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SERVITIZATION IN MANUFACTURING FIRMS:
THE MONCLER CASE

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Abstract

This Thesis aims to provide a deep knowledge of servitization, through the literature review of the most recent articles, supported by the data collected from the analysis of the case study of Moncler. Focus of this paper is to give an understanding of how and why manufacturing firms resort to servitization and if it represents a key point or an extra for the strategic decisions. Other topics treated, in relation with servitization, are business model, competitive advantage and innovation.

Contents

Introduction

Everywhere in the world, the service sector is growing, such that it accounts for 70 percent or more of the gross domestic product (GDP) in countries such as the USA, UK, France, and Germany, even as the manufacturing sector steadily declines (IMD World Competitiveness Yearbook, 2012). The decrease of manufacturing's share of GDP largely reflects lowering prices of goods relative to services (The Economist, 2005). Services are becoming more and more important for all the firms and even manufacturing firms, historically focused on their product, are resorting increasingly to service offer. The product per se is not sufficient anymore to conquest customers 'heart that in addition to the product, ask for related service able to satisfy them and to offer them a better purchasing experience. The firms have to convincing them to buy again their product and not to switch to the competitors. The firms still spend a lot of capital in product enhancement, but they must also invest in service enhancement to offer something unique to the buyers. Especially, for those firms producing standardized products, the services can represent a way to differentiate their offer in respect of the competitors and above all, in front of the eyes of their customer. It is a matter of competitive advantage. The more a firm is able to propose a unique offer, the more profitability will receive back. It is not easy for the firm seeking to change its offer, to find the solution perfectly matching its needs. However if the firm has the right resources and capabilities, it works on its organizational structure and it revise its business model, it can improve its financial situation, putting the basis for a solid future. The ongoing trend in which manufacturing firms differentiate themselves through new services continues to reduce the traditional distinction between service and manufacturing in internal innovation processes (Barcet, 2010), making the difference between the two types of firms diminishing inexorably. All these points are treated in the first chapter of this Thesis that includes a complete literature review of the most recent articles about servitization, going from the definitions of servitization to the relation among services and business model.

In the second chapter, it is presented the evolutionary path taken by Moncler since its foundation, which saw the well-known brand of down jackets to go from the brink of bankruptcy to become one of the most successful reality in the luxury market, culminating in December of 2013 with the listing on the Milan Stock Exchange. Since 2003 Remo Ruffini is the chairman and creative director of Moncler, he is universally recognized as the principal architect of its rebirth, thanks to the strategy implementation of the "piumino globale", a down jacket for all occasions and at all latitudes, crucial for the success of Moncler. He is the perfect example of the successful entrepreneur. He was able to manage the critical situation in which Moncler was and to change the destiny of its company repositioning of the Moncler brand in a higher segment of the luxury market. He invested a lot in quality and product innovation and on the enhancement of the retail distribution. He focused all his attention to the origins of Moncler, to its sporty soul, but with style and tried successfully to make exclusive the Moncler garments. His dream is that people, referring to down jackets, mention Moncler. Since 2005, three PE investors, in the order Mittel SpA, Carlyle and Eurazeo, have alternated in the capital of Moncler and each of them has had an important role in assisting him in the development of the business, until the listing in 2013. After presenting the company and citing the most significant events of its history, the discussion continues with the exposition of the strategies taken by Moncler to develop and increase the efficiency of its retail channel and how manages the relation with the customers.

Chapter 1: Services as solution for manufacturing firms problems

1.1 Definition of servitization

Servitization[1] is now widely recognised as the process of creating value by adding services to products (Vandermerwe and Rada, 1988). Referring to services offering, the most common terms are "servitization" (Baines et al., 2009; Vandermerwe and Rada, 1988) and "service infusion" (Brax, 2005). Some researchers use the terms "service-driven manufacturing" (Gebauer et al., 2012b), "service addition" (Matthyssens and Vandenbempt, 2010), "service transition" (Fang et al., 2008), "high-value manufacturing" (MacBryde et al., 2013), and "tertiarization" (Léo and Philippe, 2001), as well as more general level concepts such as "service orientation" (Martin and Horne, 1992), "servicization" (Quinn et al., 1990), and "servicizing" (Reiskin et al., 1999). The first use of the term servitization in a context of manufacturing operations was by Vandemerwe and Rada (1988, p. 314). They defined servitization as "the increased offering of fuller market packages or "bundles" of customer focused combinations of goods, services, support, self-service and knowledge in order to add value to core product offerings". Their paper discusses the evolution of the servitization concept, describing how companies initially considered themselves to be in "goods" or "services" (e.g. automobile or insurance), and then moved to offering goods combined with closely related services (e.g. products offered with maintenance, support, finance, etc.). Goedkoop (1999) defines a product as a tangible commodity manufactured to be sold. Academics typically refer to this as a "good" (Judd, 1964). Invariably, in the world of manufacture, such a product is represented by a material artefact (e.g. Car, boat, plane), "service" usually refers to an offering (e.g. maintenance, repair, insurance). However, "service" is also used to refer to a level of performance (e.g. that was good service). In the 1980s,

[1] Servitization is often referred to as servicizing, particularly in the US (White et al., 1999; and Rothenberg, 2007).

services marketing expanded quickly as a sub discipline of research in marketing, starting from a relatively low level (Fisk et al., 1993). The early phase in services marketing research thus was a period of discovery and risk-taking that perceived marketing as a traditional activity, focused on goods instead of services (Fisk et al., 1993). This description also fits the first phase of service innovation research, which challenged the prevailing, product-centric view of innovation that regarded it as more or less synonymous with technological innovation, research and development (R&D), and NPD (New product development). This increasing body of research indicates a growing interest in service-led competitive strategies by academia, business and government. One reason for this is the belief that a move towards servitization is a means to create value-adding capabilities that are distinctive, sustainable and easier to defend from competition based in lower cost economies. In those years, it existed an abyss between manufacturing firms and service firms, with the firsts totally focused on their products, ignoring the service component. For traditional manufacturers providing these types of offerings into the marketplace necessitated the transformation of existing organisational structures and processes. Yet service infusion is no straight path forward; despite the strategic importance of services, product-centric firms frequently struggle with service innovation (Chirumalla, 2013; Gebauer et al., 2005; Ulaga and Reinartz, 2011). Such challenges derive from the product centric mental models that drive manufacturers' logic for doing business (see also Strandvik et al., 2012). Firms seldom understand how the resources and capabilities that underpin manufacturing extend to enable service innovation (Spring and Araujo, 2013; Ulaga and Reinartz, 2011). Now, the service versus goods debate is no longer central and differences or similarities with products became less important. The service component is growing in many product-centric firms, referred to as "servitization of manufacturing" (Baines et al., 2009; Vandermerwe and Rada, 1988) or "service infusion in manufacturing" (Gustafsson et al., 2010; Kowalkowski et al., 2012; Ostrom et al., 2010). Companies seek to understand how they might deliver integrated products and services with greater efficiency and effectiveness, especially those in industry sectors with high installed product bases (e.g. locomotives, elevators, machine tools, business machines, printing machinery, construction equipment and agricultural machinery), are also following such strategies and inevitably face similar challenges. For manufacturing firms that add services, this extension implies a reconsideration of their innovation setup, toward an integrated approach for product and service innovation activities (Kindström, 2010). For service firms, an increased focus on service innovation and extension of the innovation concept offers a new framework that is not limited to services. Instead, it provides opportunities to better understand customer needs and value creation processes through combinations of services and products. A servitization strategy is now widely advocated as a means by which western manufacturers can face-up to the challenges of competitions in lower cost economies (Vandermerwe and Rada, 1988; Wise and Baumgartner, 1999; Tukker, 2004), but this is unlikely to be a sufficient response as it makes insufficient capital of sharing of resources, people, information, etc. Service researchers also call for more insight into how to develop flexible, customized offerings while achieving efficiency in deployment through standardized processes (Rahikka, Ulkuniemi, & Pekkarinen, 2011). To develop and elaborate on deployment issues, the concept of service modularity offers an interesting avenue; it refers to "the smallest service unit that can be offered to a customer in itself or as a part of a service offering creating value perceived by the customer" (Rahikka et al., 2011, p. 358). Research on service modularity might support the decomposition of complex services into smaller units and potentially more efficient service deployment. Modular units of digitized resources across firm boundaries also could enhance innovation opportunities, despite challenges in practice. The separation of information from matter (Normann, 2001) facilitates the tradability of services, as evidenced by the increasing number of innovations that are digitally enabled, including new combinations of digital and physical components (Yoo, Henfridsson, & Lyytinen, 2010).

