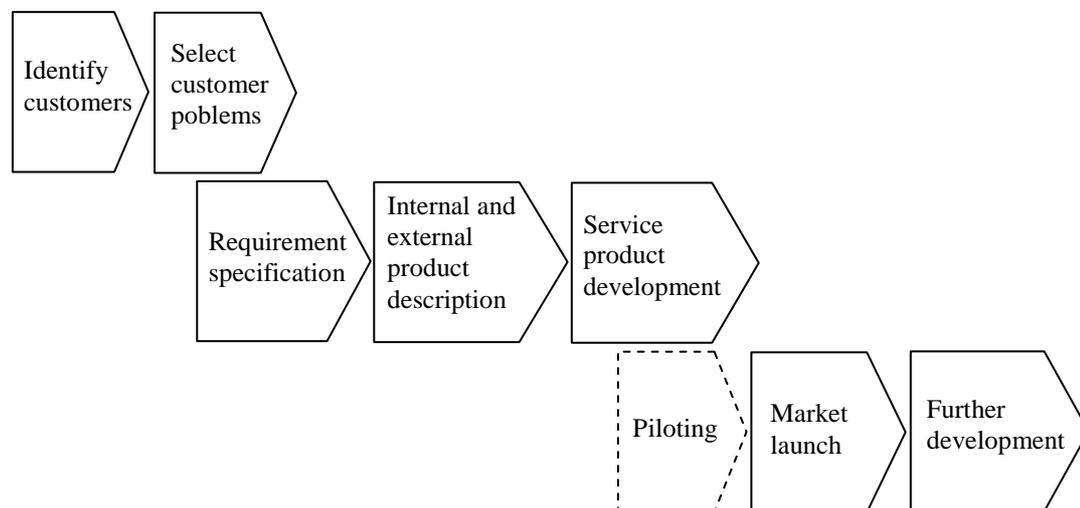


Figure 9. Customer and market driven service productization

The difference of the processes is on the focus. While the internal is more technology driven and focusing on internal needs of a firm, the other is more customer and market driven focusing on developing service offerings as solutions to customers' problems and challenges. The latter should be used for all new service developments as well as for strategically developing service offerings.

In both cases the productization needs to be in line with the firm's overall business strategy. The strategy must form the actual starting point for the productization process, setting the scene or the framework within which the productization can take place. Consequently, the service productization is a planned activity rather than chaotically and unplanned changing the main business idea and objectives.

5.4.2 What are the most important elements of productization in terms of creating value to customers?

The most important part of the productization process is the careful consideration of what to productize and to whom. This is guided by the firm's overall strategy and determined by identifying the customers and the problems and challenges of the customers that are to be solved. Next, the requirement specification is of paramount importance, documenting the customer needs. As the requirement specification is done and used as basis for the productization process, the approach will be both customer and market driven. Then it is vital to understand that the service description is different internally and externally, recognizing and addressing the different needs. These matters are the most important factors in the productization process and help the service firm to maintain the customer and market focus on their activities.

5.4.3 What benefits the productization offers?

The benefits offered by productizing services are manifold, as presented in the literature. In terms of the customers, the service productization and productized offerings offer the benefit of being easily identified and compared against other services. When customers can beforehand understand what they are buying, what is delivered and at what price, it makes their buying decision easier.

The most important benefits in terms of the professional service firms are that while systemizing and standardizing the internal working methods, productization enables profitable customization via modular service contents, which in turn, makes the pricing of the service offering easier. It also helps the service firms to utilize the solutions of prior customer projects and achieved knowledge by similarly repeating the contents in new projects. This increases productivity and the service profit margin. Also, the organizational learning and knowledge exchange is enhanced. Yet, above all is the benefit created by the communication of the productized offerings to customers in terms of created value and benefits – as a solution to customers' problems and challenges.

5.4.4 What implications service productization has for marketing?

Perhaps the most valuable implication of service productization for marketing is the focus of communication. Through productized services, the professional firms are able to communicate their offerings as solutions to customers' problems and challenges. The focus is on customer value and benefits, rather than listing service features and characteristics. Thus, the focus has shifted from technology driven to customer and market driven way of marketing and communicating. The table 4. below summarizes the differences in focus of communication and value created to customers between unstructured professional service and productized service offering.

