


Business Solutions as Signals

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Publication date:

2017-11

Permanent link:

<https://doi.org/10.3929/ethz-b-000213168>

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Business Solutions As Signals

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Category: Business-to-Business Marketing

Keywords: Business solutions, B2B, signaling, reference marketing, experiment

Many manufacturing firms today claim to be solution providers. By means of highly customized and integrated, product-service offerings, these firms address complex business problems of customers in a holistic way. However, the extent to which manufacturers derive financial returns from investments made into this advanced form of service provision remains debatable.

Prior research shows that the further the manufacturer moves from the established basis in selling equipment and related, product-oriented services, the more difficult it is to generate profits (Fang et al., 2008; Neely, 2008). While failure stories in the scientific literature are scarce, practitioners report figures on unsuccessful transformation projects: Krishnamurthy (2003) estimate that 75 % of the companies that want to offer solutions fail to return the associated costs. According to Roegner and Gobbi (2001), only about 20% of all solution sellers finally recapture their capital costs, and even fewer achieve the 20 to 25% increase in profitability that McKinsey expects from successfully implementing business solutions. At the same time, despite the reported challenges, any large-scale transition away from solution business cannot be witnessed. This leads to the assumption that managers persist with solution business at least partly for strategic reasons. However, beyond broadly based arguments stressing managerial beliefs of the differentiating role of customer solutions, it is unknown what the specific and measurable market effects are that help to explain why engaging in solution business is strategically important for the manufacturer.

To contribute to this gap in extant understanding, the purpose of this study is to examine solution business as a *market signal* (Spence, 1973, 2002). We assume that irrespective of the direct revenues generated by solution business, manufacturers benefit strategically from the positive spillover effects of solution business on the firm's underlying product business through a signaling mechanism: Credibly signaling the capabilities associated with solution selling, such as understanding of the customer's business, designing and implementing solutions that generate superior value-in-use, and commitment to supporting the customer during the full life cycle of the provided solution (Tuli et al., 2007; Ulaga & Reinartz, 2011; Macdonald et al., 2016) lower the customer's risk perception.

This assumption has been tested in a cross-industries online experiment. Participants were shown eight short vignettes describing a fictional B2B purchase situation for a product-based component. The scenarios systematically vary along three dimensions: solution vs.

component sellers (to address the main question whether customers prefer buying from solution providers even if they need just a stand-alone component), sellers with and without prior reference projects, and high vs. low price of the focal component. Participants were recruited through an online access panel provider in the US and the UK. Respondents needed to be managers in the manufacturing industry and they had to be involved in purchasing decisions that exceed 10,000 USD at least once a year. In total, 333 managers participated in the experiment.

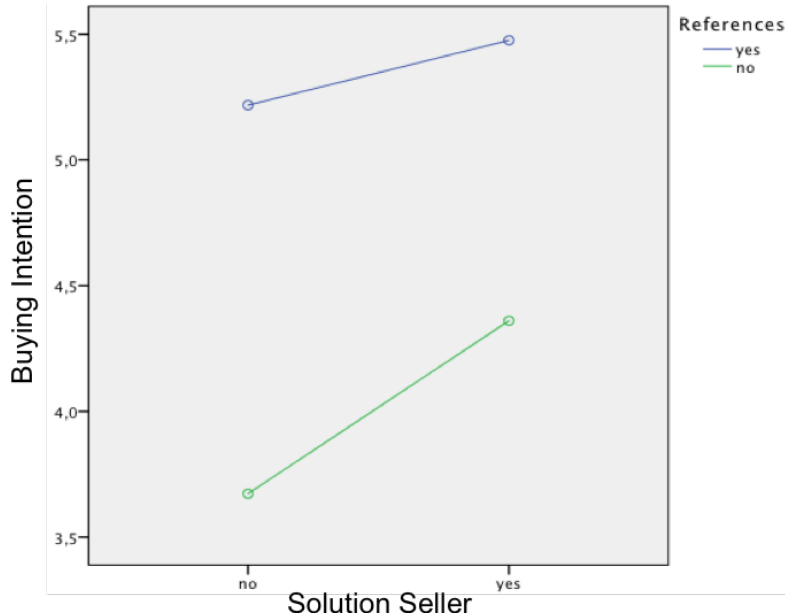
The results show that a market positioning as a solution seller has a highly significant and positive effect on the customer's purchase intention in cases where the customer is only considering the purchase of a single, product-based component. The results also show that positioning as a solution seller has a positive effect on the customer's purchase intention in cases where the emitted signal is unsubstantiated through showcasing of prior reference projects. However, the signaling effect of solution business is even stronger if the seller can boost the credibility of the signal through evoking upon prior reference projects.

===== Place picture 1 about here =====

For practitioners, the research suggests that a market positioning as a solution provider is strategically important for manufacturers because it increases the customer's purchase intention of products. Thus, manufacturers should consider persisting with solution business even in cases where the direct revenues generated by this particular form of service provision are insufficient to recuperate the related costs. The results also suggest that manufacturers that lack real capabilities in solution provision can be induced to exploit the signaling effects of solution business, thus resulting in a free rider problem. This underlines the importance of systematic reliance on customer reference marketing for manufacturers with demonstrated capabilities in solution provision, so as to ensure that they fully benefit from investments made into development of the related capabilities.

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Picture 1: Solution sellers are generally preferred but can further increase purchase intentions through reference projects