1.2 Competitive advantage through servitization

The service infusion literature refers widely to theories of strategic management to argue for the benefits and possible service-based competitive advantage. The most cited theories to explain competitive advantage from service infusion are the market power and competition paradigm (Porter, 1980), the resource-based theory (Barney, 1991; Rumelt, 1984; Wernerfelt, 1984), dynamic capabilities (Teece et al., 1997), and relationships and network-based argumentation (Dyer and Singh, 1998).

Market forces and game theory approach

The dominant paradigm of strategy research during the 1980s was competitive market forces (Porter, 1980). This approach views industry structure as a having strong influence on strategic formulation (Utterback and Suárez, 1993). Market dynamics and structure assert the rules under which companies operate. This approach is relevant when firms defend their market position or try to influence competitive forces. The discussion on market forces was accompanied by the dominant game theory approach (Shapiro, 1989). According to this view, firms influence the market structure and its behaviour and shape the market environment to their benefit (Shapiro, 1989). Strategic behaviour is dependent on "game playing" (i.e. firms react in response to anticipated competitor actions).

Early contributions to the service infusion rationalized services as a reaction (adaptation) to changing market situations (e.g. Vandermerwe and Rada, 1988). There has been a transition toward perceiving services as tools that intervene and proactively modify the markets (e.g. Gebauer et al., 2011). Vandermerwe and Rada (1988) focused on the Porterian-based differentiation of service offerings and argued that firms seek differentiation by changing their competitive dynamics to offer value-adding services and extensive customer-focused market packages or bundles. The unit of analysis was the offering, and the services were perceived to facilitate firms' repositioning strategies and adaptation to the changing competitive environment (Vandermerwe and Rada, 1988). Löfberg et al. (2010) agreed that the firm's competitive advantage relies on the comparative advantage of its resources. Matthyssens and Vandenbempt (1998) formed a model that connected market forces and resource-based approaches and emphasized the dynamic interplay between them. In summary, the environment is a strategy-guiding principle, and the offering is the primary unit of analysis. Over the years, the direction of the service infusion research stream has, however, been diverging from industry architecture approaches toward modern strategic management theories.

Resource based view

The resource-based approach argues that differences between firms are primarily the result of firm heterogeneity with respect to their bundles of resource and capability endowments (Barney, 1991, 1986; Rumelt, 1984; Wernerfelt, 1984). Firms can achieve sustainable competitive advantage through the accumulation of strategic assets that are hard to imitate, substitute or trade (Amit and Schoemaker, 1993). Firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectives (Barney, 1991; Daft, 1983). Such resources are defined as "an asset or input to production (tangible or intangible) that an organization owns, controls, or has access to on a semi-permanent basis" (Helfat and Peteraf, 2003, pp. 999). The resources that provide sustainable competitive advantage are evaluated using the criteria of valuable, rare, inimitable, and non-substitutable or "being-organized" (VRIO: Barney, 1995; earlier, VRIN: Barney, 1991).

The RBV considers service business a method to redefine the industry structure (Gebauer et al., 2011). Competitive advantage originates in resources that are valuable, inimitable, rare, and organized (to deliver their advantageous features) (Barney, 1995; Barney, 1991). Resource-based argumentation in the service infusion literature is concerned with resources matching the VRIO characteristics. Scholars have identified three core resources: installed base (e.g. Ulaga and Reinartz, 2011; Oliva and Kallenberg, 2003; Wise and Baumgartner, 1999), unique and complex offerings (e.g. Ulaga and Reinartz, 2011; Gremyr et al., 2010), and service-enhanced relationships (e.g. Nordin and Kowalkowski, 2010; Davies et al., 2007; Tuli et al., 2007). The installed base provides the manufacturer with a knowledge-driven resource (Oliva and Kallenberg, 2003), enabling the manufacturer to understand the product and the customer better than competitors. The possibilities of collecting usage data and information on customer processes provide manufacturers with unique insights that remain immobile and controllable (Ulaga and Reinartz, 2011). Especially when performance-based contracts are used, the service provider becomes closely integrated with the customer’s operation and obtains first-hand information (Hypko et al., 2010). Data collection and information-processing capabilities (Kowalkowski et al., 2013a; Kim et al., 2010; Neely, 2008) allow companies to gather and analyse data to organize resources. Manufacturers also protect the immobility of the gained benefits with designs, prohibiting competitors from servicing the installed base (Ulaga and Reinartz, 2011). The literature also recognizes complex, interconnected, product-service offerings as a VRIO resource. Investment in R&D provides detailed insights into products by companies, providing a complex system that combines products, services, resources, and capabilities (Ulaga and Reinartz, 2011; Gremyr et al., 2010). Authors reflecting on the resource-based approach emphasize the importance of service-enhanced relationships among suppliers, customers, and networks. Entering into co-operation with the customer, organizing in a customer-focused way, involving the network of actors working with solutions, and producing customer-oriented results can provide a competitive advantage (Gebauer et al., 2010b; Nordin and Kowalkowski, 2010). In summary, the resource-based studies in the service infusion literature primarily discuss identifying resources and capabilities and controlling them to foster their inimitability and immobility. Barriers to imitation are becoming greater as offerings shift from product orientation toward supporting customer processes (Mathieu, 2001a).

Dynamic capabilities

The dynamic capabilities approach argues that competitive advantage originates from a firm's ability to integrate, develop, and reconfigure internal and external competencies and resources to address rapidly changing environments (Teece et al., 1997). These capabilities are firm-specific managerial and organizational processes that can be, e.g., sensing, seizing, and reconfiguration capabilities (O'Reilly and Tushman, 2008). Thus, instead of a unique set of resources, the firm's ability to adapt, reconfigure, and innovate in changing market conditions are central to competitive advantage (Hobday, 1998; Roberts, 1998; Quinn, 1985). Teece (2007) acknowledged the "systems perspective" and the connections between the firm and its ecosystem, for example, on innovation (Chesbrough, 2003), organizational learning (Powell, 1998), or in the creation of the output (Shan et al., 1994). The systems perspective argues that specialization leads to a need for open innovation processes and integration, which involves the customer, suppliers, and complementary organizations (Lichtenthaler and Lichtenthaler, 2009). Wales et al. (2013) highlighted the importance of coordination and orchestration, which are critical sources of sustainable competitive advantage.

