Map Your Market Offerings

What Kind of Value Proposition Can Your Customers Buy from You?

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MAP YOUR MARKET OFFERINGS:

WHAT KIND OF VALUE PROPOSITION CAN YOUR CUSTOMERS BUY FROM YOU?

APRIL 2022

PRODUCT + SERVICE + DATA INTEGRATION PROJECT

Servitize.DK

INDUSTRIENS FOND

CBS COPENHAGEN BUSINESS SCHOOL
HANDELSHØJSKOLEN

ABOUT THIS BOOKLET

This booklet has been developed during the "P+S+D Integration Research Project" at Copenhagen Business School. The project investigates the level of integration of product, service, and data as well as P+S+D strategies and initiatives in manufacturing firms in Denmark. The project is a part of the ServitizeDK project, financially supported by Industriens Fond.

This booklet is based on 19 interviews with executives from manufacturing firms that also offer services and thus have a broad market offering. The development of the framework used in the interviews and presented in this booklet is based on contributions from the strategy literature (e.g., Stabel & Fjeldstad, 1998), the marketing literature (e.g., Eggert et al., 2016), the innovation literature (e.g., Chesbrough, Lettl, & Ritter, 2018), and the business model literature (e.g., Ritter & Lettl, 2018; Ritter & Pedersen, 2020).

WHO IS THE BOOKLET FOR?

Market exchange is becoming increasingly complex. What sellers actually offer, to which kind of buyers, and how value propositions are presented convincingly to buyers have taken on new and challenging developments with the introduction of new technologies which allow new ways to design market offerings and new ways for customers, intermediaries and providers of complementary offerings to obtain value. This calls for analysis, understanding and strategic decisions.

The booklet is written for decision makers in manufacturing firms who want to analyze their market offerings – regarding the combination of products (resources for exchange), processes (service interactions), and platforms (interactions within an ecosystem). The booklet offers tools for reflecting and analyzing – and thus offers executives the opportunity to understand their current market offerings and value propositions.

MARKET OFFERINGS AND VALUE PROPOSITIONS

A central strategic decision for firms concerns market offerings, i.e., what does the organization offer its customers – what do they actually sell.

In recent years, many organizations have turned their attention to what customers buy and why they buy it. In other words, sellers are not only concerned with what they sell, their market offering, but also with what this market offering means for the customer's value creation. This view has been associated with "solution selling", i.e., to see a market offering as a solution to a customer's problem. Customers buy market offerings because they want to create value for themselves – i.e., customers see a value potential in using the market offering of a supplier in their own processes. Therefore, in every market offering lies a value proposition – a promise that a customer will be able to create value when using the offering. There is an important difference in the value-in-use (the realization of value by a customer) and the value-in-exchange (the proposition of potential value embedded in a transacted market offering). The same market offering can therefore result in different value propositions to different customers.

WHAT THE SUPPLIER SELLS **(market offering)** Value-in-exchange	WHAT THE CUSTOMER BUYS **(value proposition)** Value-in-use
A car with all the technical features	A comfortable transportation A safe transportation A cheap transportation
A packaging machine plus service	Production capacity: the ability to sell their products
A university education	Future income opportunities

THE PARTS: WHAT DOES YOUR MARKET OFFERING CONSIST OF?

PRODUCTS

Products are resources for exchange, i.e., they can be transferred in either a physical or a digital format – and the exchange typically involves the transfer of usage and/or ownership rights.

Examples from our interviews are: machines, equipment, parts, spare parts, wear parts, books, software, videos.

PROCESSES

Processes are performed by the supplier for a customer or a customer's resources—an offering typically referred to as a service. For example, transportation of people or goods is a process of moving a customer or a customer's resources from A to B (e.g., taxi, air flight, cargo, logistics). Processes typically demand coordination with the customer to ensure that the customer participates in the process (e.g., it is impossible to drive or fly a customer that does not turn up) or that access to the resources is provided (e.g., it is impossible to clean a production facility or to calibrate production equipment if the access is denied).

As the distinguishing factor of processes is to be active, we always use the ing-form when listing processes.

Examples from our interviews are: consulting, cleaning, training, repairing, maintaining.

PLATFORMS

Platforms are offerings where customers can connect with other actors – they "meet" and interact with others of interest. Classic examples are trading platforms where customers can meet suppliers – in recent years, online marketplaces such as Amazon and e-bay have gained great popularity. Similarly, likeminded customers can meet on such platforms, just as the ones Facebook and Instagram are offering.