Table 4. The focus of communication and created customer value of productized service offering versus the unstructured professional service (adopted from Dawson 2000).

Type of offering	Focus of communication	Created value for customer
Unstructured professional service	<ul style="list-style-type: none"> - Service listings - Features - Characteristics 	<ul style="list-style-type: none"> - Noncore functions performed more cost-effectively
Productized service offering	<ul style="list-style-type: none"> - Solution to customer problem and / or challenge - Customer value and benefits - Use cases with examples 	<ul style="list-style-type: none"> - Enhanced competencies and capabilities - Better decision making

All marketing activities, directed to customers, should then be aligned with the way of communicating, concentrating on value creation. Roughly, the marketing activities of professional service firms can be divided into three areas, which are personal selling, advertising and public relations, all concentrating on the promotional activities.

Another implication of service productization for marketing is the importance of customer relationships. They are vital in order to survive in the competitive markets. The more the firm adopts the relationship marketing activities in its marketing operations, the more it has to understand the service elements of its offering. This is enabled through productization. Also, a paramount factor of the relationship marketing approach is the concept of promise. Any firm giving promises of any kind

may attract customers and initially build relationships, yet those relationships are maintained only if the given promises are kept. It is particularly important as everyone knows that retaining the existing customers is much less expensive than attracting new ones. Those professional service firms that hang only on to their expertise, without recognizing the importance of relationships and sharing knowledge with their customers, will soon find themselves supplanted by competitors.

5.5 Summary

As diversified needs exist for service productization, two productization models are suggested, each stretching a different point of focus. One is for systemizing the internal working methods via productization, focusing more on the internal needs of a service firm – that is to improve profitability and productivity via standardized and formalized ways of working. Another model concentrates on customer and market driven orientation in productization. It allows professional service firms to offer solutions to their customers' problems and challenges rather than offering unstructured services. This model should be used for all new service development and strategically planning service offerings in any professional service firm.

The most important elements of productizing professional services are to identify both the customers and the solved problems and documenting the customer needs in requirement specification. The benefit for the customer is that he or she can better understand what is delivered and at what cost, easing the buying decision. Main benefits for the professional service firms is the ability to systematically utilize the achieved knowledge of prior customer projects and the ability to communicate the productized offerings as solutions, creating value to customers. This is also the far most important implication for marketing professional services, too.

6 CONCLUSIONS AND IMPLICATIONS FOR FUTURE RESEARCH

Facing the ever tightening global competitive business environment, service firms are forced to look for innovative ways of operating and delivering value to customers. Continuous pressure on profits and cost efficiency calls for a more systemized methods for strategically planning the service offerings and developing new and existing services. After reviewing the existing theories of service development and service productization, a conclusion is made that the service productization should replace altogether the traditional service development process, commonly imitated from product development. For professional service firms operating in business-to-business environment, productized offerings are the only way to create value for the customers.

6.1 Summary of the research outcomes

Various definitions of services, and professional services, exist in the current literature, but they seem to lack the acknowledgement of creating value to customers. As the value creation to customers should be the guiding principle of professional service firms, a new definition of professional services accordingly is needed. The new definition proposed in this research is that professional services are the application of specialized competences and knowledge through actions, processes and performances yielding into solutions to customer's problems and challenges. As a result, these solutions can enable better business decisions and enhance the business capabilities of the customer, thus creating real customer value.

To survive in today's competitive global business environment, professional service firms need to employ systematic working methods and offer solutions to customers' problems. Furthermore, they need to be customer and market driven in all their operations. To achieve these objectives, it is vital to utilize the service productization process for strategically planning the service offerings as well as for developing new and existing services. Such a productization model is customer and market driven and consists of: identifying the customers; selecting the customer problems to be

solved; requirement specification of the offered solution; internal and external service product description; service product development; piloting (if applicable); commercialization; and further development of service products.