In a dynamic capabilities approach, the distinction suggested by Gebauer (2011), Gebauer et al. (2013), Spring and Araujo (2009), and Visnjic Kastalli and Van Looy (2013) divides capabilities into operational and dynamic. Operational capabilities range from service delivery to sales, whereas dynamic capabilities include enabling service deployment; that is, service management and organizing the product-service transition of the firm (Visnjic Kastalli and Van Looy, 2013).

Fang et al. (2008) viewed service transition as a process of leveraging the firm's products and resources for specific customer applications as service extensions. The role of core (dynamic) capabilities is to organize the resources. The firm will not gain a competitive edge until its core capabilities are developed. The authors argued that systems integration represents "an empirical instantiation of a firm's dynamic capabilities" providing a source of sustainable competitive advantage. Systems integration enables a company to shape its boundaries and flexibly decide "who to compete with, who to collaborate with, what to make in-house and what to outsource." Contributions to the dynamic capabilities largely include service innovation and development-related endeavours. Fischer et al. (2010) elaborated on the consequences of explorative and exploitative (dynamic) capabilities in the context of service innovation. This research revealed that exploitative dynamic capabilities prioritize existing knowledge and conservative movements along the product-service transition line, whereas explorative dynamic capabilities allow companies to explore beyond existing assumptions. The research suggests that company performance benefits from simultaneous exploitation and exploration; that is, ambidexterity (March, 1991) in a service setting.

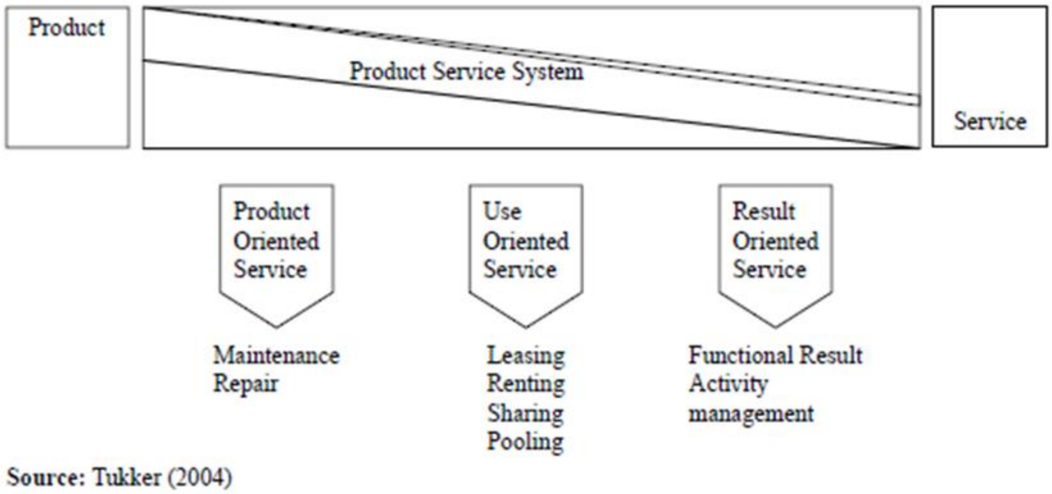
Relational view

According to Dyer and Singh (1998, pp. 661), earlier contributions to strategy do not focus sufficiently on the network relationships within which the firm is embedded. The relational view treats the inter-firm network as a unit of analysis and argues that idiosyncratic, inter-firm linkages may be a source of relational rents and competitive advantage (Lavie, 2006; Dyer and Singh, 1998). Thus, Dyer and Singh (1998) focussed on inter-organizational rent generation, stressing the importance of dyadic network routines and processes. Specifically, the interest was in relational inter-firm knowledge sharing (Grant, 1996) between actors, complementary resource endowments, governance methods, dyadic network barriers to imitation, and the sharing of relational rents between actors (Dyer et al., 2008). Dyer and Singh (1998) argued that a capability, as defined by Teece et al. (1997), even a network-related one, is not a sufficient condition for realizing relational rents. However, the relational view (as the term "view" suggests) augments resource-based and dynamic capabilities-based strategies.

Mathieu (2001b) referred to the "collaborative option" for implementing service strategy, suggesting partnerships with potential competitors. The paper presented four potential benefits of this option that outweigh the risks associated with co-opetition: access to resources and skills, innovativeness, imaginativeness, and political cost moderation. Kohtamäki et al. (2013a) argued that specific network capabilities are required to develop and utilize interorganizational relationships in service innovation contexts. Kohtamäki et al. (2013b) also combined the literature on network orchestration and service infusion to identify three categories of capabilities: network management, network integration, and network learning. Gebauer et al. (2013) focused on inter-firm network structures and created a link between the network-oriented dynamic capabilities approach and the service networks perspective (Henneberg et al., 2013). Four types of service networks were identified with an explorative study: a vertical after-sales network, a life cycle services network, a horizontal outsourcing network, and an integration service network. The solution service components define a preferred network form. Proceeding with the service networks perspective, Bastl et al. (2012) made a direct contribution to the relational view of strategy, stating that relationship structures provide a competitive advantage because they are a source of above-normal firm returns. Windahl and Lakemond (2006) recognized six factors in solution development: "the strength of the relationships between the different actors involved in the project," "the firm's position in the network," "the firm's network horizon," "the solution's impact on existing internal activities," "the solution's impact on the customers' core processes" and "external determinants." Hakanen and Jaakkola (2012) revealed the importance of the customer's participation preferences, the extent of network competition, role division, and rapport between the actors in the networked setting. Spring and Araujo (2013) examined manufacturing firms using their own and other firms' resources. This creates intertwining of actors' business models and creates a need to seek reciprocal external fit between the suppliers, customers, and providers (Ferreira et al., 2013; Li, 2011). Kowalkowski et al. (2013b) viewed servitization from the perspective of interfirm networks. They analysed the phenomenon in a small and medium-size enterprise context, in which firms formed value constellations with each other and developed a competitive advantage based on their relational resources.

1.3 Product Service System

A PSS is an integrated product and service offering that delivers value-in-use (Baines et al., 2007). PSS solutions are seen as having the potential for decoupling environmental pressure from economic growth through focusing on asset use rather than on asset ownership (Tukker, 2004). There are, however, some key barriers to the adoption of PSSs. For instance, consumers may not be enthusiastic about ownerless consumption (Mont, 2001). Tukker proposed a framework (Picture 1) illustrating differing forms of a product-service system, which include product oriented services, use oriented services and result oriented services. Tukker's framework tends to focus on the features and examples of the offering (it describes a car leasing model) rather than focusing on the intrinsic values (cost, quality, time). Hence, while useful in terms of organisational positioning, it is of limited value to an organisation seeking to configure their wider production and support service operations.



Picture 1: Tukker framework of Pss

Frameworks, models and classifications of PSS, service operations, service marketing and services science are insufficient to provide a complete and detailed picture of the integrated delivery of products and services, and their effect of service provision on internal manufacturing operations.