Yet, platforms are not limited to digital formats. Firms offer customer clubs and summits where their customers can meet and discuss common interests. We typically note in our analysis of market offerings the actors that the supplier connects to – to explicitly illustrate that it is a platform offering.

Examples from our interviews are: third party supplies, customer meetings.

To illustrate the differences between products, processes, and platforms, think of transportation as a customer need: which market offerings do address this need?

Regarding products, suppliers can offer cars, bicycles, private jets, or shoes – suppliers can sell resources that enable the customer to fulfill their transportation needs.

Alternatively, suppliers can offer processes—the actual transportation: taxi companies, train operators and airlines offer tickets (not products) that allow passengers to be transported. No resources are transferred – the customer does not get to drive the taxi or to operate the train or to pilot the aircraft.

Finally, platforms like Uber solve the transportation needs of a customer by connecting the customer with a driver in a car. While the experience is rather similar to a taxi business, the market offering is very different. Uber explicitly proclaims that they are not a taxi business (and thus also should not be regulated according to laws and regulations relevant for taxis), but they are a technology company running a match making system.

WHAT PARTS DO YOU OFFER?

1 PARTS

PRODUCTS (resources)	
PROCESSES (services)	
PLATFORMS (connections)	

THE PACKAGE: WHAT IS BUNDLED TOGETHER?

Given a comprehensive list of parts, firms and their customers can design the packages in which the parts are offered. In some cases, customers can freely choose what they want to buy: all parts are available in any combination and amount. Other firms offer highly integrated bundles of their parts: they create packages of parts that often are called solutions. Hence, there is the option of compatibility of parts, hybrid offerings or truly integrated solutions.

An illustrative example is the airline industry: traditional airlines such as Lufthansa, British Airways and SAS offered fully integrated bundles of their parts. With one ticket booking, a passenger had access to seat allocation, food and drinks, hand luggage and check-in luggage. These parts were inseparable, and there was no discount for not having check-in luggage. Low-cost airlines, such as Ryanair and EasyJet, challenged this package. They offer all the same parts but a passenger can freely chose, and pay, for each item separately.

Similarly, car and truck producers used to sell their products (cars and trucks) together with their processes (service contracts) – in fact these parts were bundled that warranties for products only applied when services were provided by the producers' own service outlets. The European Union introduced legislation that made such "hard bundling" illegal, and thus producers had to unbundle and give customers the right to choose freely between the parts they want to buy.

We all have seen examples of packages like the one on next page.[1]

[1] The example is based on https://www.struers.com/en/Technical-Service/Service-Plans# & https://www.struers.com/en/Technical-Service/Service-Packages.

Struers
Ensuring Certainty

		PLAN TYPE		
		PREVENT	PROTECT	PERFORM
Included	Preventive maintenance visit	✓	✓	✓
	Replacement of wear parts included	✓	✓	✓
	Wear parts guarantee	✓	✓	✓
	First-priority status (VIP)	✓	✓	✓
	Savings on labor & travel costs for repairs	Discounted rates	All costs covered	All costs covered
	Worldwide on-site service within 48 hours*		✓	✓
	Repairs & spare parts included		✓	✓
	Extended warranty included		✓	✓
	Critical spare parts for your stock			✓
	Continuous consumables supply			✓

Start-up Package

Ensure 100% performance of your equipment from the very first day. **Equipment installation**, an introduction to basic applications, and **basic product and maintenance training** ensure you benefit from correct operation and specimen quality right from the beginning.

Choose our Start-up Package to get the most out of your investment right from day 1.

Optimization Assessment Package

Optimize efficiency and improve results. As well as a technical inspection of your equipment to help you plan preventive maintenance, we identify opportunities for **process optimization** and help you **better utilize equipment and consumables** to achieve more reliable results.

Choose our Optimization Assessment Package to increase your efficiency, reduce costs and improve the reliability and repeatability of your results.

Maintenance Training Package

Get **detailed training** in daily, monthly and annual **preventive maintenance** so you can perform your own maintenance and ensure preparation quality.

Choose our Maintenance Optimization package to improve your in-house skills, lower long-term maintenance costs and ensure uptime.

WHAT PACKAGES DO YOU OFFER?