However, as identified in the study, a different focus may be needed if the meaning of productization is merely to systemize the internal working methods of a professional service firm. For this reason, another productization model is needed. This model consists of: identifying and screening of new service ideas; service product analysis and concept construction; service product development; service product piloting (if applicable); service product implementation; and further development of service products.

6.2 Reliability and validity

The research study is valid as the service firms need to consistently deliver value to their customers in order to keep them satisfied. This calls for more customer and market driven way of operating, offering solutions to customers' problems and challenges, rather than services merely described according to their features and specifications. By using the existing theory as a basis, it was possible to identify and develop an adjusted process of productizing professional services in a customer and market driven manner, which was the original objective of the research. All the established research questions were answered as the outcome of the study. At the same time, the validity of the research is limited only to productizing professional services in business markets.

As part of qualitative analysis, the criticism of sources is essential. To proof the reliability of the research, professional journal articles were used to provide the theoretical frameworks as basis of the analysis. Such articles are carefully reviewed by experts before accepting the publication, thus can be trusted to tell the truth. The sources of guidebooks, web pages and working documents are both proof points and indicators, providing evidence to answering the research questions. The indicator sources, as well as the proof points, exist independent of the occurring research, making them even more reliable in their nature. The literature sources are essential

and the used references relevant from the subject point of view. To identify the productization process, the presented literature sources are validly and credibly used. This is vital as the theoretical analysis emphasizes on who has said what and when (Tuomi & Sarajärvi 2002).

6.3 Implications for future research

The presented research is applicable only to professional services in business markets and limited on to the theoretical basis. Therefore it is suggested that empirical studies on the topic should be carried out. The empirical studies would further validate the outcomes of the research. Also, comparing and contrasting the empirical studies of the proposed productization process and the previously defined productization process would further reveal the best practices of productizing professional services in business markets.

REFERENCES

- Adcock D (2000) *Marketing Strategies for Competitive Advantage*. West Sussex, John Wiley & Sons, Ltd.
- Alasuutari P (1999) *Laadullinen Tutkimus* (3rd ed.). Tampere, Vastapaino.
- American Marketing Association (2007) *Dictionary of Marketing Terms*. Reviewed 1.9.2007 <http://www.marketingpower.com/mg-dictionary-view1862.php>.
- Bendapudi N & Berry LL (1997) Customers' motivations for maintaining relationships with service providers. *Journal of Retailing* 73(1): 15-37.
- Christopher M, Payne A & Ballantyne D (1991) *Relationship Marketing Bringing Quality, Customer Service and Marketing Together*. Oxford, Butterworth-Heinemann.
- Cowell DW (1988) New service development. *Journal of Marketing Management* 3(3): 296-312.
- Dawson R (2000) *Developing Knowledge-Based Client Relationships. The Future of Professional Services*. Boston (MA), Butterworth-Heinemann.
- Dolfsma W (2004) The process of new service development – issues of formalization and appropriability. *International Journal of Innovation Management* 8(3): 319-337.
- Drejer A & Gudmundsson A (2003) Exploring the concept of multiple product development via an action research project. *Integrated Manufacturing Systems* 14(3): 208-220.
- Empson L (1999) Lessons from professional service firms. *Financial Times London (UK)* Nov. 8: 6-12.