PSS innovations require the integration of a wider span of expertise into the product design than do pure product innovations (Johnson and Mena 2008). To manage this, it is helpful for the PSS innovator to reimagine its supply chain as a supply network. The shift toward a PSS model requires rearranging transaction-based relationships to create long-term relationships and reimagining traditional relationships as dynamic networks (Lockett et al. 2011; Oliva and Kallenberg 2003). In such a model, the PSS provider is at the centre of a cluster of relationships connecting suppliers and partners to customers (Chirumalla et al. 2012). Knowledge sharing is a key function of this relationship cluster; one partner’s learning and experience can influence other partners in the network in developing new ideas and innovations to reduce in-service and maintenance costs. PSS innovation relies on developing ties across partner networks in order to exploit existing knowledge and explore new knowledge and opportunities (Chirumalla et al. 2012). Information and knowledge-management systems are required to support the dissemination, gathering, and application of knowledge (Ward and Graves 2007) and to ensure that the right people have the right knowledge at the right time to make the right decision (Molloy, Siemieniuch, and Sinclair 2009). Web 2.0 and social media may offer a way to address these barriers by facilitating more open and bottom-up knowledge-sharing capabilities (Levy 2009; McAfee 2006). Despite efforts to implement Web 2.0 tools, a lack of guidelines and best practices regarding where and how these tools might most profitably be used, product development teams could not have benefit from these initiatives.

1.4 Service innovation

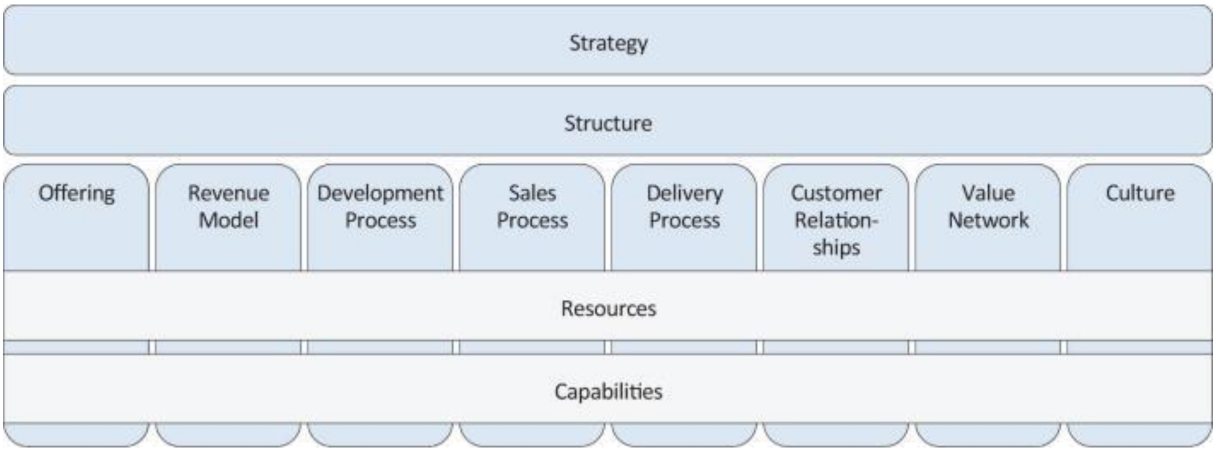
From a service perspective[2], innovation refers to any recombination of resources that creates new benefits for any actor – customer, developer, or others – in the business network. The early Schumpeterian innovation model "of the lone entrepreneur bringing innovations to markets has been superseded by a rich picture of different actors working together in iterative processes of trial and error" (Laursen and Salter, 2005, p. 132). Even if, most views on innovation continue to assert that it provides benefits (e.g. differentiation, profit) to its developer (Schumpeter, 1912/2002; see also Toivonen and Tuominen, 2009). Service innovation "introduces something new into the way of life, organization, timing and placement of what can generally be described as the individual and collective processes that relate to consumers" (Barcet, 2010, p. 51). Innovation studies focus on product (e.g., goods) and process (e.g., production systems) innovation (e.g., Utterback & Abernathy, 1975), largely ignoring service innovation and its inherent opportunities. This narrowed focus likely stems from

[2] A service perspective on value creation (Edvardsson et al., 2005) corresponds to relatively new concepts such as the service logic (Grönroos, 2006; Grönroos and Ravald, 2011; Kingman-Brundage et al., 1995; Normann, 2001) and service-dominant logic (Lusch and Vargo, 2006; Vargo and Lusch, 2004). However, this view had been expressed already in Aristotle's (384-322 B.C.E.) thinking: Use value has a purely subjective meaning and can vary across individuals and over time; exchange value derives from use value, as expressed through market demand (Gordon, 1964).