1 PARTS	
PRODUCTS (resources)	
PROCESSES (services)	
PLATFORMS (connections)	

2 PACKAGES

	1	2	3	4	5	6

THE PARTNERS: WHAT DO OUR PARTNERS OFFER TO OUR CUSTOMERS?

From a value-in-use perspective, the scope of the offering is often different than what is supplied. When planning an event or a holiday, the provider of the airline travel is only one component in the entire customer experience. Matching and fitting the product, process and platform with what the customer want is ultimately part of the users context. Yet, airlines may choose to work with partners that have complementary offerings in order to strengthen their position or be top of mind among consumers. Partners provide market offerings that extend or complement the use of the supplier's market offering. For instance, when the streaming company HBO decided to collaborate with a distinct set of partners in pre-installing their app in smart TVs, this integration of offerings from different companies (a streaming firm and a TV producer) had a differentiating effect with respect to market offerings.

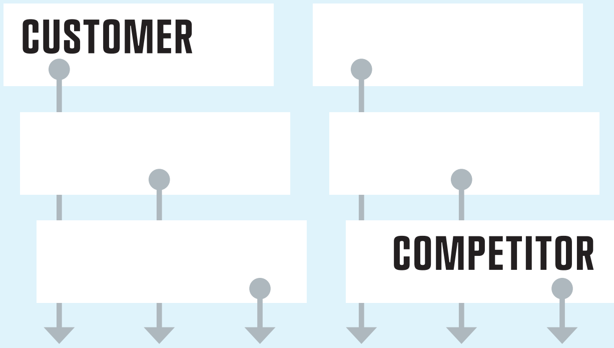
When customers create value, they typically integrate a supplier's market offering with other market offerings. To better enable this, suppliers may choose to provide their market offerings with complementary offerings from partners, which are seen as a way to pre-bundle a collaborative market offering. Providers of smart TVs, electrical cars and mobile phones pre-package their market offering with that of subscription services. Home appliance producers have outsourced maintenance and repair of their products to specialized service providers.

When a supplier actively offers a partner's market offerings, the partner is part of the platform offering of the supplier. It is a valuable exercise to explicitly include complementary market offerings and their providers. For this purpose, we extend the matrix with a partner section where the relevant offerings of partners can be displayed.

We also add two important columns: one for the customers themselves: what parts do they contribute themselves? For example, some industrial firms have a maintenance department that can be trained to perform maintenance and repair on equipment. Therewith, those processes are handled by the customer. Also, we add a column for competitors: all those parts that are relevant but the supplier has no partner can be added here. This offers an insight into how much of the total market offering is left without influence.