- Ford D, Berthon P, Brown S, Gadde L-E, Håkansson H, Naudé P, Ritter T & Snehota I (2002) *The Business Marketing Course. Managing in Complex Networks*. West Sussex, John Wiley & Sons, Ltd.
- Grönroos C (1998) Marketing services: the case of a missing product. *Journal of Business & Industrial Marketing* 13(4/5): 322-338.
- Grönroos C (1994) From marketing mix to relationship marketing: towards a paradigm shift in marketing. *Management Decision* 32(2): 4-20.
- Grönroos C (1990) *Nyt kilpaillaan palveluilla*. Jyväskylä, Weilin+Göös.
- Gummesson E (1979) The marketing of professional services – an organizational dilemma. *European Journal of Marketing* 13(5): 308-318.
- Hull FM (2003) Simultaneous involvement in service product development: a strategic contingency approach. *International Journal of Innovation Management* 7(3): 339-370.
- Jaakkola E, Orava M & Varjonen V (2009) *Palvelujen tuotteistamisesta kilpailuetua. Opas yrityksille (4th ed.)*. Helsinki, TEKES.
- Järvinen R, Lehtinen U & Vuorinen I (2003) Options of strategic decision making in services. Tech, touch and customization in financial services. *European Journal of Marketing* 37(5/6): 774-795.
- Kotler P, Armstrong G, Saunders J & Wong V (1999) *Principles of Marketing. Second European Edition*. Essex, Prentice Hall Europe.
- Kotler P & Connor RA Jr. (1977) Marketing professional services. *Journal of Marketing* January 1977: 71-76.
- Kratochvíl M & Carson C (2005) *Growing Modular. Mass Customization of Complex Products, Services and Software*. Heidelberg, Springer Berlin.

- Lampel J & Mintzberg H (1996) Customizing customization. *Sloan Management Review* 38(1): 21-30.
- Lehtinen U & Niinimäki S (2005) *Asiantuntijapalvelut. Tuotteistamisen ja Markkinoinnin Suunnittelu*. Helsinki, WSOY.
- Lovelock C (1983) Classifying services to gain strategic marketing insights. *Journal of Marketing* 47(summer): 9-20.
- Lovelock C & Gummesson E (2004) Whither services marketing? In search of a new paradigm and fresh perspectives. *Journal of Service Research* 7(1): 20-41.
- Martin Jr. CR & Horne DA (1993) Services innovations: successful versus unsuccessful firms. *International Journal of Service Industry Management* 4(1): 49-65.
- Möller K & Halinen A (2000) Relationship marketing theory: its roots and direction. *Journal of Marketing Management* 16: 29-54.
- Parantainen J (2008) *Tuotteistajan pikaopas 3.0. Noste*. Reviewed 3.2.2009 http://sissimarkkinointi.files.wordpress.com/2009/06/tuotteistajan_pikaopas3.pdf.
- Rust RT & Miu C (2006) What academic research tells us about service. *Communications of the ACM* 49(7): 49-54.
- Saunders M, Lewis P & Thornhill A (2000) *Research Methods for Business Students* (2nd ed.). Essex, Pearson Education.
- Sheth JN & Parvatiyar A (1995) The evolution of relationship marketing. *International Business Review* 4(4): 397-418.
- Shostack GL (1977) Breaking free from product marketing. *Journal of Marketing* 41: 73-80.

Sipilä J (1996) Asiantuntijapalvelujen tuotteistaminen. Porvoo, WSOY.

Syson F & Perks H (2004) New service development: a network perspective. *The Journal of Services Marketing* 18(4): 255-266.

Terrill CA (1992) The ten commandments of new service development. *Management Review* 81: 24-27.

Torkkeli M, Salmi P, Ojanen V, Länkinen H, Laaksolahti A, Hänninen S & Hallikas J (2005) Asiantuntijapalvelujen johtamisen haasteet Opas suunnittelu- ja konsultointiyriytysten liiketoimintaosaamisen kehittämiseen. Research Report 168. Lappeenranta University of Technology.

Tuomi J & Sarajärvi A (2002) Laadullinen tutkimus ja sisällönanalyysi. Helsinki, Tammi.

Vaattovaara M (1999) Transforming services into products in a system engineering company. Research Report. Helsinki University of Technology, Industrial Management and Work and Organizational Psychology.

Vargo SL & Lusch RF (2004a) Evolving to a new dominant logic for marketing. *Journal of Marketing* 68(January): 1-17.

Vargo SL & Lusch RF (2004b) The four service marketing myths: remnants of a goods-based, manufacturing model. *Journal of Service Research* 6(4): 324-335.

Yelkur R & Herbig P (1996) Global markets and the new product development process. *Journal of Product & Brand Management* 5(6): 38-47.

Zeithaml VA, Parasuraman A & Berry LL (1985) Problems and strategies in services marketing. *Journal of Marketing* 49(spring): 33-45.