a traditional view of services as activities with low innovative frequency (e.g., Baumol, 1967; Pavitt, 1984; Pavitt, Robson, & Townsend, 1989), and the product-centric orientation of innovation literature (Garcia & Calantone, 2002; Hauser, Tellis, & Griffin, 2006) that reflects a setting in which manufacturing was the primary economic driver (Drejer, 2004; Sundbo & Gallouj, 2000). However, in developed economies, the service sector now dominates their gross domestic products, and its share continues to grow (Gallouj & Djellal, 2010a; Gallouj & Windrum, 2009). Therefore, both services and service innovation represent central drivers of broader economic growth and innovation (Gallouj, 2002; Miles, 1993; OECD, 2005). Service innovation in manufacturing firms may play a more and more vital role in developing and maintaining performance and competitiveness across industry sectors. Some manufacturing firms hope to differentiate themselves through new services and integrated product–service bundles (Chae, 2012; Kindström, Kowalkowski, & Sandberg, 2012; Ulaga & Reinartz, 2011), often as part of a solution or wider function. Service innovation thus appeared cyclic, such that deployment topics became more prevalent (Kindström & Kowalkowski, 2009; Lenfle & Midler, 2009). The innovation process can be planned, intentional, or unintentional, such that it emerges through an interactive learning process initiated by any involved parties (Gallouj & Savona, 2009). Pre-requisites of service innovation are sensing (new approaches to opportunity discovery), seizing (capitalize on service innovation opportunities), and reconfiguring (shift the competitive arena). Typical questions raised during the organization for service innovation phase included how organizations are, or should be, configured to succeed in their service innovation activities and which factors might help increase a firm's performance in relation to its service innovation. Even if, service innovation increasingly relies on new information and communication technologies (ICT) (Gago and Rubalcaba, 2007; Holmström et al., 2010; Rust and Thompson, 2006) and ICT capabilities are required to exploit internal and external technological opportunities, innovation is not only a matter of technological (i.e., product or process) innovation; service innovations tend to represent non-technological innovation (Drejer, 2004; Hipp & Grupp, 2005). In turn, organizational innovations (e.g., interfunctional integration; Perks & Riihela, 2004) and other non-technological innovations began to be regarded as integral parts of service innovation. For effective leveraging and sharing of technical and customer-specific knowledge and development and deployment of new services, firms must balance local and central forces and avoid either autonomous local units or rigid, centralized structures (Bartlett and Ghoshal, 2000). Firms should foster and employ strategic linkages between their services and products to achieve synergies for value creation (Johansson and Olhager, 2006; Kowalkowski, 2011). Furthermore, as Dachs et al. (2013) empirically show, service innovation can trigger product innovation, and vice versa. A design-to-service capability also is needed to design components and products for the service market (Ulaga and Reinartz, 2011). Feedback from service operations thus is an important information source for product development (Goh and McMahon, 2009). Strategic renewal then is required to reconfigure the resource base of the firm and acquire service innovation resources and capabilities (Kindström et al., 2013). Service leadership also must address the issue of organizational inflexibility; across firms, it is a root cause of restrained service innovation. A litmus test for determining whether a firm is truly a service firm is whether it still sells services to protect and enhance its product business or as a focus on enabling customer value creation, such that it is willing to cannibalize its product business if needed to craft a better overall customer value proposition. In dynamic environments in which technology and market needs change quickly, managing service innovations means not only the ability to design the service concept but also continuously redesigning and adapting new and existing services to address frequent exogenous changes and emerging opportunities. A long-term trend among manufacturing firms toward providing integrated solutions (i.e., relational processes, including integrated goods, services, and knowledge components) influenced service innovation to become more diversified, because integrated solutions required wider innovative perspectives, due to their all-encompassing, long-term ambitions (Nordin & Kowalkowski, 2010; Tuli, Kohli, & Bharadwaj, 2007). As service innovation becomes all-encompassing, it may lose focus (Toivonen & Tuominen, 2009) and perhaps some relevance. This risk is also symptomatic of the lack of a common definition of service innovation (e.g., Pires et al., 2008). If service innovation includes everything, it eventually may lose meaning and impede opportunities for further analysis or a deeper understanding of its specific nature. Similarly, Araujo and Spring (2006) and Stauss (2005) critique an "unlimited" broadening of the concept of service. In general, too much emphasis is placed on new service development, without providing sufficient clarity about innovations in other business model elements. Therefore, firms must develop service-related resources and capabilities (den Hertog et al., 2010; Fischer et al., 2010; Martin and Horne, 1993) and reconfigure fundamental elements of their business models (Amit and Zott, 2012; Neu and Brown, 2008) to adopt a broad, multidimensional view on service innovation (Gallouj and Weinstein, 1997; Maglio and Spohrer, 2008; Roth and Menor, 2003; Windrum and García-Goñi, 2008) that resonates with an integrated perspective on service innovation (Coombs and Miles, 2000; Gallouj and Savona, 2009; Gallouj and Windrum, 2009; Ordanini and Parasuraman, 2011; Rubalcaba et al., 2012). Many manufacturers also struggle to earn profits from their service provision (e.g. Baveja et al., 2004; Stanley and Wojcik, 2005), such that service innovation creates benefits for customers and channel partners, whereas the developer might suffer from sacrifices that exceed its modest benefits. For innovation to be economically sustainable, manufacturers must be able to capture an equitable share of the value created. From a customer perspective, the question of whether innovation and value creation derive from services or products, from technological or non-technological elements, or from any combination thereof (Normann, 2001), is of secondary (if any) interest. If the issue of whether innovation is product- or service-focused is no longer important, as in research with a synthesis perspective, then manufacturing and service activities should be considered and analysed together (Drejer, 2004; Hipp & Grupp, 2005). In 2001, the first customer involvement article appeared, marking the start of the second evolutionary phase, or the maturity phase. A primary focus in this phase was the involvement of customers, including their intentional or unintentional roles in the innovation process, which previously had been a comparatively less explored aspect. Studies began to focus on how to learn from customers and how to involve them more systematically in the innovation process. Alam (2002) asked why users are involved in service development and at what stage. Matthing et al. (2004) took a primarily demarcation perspective and argued that firms must get to know their customers, including proactively interacting with them to uncover latent needs. In contrast, von Hippel (2001) argued, from what might be regarded as an assimilation perspective, that identifying customers' changing needs is too expensive, so the best way to address them is to let customers innovate themselves by supplying them with some type of self-innovation toolkit.

1.5 Service Business Model

A business model tells the firm's "story" for how to make money, who customers are, and what customer value that is most important to address (Magretta, 2002). Its plot should also include revenue model(s), structures, activities, processes, customer relationships, and the firm's position within the value network (or ecosystem) (Chesbrough, 2007). Each firm has its own, unique model that recounts how it creates and captures value (appropriation mechanisms). Holistic business model approaches in turn can help create competitive advantages by reducing imitability; competitors find it difficult to isolate and copy individual elements of an integrated business (Chesbrough, 2007; Kindström, 2010). Firms that systematically analyse and adjust their business model elements, in accordance with both internal and external stimuli, are better positioned to succeed with their service innovation activities, for two main reasons. First, a coherent business model that exhibits consistency across elements has greater potential to create long-term competitive advantages (Chesbrough, 2007). That is, it is far more challenging to imitate a well-functioning business model that features aligned elements than it is to copy single elements. Second, successful service infusion implies that firms address all elements of their business model and understand how they connect (Galbraith, 2002; Neu and Brown, 2008). The process of changing a business model in turn constitutes a business model innovation process. A business model innovation is the process of aligning and/or changing the business model and its inherent parts, in response to internal and external stimuli. The initial step in business model innovation is to determine the current situation and identify the target position, which presents the "big picture" and supports a discussion of what the business model should look like, once the target position is reached. To conceptualize a service business model, will be presented ten fundamental business model elements: strategy, structure, offering, revenue mechanism, development process, sales process, delivery process, customer relationships, value network, and culture[3].



Picture 2: Service business model

[3]Kindström D., Kowalkowski C., *Service innovation in product-centric firms: a multidimensional business model perspective,* Journal of Business & Industrial Marketing, Vol. 29 Iss 2 pp. 96 – 111, 2014

Strategy

Achieving alignment between strategy and structure is a dynamic, transformational process that is critical for all firms, including product-centric ones that pursue service infusion (Davies et al., 2007; Galbraith, 2002; Gebauer, 2008; Gebauer et al., 2010; Reinartz and Ulaga, 2008). Service innovation initiatives, particularly those in incumbent firms, tend to take time before they can make a major impact (Fang et al., 2008), and managers tend to underestimate the associated complexities. Thus, firms must maintain a long-term focus and create internal awareness and a “sense of urgency” strategically. The longer-term time horizon makes it difficult if not impossible for decision makers to understand all the strategic challenges ahead, because “successful service strategy involves continuous modifications, adaptability, the seizing of ad hoc innovation, a continuous recalibration of opportunities, and the management of intertwining goals” (Kowalkowski et al., 2012, p. 765). Strategic decisions also set the foundation for future possible service innovation activities. Therefore, the firm should define whether service infusion implies a transition from products to services (i.e. outsourcing of manufacturing) or is a matter of expanding into service and broadening the range of products and services offered. The lack of long-term investments then fails to reduce vulnerability to future recessions (i.e. services are generally countercyclical); instead, the focus is on saving the product business.

Structure

Service innovation may require firms to change their organizational structure. An inadequate organizational structure inhibits service innovation; an appropriate structure facilitates it. For product-centric firms, establishing separate service units within existing product units is generally a first step but rarely a long-term solution. Despite equal formal authority, it is often difficult for service divisions to achieve equal attention and commitment in a product-centric unit (Gebauer and Kowalkowski, 2012). A logical second step for many firms is thus the establishment of a distinct business unit with profit-and-loss accounting and responsibility for strategic service development (Oliva et al., 2012). Such hybrid organizational approaches require close collaboration between units – in product-centric firms, it includes linkages between product and service units (Neu and Brown, 2008) – including shared understanding of customers and market conditions. Close collaboration between the service and product units also helps clarify common approaches to address customer needs and prevents conflicts between the product and service businesses (Gebauer and Kowalkowski, 2012). Extensive services (Kowalkowski et al., 2011a) need exploitation and exploration. Exploitation tends to be more vital for basic services, whereas exploration focuses on more advanced ones (Westerlund and Rajala, 2010). Exploitation benefits from global integration and exploration benefits from local responsiveness (Prahalad and Doz, 1988), especially when a firm provides services.