1 PARTS

3 PARTNERS

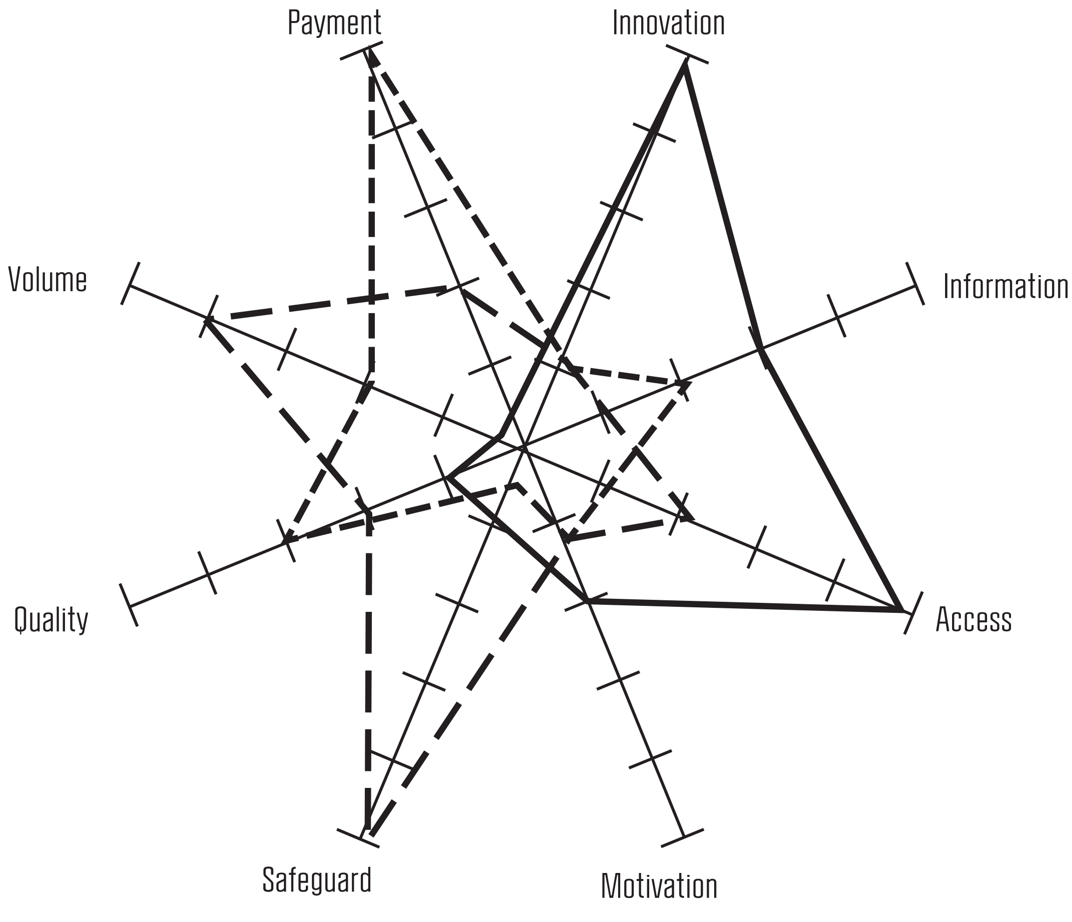


		-	I	II	III	IV	-
PRODUCTS (resources)							
PROCESSES (services)							
PLATFORMS (connections)							

THE PAYMENT: HOW DO YOU CAPTURE VALUE?

While we have now mapped the supplier's market offering in terms of what the supplier wants to exchange, and what the customer receives, we are missing the final element of a market offering: what does the customer need to offer the supplier, what is the customer's payment for the package, or in other words: what is a value capture for the supplier.

Beyond financial payments, customers can offer valuable items to suppliers, such as references, access to important actors (the customer's platform), input to innovation processes, etc. (see the figure below)[2].



[2] Ritter, Thomas, and Achim Walter (2012): "More is not always better: The impact of relationship functions on customer-perceived relationship value." Industrial Marketing Management, 41(1): 136-144.

The customer's payment very often has a financial element: how much will the customer pay, when will the customer pay, and based on what. Traditionally, customers paid for the exchanged parts: for goods per unit and for processes per delivery. In recent years, the logic of payments has moved from a "in exchange" logic (pay when you receive something) to a "in use" logic (customers pay when customers actually use the offering and create value). This has given rise to subscription models where customers pay concurrently rather than upfront.

Furthermore, the payment logic has been moved to "value-based", i.e., that a supplier's payment is related to the customer's value creation. In this logic, suppliers get paid for "electricity saved" (pay per difference in before and after electricity bills), for "happiness created" (pay per laughter in a comedy show).

From a market offering design perspective, it is important to realize that the parts of exchange do not change, it may only be the payment. While a customer still gets access to a car for driving, the market offering may differ in payment between buying the car, leasing the car, and renting the car.

Payment element	Explanation of elements	Customer assesment of our payment model	Customer assesment of industry payment model
How	How much will the customer pay?	●●○○○	●●●○○
When	When will the customer pay?	●●●●○	●●●○○
What	Pay as exchange or for use	●●●●●	●●○○○

Payment is predominantly a burden and a sacrifice for buyers made in anticipation of value creation from the supplier's offering. But payment also entails a potential for adding customer benefits and thereby creating value. The payment model of a given supplier may add to the overall market offering if it is deemed more valuable than that of competing offerings. That is, if a supplier can offer better payment terms (as assessed in customer value) than competitors, payment may be a source of differentiation and competitive advantage.

In summary, payment captures important consideration – and these considerations become part of the total package a customer agrees to. As much as a supplier needs to design what the supplier offers (the package of the parts), as much a supplier needs to specify what the customer has to offer (the payments).

Of course, these calibrations are not the pure responsibility of a supplier—the package and payments get designed in an interactive process between the supplier and the customer.

MARKET OFFERING MAP

1 PARTS

PRODUCTS (resources)

PROCESSES (services)

PLATFORMS (connections)

4 PAYMENT

For example:
per unit (input)
per solution (input)
per time (subscription)
per use (output)
per result (output)

2 PACKAGES

3 PARTNERS

CUSTOMER

COMPETITOR

1	2	3	4	5	6	–	I	II	III	IV	–

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