Resources and capabilities for service innovation

Departing from Ulaga and Reinartz's (2011) view on resources and capabilities, resources are productive assets the firm can use, while capabilities are what the firm can do. "Resources per se do not confer competitive advantage but must be transformed into capabilities to do so" (Ulaga and Reinartz, 2011, p. 6). However, whereas the resource-based view takes a firm-centric view (e.g. Barney, 1991; Peteraf, 1993), firms do not have to own resources, they might access them through other actors in their network. Håkansson and Snehota (2006) even argue that a firm's most valuable resource is its relationships with other actors in the network. Resources and capabilities are generally interrelated, and the more of them the firm possesses and is able to deploy, the better its chances for innovation success.

Offering

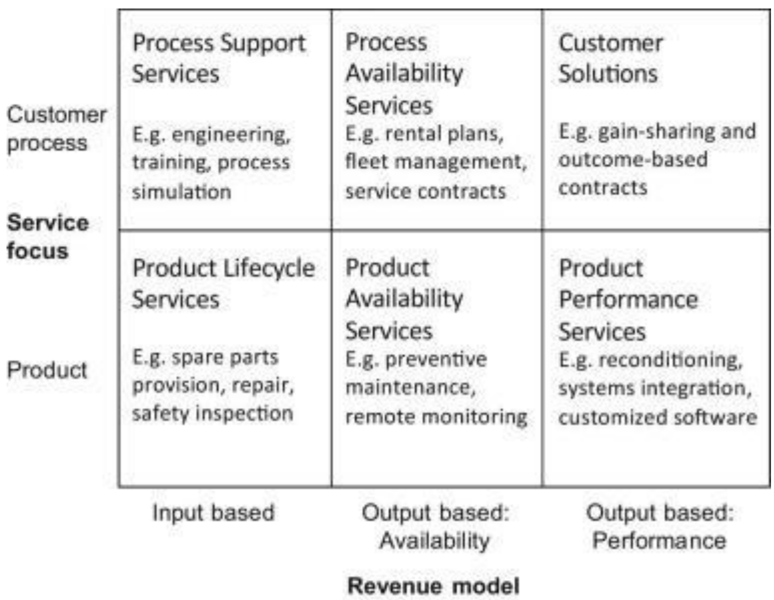
Because the requirements for different services in the firm's portfolio vary greatly, the firm must understand what services to offer, how to develop a coherent portfolio, and how extensive its service portfolio should be. Demand varies across markets, so managers must decide how standardized services should be and which resources needed. The first resource, which most product-centric firms possess, is an existing customer base. Another key asset is the installed base of products, which product-centric firms can employ to collect product usage and process data (Ulaga and Reinartz, 2011). The analysed data can explicate each customer's process and identify new service opportunities. Customer needing – a concept proposed by Strandvik et al. (2012) – is the mental model of what value-in-use they intend to achieve and acquire through a specific task, and it must match the supplier's offering. Customer needings can be very different across markets and time. If firms understand their customers, they can influence customer needings (Payne et al., 2008), such as with innovative services that create new demand (Biggemann et al., 2013).

Revenue model

Product usage and process data are key resources for revenue models, which then can become better aligned with the customer's value creation processes, including availability-based and performance-based contracts. Extensive knowledge of the technical system or subsystem of which the service is part, is a related resource. The service often is interlinked with other services, products, and subsystems that set the scope for what can be offered and how the firm can charge for it. Pricing capability is needed to determine how to charge for new services and possibly change the revenue model of existing services, such as moving from free to fee (Pauwels and Weiss, 2008; Witell and Löfgren, 2013). To alter revenue models or introduce new ones, firms also need a value visualization capability. They can choose from various strategies and methods that might convince potential customers of the value-in-use and thus the benefits of the revenue model (Anderson et al., 2007; Kindström et al., 2012). A risk assessment and mitigation capability is required (Ulaga and Reinartz, 2011) to manage the risks associated with service provision.

Service typology

To understand key similarities and differences between services, it is beneficial to classify services according to relevant criteria (Lovelock, 1983). One such classification is the service focus (Antioco et al., 2008; Eggert et al., 2013; Mathieu, 2001a). Many basic and traditional industrial services are product oriented, so their purpose is to improve or restore the functionality of the product, such as through maintenance and repair. Other services are process oriented; their purpose is to improve the customer's processes. Process-oriented services might relate to a specific product, such as the optimization of a manufacturing process, or they might be independent of any products, such as educating customer employees about quality control methods. Another fundamental difference between services is the revenue model (i.e. nature of the value proposition; Ulaga and Reinartz, 2011). Services sold as a deed, such as repair of a broken machine or a training session for operators, have input-based revenue models that focus on the delivery and performance of a particular deed (i.e. input to an activity), regardless of the customer's actual value-in-use. Services sold with availability or performance as their starting points have output-based revenue models and focus on the achieved outcome. The elements needed to achieve this outcome (i.e. input needed) is of secondary importance. However, output-based services might include input-based service components, such as a fixed price, service-level agreement. Services such as maintenance and repair, if offered alone, would be regarded as input based. By combining the two dimensions – service focus and revenue model – we obtain a typology for services. Example of innovative offerings are the customer solutions, long-term relational processes (Tuli et al., 2007), in which the firm integrates different competences to create tailored offerings that solve customer-specific, strategic problems, and the revenue model largely reflects the customer's value-in-use (Storbacka, 2011). The more the firm provides solutions and other customized services, the greater its value potential, but also the greater its complexity and risk (Nordin et al., 2011). More resources, capabilities, and activities (internal and external) must be integrated and coordinated, and the focus shifts from the firm's delivery processes to the customer's value-creation processes.



Source: Based on Ulaga and Reinartz (2011, p. 16)

Picture 3: Typology for service offerings

A wide range of services also implies greater operational and financial risk (though the strategic risk is reduced to some extent; Nordin et al., 2011). The firm must be able to manage traditional pricing schemes and revenue mechanisms in parallel with new methods and models. In the case of traditional, input-based revenue mechanisms, the firm gets paid per service hour and units sold. The services are sold as deeds, without any direct link to or feedback from the customer's value creation process. Output-based revenue mechanisms instead rely on either fixed (e.g. availability, usage) or dynamic (e.g. performance, results, gain sharing) prices. Firms are not limited to a predefined set of service innovation trajectories, from less to more complex, as prior research generally suggests (e.g. Mathieu, 2001b; Matthyssens and Vandenbempt, 2010; Penttinen and Palmer, 2007). Instead, service innovation takes place throughout the service typology, both planned and ad hoc (Kowalkowski et al., 2012), and "reversed" service infusion trajectories, from more to less advanced services, are possible too (Finne et al., 2013).

Development process

Service development, sales, and delivery are three processes critical for the success of service innovation initiatives. Service innovation rarely is a planned NSD process; rather, services are developed ad hoc (Dolfsma, 2004; Gallouj and Weinstein, 1997; Kowalkowski et al., 2012). Therefore, formalization and replication capabilities are critical for formalizing, specifying, and standardizing services, as well as to take advantage of what Davies and Brady (2000) call economies of repetition, to deliver future services at lower costs and more effectively (Biggemann et al., 2013). Additional key resources for successful NSD are lead users for ideation (including imaginary value experiences; Helkkula et al., 2012), co-design, evaluation, and implementation and dedicated service development roles with necessary authority (service champions; Martin and Horne, 1993). To take advantage of users and not just identify the "right" customers in NSD and pilot projects, the firm needs the capability to engage actively with them throughout all stages of the customer experience (Vandermerwe, 1994).

Sales process

A major hurdle for product-centric firms to overcome is finding a way to sell their novel services and to measure their efficacy, but despite the common opinion that "what gets measured gets done", to the frustration of service managers, incentive systems and metrics frequently are still product centric. Other critical resources include customer involvement (customers must provide correct information to elaborate the value proposition) and inputs from the field service organization (e.g. new sales opportunities). As with the revenue model, value visualization capability is needed in advance to be convincing about the potential value-in-use (see also Anderson et al., 2007; Terho et al., 2012). Coordination between the sales and field service organizations becomes essential, often leading to increased involvement of the service organization in the sales process.

Delivery process

Service delivery should be viewed as an ongoing customer–supplier relationship (Tuli et al., 2007), in which trust and commitment are key routes for receiving customer feedback throughout the delivery process. A field service network is a prerequisite for successful service delivery. Services can be delivered through an internal arrangement, an external arrangement, or a hybrid. For example, a firm might provide services in-house in one market and work with partners in another. It also can choose to provide some services, particularly strategic, in-house and let partners provide services that are less important or that the firm lacks the resources to provide. Factors that determine the organizational arrangement can be classified as firm-, market-, or offering-specific (Kowalkowski et al., 2011b). From a service innovation point-of-view, given all the alternatives, an internal arrangement is preferable (Kowalkowski et al., 2011a). Given the ups and downs of demand, firms can strive for long-term service-level arrangements, in which the supplier controls and schedules preventive maintenance. Many field services can be scheduled a year in advance.

Customer relationships

Customer interaction stability facilitates the development of strong customer relationships on both firm and personal levels. Tuli et al. (2007) highlight customer counselling and adaptiveness as key factors for successful customer solutions. Customers' provision of information and guidance about their operations, policies, and political landscape helps the supplier provide better services and improve customer satisfaction and relationship strength. To increase embeddedness, firms must understand customer needs and be able to issue segment- and customer-specific value propositions (Anderson and Narus, 1991; Storbacka et al., 2013). Not all the customers are necessarily willing to invest in relationships with all the firms they interact with; even if the supplier has a relational intention, the customer might not (Grönroos, 1997; Zolkiewski, 2004). There are benefits and harms of both proactive and reactive behaviours (Kowalkowski, 2008); firms must master both, acting before service failure or during the service recovery process, to determine how to act in different situations. Not all relationships are profitable (Storbacka et al., 1994), firms need to assess the profitability of their account customers and customer segments, as well as understanding the overall return on relationships (Gummesson, 2004; Grönroos and Helle, 2012).

Value network

A distribution network is a powerful resource for firms that operate through dealers and service partners to create value. In addition to provide service sales and delivery, it can offer critical information about customers, service operations and the market. However, there is a disadvantage, an external arrangement lacks of a direct customer interface, which offers a key resource for service innovation. Without it, it becomes difficult to develop the relationship and succeed with new services. Other network-related resources that enhance service innovation are: a specialist supplier base to access resources for innovation, such as software and hardware specialist skills and influencer relationships, to understand and influence a diverse range of actors, including business press and media, environmental groups, political and government agencies, unions, industry bodies, regulatory bodies, and financial and investor groups (Payne et al., 2005). Orchestration is an overarching value network capability, referring to an ability to manage and transform the services system, especially external actors that are central to service performance. It includes the ability to extend the resource base into new markets and services, incorporate complementary resources and co-specialization, and reconfigure roles, resources, locus of control, and power in the network (Kindström et al., 2013). Prerequisite for successful orchestration is partner knowledge capability. Innovative services, particularly advanced ones like customer solutions, also have market-shaping effects and create new customer needs (Storbacka, 2011), which evokes reactions from other customers, competitors, and various other actors in the network (Biggemann et al., 2013).

Culture

Firms must create internal awareness about the importance of services, expressing them through market communications, such as a CEO's annual statement that emphasizes services, and internal communications, such as corporate newsletters (Kowalkowski, 2011). Even if a service culture requires a long-term orientation, which can be challenging because a long-term view rarely matches short-term financial goals (Aspen Institute, 2009; Payne et al., 2008), senior management and other key decision makers should define clear, measurable, service-related targets

(Kindström, 2010). Leadership is needed to attract and retain key individuals working with service.

1.6 Solution Business Model[4]

Industrial firms are urged to consider that "the product is dead" (Phillips, Ochs, & Schrock, 1999, p. 51) and they need to "manage the transition from products to services" (Oliva & Kallenberg, 2003, p.160), and "make solutions the answer" (Foote, Galbraith, Hope, & Miller, 2001, p.1), because "however difficult the transition, manufacturers can't afford to ignore the opportunities that lie downstream" (Wise & Baumgartner, 1999, p.141). When companies take so called 'servitization' (Vandermerwe & Rada, 1988) steps toward solutions, they concurrently change their earning logic, move their position in the value network, and need to use and develop capabilities in a different way inherently making fundamental business model changes. Nevertheless, though many scholars implicitly encourage a change of business models, few explicitly address challenges in developing and implementing solution business models (Baines, Lightfoot, Benedettini, & Kay, 2009). Using a business model lens when analysing solution business is important for two reasons. First, it highlights the challenges associated with the transformation toward solution business model (c.f. Demil & Lecocq, 2010). Few firms actually make a complete transformation from a product business to a solution business — they have part of their activities focused on solution business, whilst building on their existing product business. Many of them will end up having parallel business models (Markides & Charitou, 2004). This implies that solution business models are not static and that the transformation needs to be seen in terms of degrees of change. Second, a business model approach facilitates a comparison across different business contexts. This is relevant as solution business is predisposed by particular industry conditions

[4] Storbacka K., Windahl C., Nenonen S.,, Salonen A., (2013) Solution business models: Transformation along four continua, Industrial Marketing Management 42, 705–716

(Pisano, 2006; Storbacka, 2011), commonly accepted dominant designs (Baldwin & Clark, 2006; Srinivasan, Lilien, & Rangaswamy, 2006), or industry recipes (Spender, 1989). The focus is on the two generic business logics (Nenonen & Storbacka, 2010) of particular importance in a business-to-business, industrial context: ‘installed-base’ (IB) and ‘input-to-process’ (I2P). Firms operating with IB logic provide investment goods, thus creating an installed base at the customers. IB logic is common among firms representing machinery and equipment industries. The I2P logic is relevant for firms that provide goods that are utilised as inputs in the customers' process. The good is transformed during the customer's process in such a way that it ceases to exist as a separate entity. I2P firms are found in industries such as metal, pulp and paper, and utilities. Following a process-oriented view, whereby solutions are defined as longitudinal, relational processes that comprise the joint identification and definition of value creation opportunities, the integration and customization of solution elements, the deployment of these elements into the customer's process, and various forms of customer support during the delivery of the solution (Storbacka, 2011; Tuli, Kohli, & Bharadwaj, 2007). Consequently, this definition suggests that a transformational and dynamic view on solution business models is needed (c.f. Demil & Lecocq, 2010; Winter & Szulanski, 2001). Second, it emphasizes the value creation-taking place for the customer and the supplier. Furthermore, the business model concept is argued to be externally oriented and depicts the relationships that firms have with a variety of actors in their value networks, thus capturing the change toward networked value creation (Teece, 2010; Zott & Amit, 2008). Firms that engage in solution business over time need to change their business models in all these four continua, by taking various forms of development steps that are likely to be interdependent. First, firms aim at customer embeddedness: they target selected customers and become embedded in their situations and processes in order to support the customers in their value creating process (Payne, Storbacka, & Frow, 2008). Second, firms increase their offering integratedness: they integrate technical, business, and system elements, and as a result, at changing their earning logic to increase value capture. Third, firms focus on operational adaptiveness: in order to flexibly and cost-effectively adapt to the customers' processes, firms need to apply modular thinking in their operational processes. Finally, firms aim at organizational networkedness: firms orchestrate a network of actors that provide solution elements to selected customers, thereby influencing value creating opportunities in the larger network.

Picture 4: Solution Business Model continua

Customer embeddedness

The customer embeddedness continuum refers to a key result of providing solutions, i.e., that the relationships with customers become relational and long term (Spring & Araujo, 2009; Vargo & Lusch, 2008). The solution is developed, sold and delivered through a long-term process with the customer rather than to the customers, i.e., value creation has to be understood through the eyes of the customers (Brady, Davies, & Gann, 2005; Davies, 2004). To achieve increased embeddedness, firms need to be able to make segment and customer specific value propositions (Anderson & Narus, 1991), which are unique and linked to critical business concerns of the customers.

Offering integratedness

The offering integratedness continuum refers to the integration of offering components, i.e., that a customer cannot unbundle the solution and buy the elements separately (Johansson, Krishnamurthy, & Schlissberg, 2003). Solutions are often discussed as integrated systems of several inter-dependent goods, service, systems, and knowledge elements creating value beyond the sum of its parts (Johansson et al., 2003; Roegner, Seifert, & Swinford, 2001). This position requires deep knowledge of the customer's industrial processes and typically involves creating new value propositions and pricing mechanisms based on performance improvement (Stremersch, Wuyts, & Frambach, 2001). The earning logic changes from discrete cash flows (from selling products and/or services on a transactional basis) toward continuous cash flows (toward selling longitudinal, relational solutions).

Operational adaptiveness

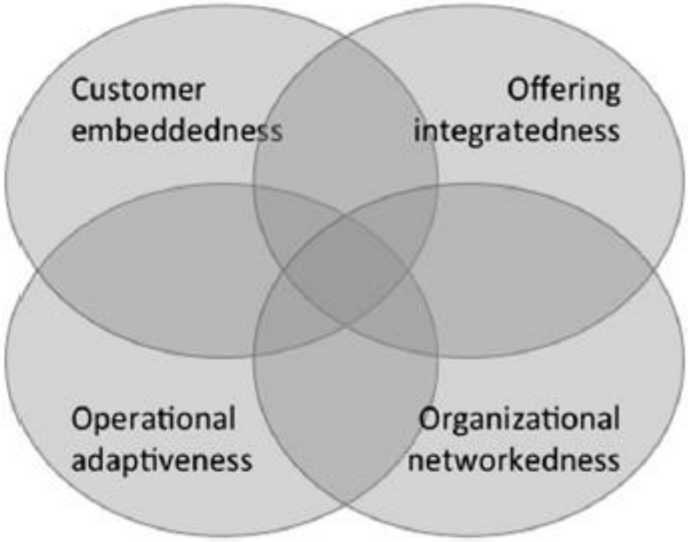
The operational adaptiveness continuum refers to the need to adapt solutions (from development throughout delivery) to the customer's situation and processes. The ability to create customer specific solutions requires an approach based. Firms need to be able to respond to changing requirements rapidly, and at the same time secure scalability and repeatability of solutions (Salonen, 2011; Storbacka, 2011). To support modularity, it becomes necessary to develop effective information and knowledge management practices (Arnett & Badrinarayanan, 2005; Johnstone, Dainty, & Wilkinson, 2009; Leigh & Marshall, 2001; Pawar, Beltagui, & Riedel, 2009). Solution configurators are a key for the economies of repetition (Davies & Brady, 2000) as they enable flexible configuration of customer solutions and simultaneously secure efficient delivery. In order to excel in solution business and achieve economic viability, it becomes important to balance the activity of integrating components and tailoring solutions to specific customers with the need to create repeatable solutions (Foote et al., 2001; Shepherd & Ahmed, 2000), which requires investments into new organizational capabilities (Storbacka, 2011).

Organizational networkedness

Progress along the organizational networkedness continuum implies that actors within the solution business network become increasingly dependent on each other's processes and activities, which requires process harmonization across and within organizational boundaries (Brady et al., 2005; Oliva & Kallenberg, 2003). In order to develop new capabilities and enable experimentation with solution activities, organizational separation might be needed; However, in order to sustain and create repeatable solutions, there is a need to create mechanisms for interaction and integration between different organizational parts of the company (Gann & Salter, 2000; Storbacka, 2011). The front-end's pull for customization needs to be balanced with the back-end's push for standardization (Davies et al., 2006; Galbraith, 2002a). When it comes to external challenges, firms need to recognize the importance of cooperation with partners and suppliers.

Creating configurational fit between the continua

This fits well with the transformational approach to business models (Demil & Lecocq, 2010) which suggests that the business model concept can be especially useful in addressing change. The continua are interrelated and interdependent (as illustrated in Picture 5).



Picture 5: Solution business model continua are interrelated and interconnected

Effective solution business models are characterized by configurational fit between elements on the continua, which implies a need for several iterations until a sufficient degree of fit has been achieved. Configurations are characterized by equifinality (Doty, Glick, & Huber, 1993), indicating that several configurations may be equally effective, as long as there is a high degree of configurational fit.

Solution business models in different business logics

As a result, we adopted Nenonen and Storbacka's (2010) suggestion that business-to-business firms apply generic business logics (c.f., Hagel & Singer, 1999; Johnson, 2010). They identify five business logics: installed-base (investment goods creating an installed base), input-to-process (goods that are utilized as input in the customers' process), continuous relationships (services characterized by long-term contracts); consumer-brands (products for the consumer market that are sold through a channel); and situational services (project-based services, which fulfill customers' situation-driven needs). IB firms can make a gradual transition toward solutions; whereas for I2P firms, the transformations are less transitional and the firms need to address challenges connected to taking major steps toward solutions.

IB firms can make gradual transitions toward solutions

Firms operating with an IB logic provide investment goods and related services, creating an installed base at the customers. Therefore, motivated by achieving higher margins and continuous cash flows, many IB firms are taking steps toward solution business models and building after-sale activities based on their installed base, aiming at exploiting product lifecycles. The more advanced solution business models are often designed around performance contracts, e.g. when the IB firm assumes responsibility for the performance of certain operations related to a customer's business using metrics such as return on investment, process efficiency, and consistency. Two different types of businesses characterize the activities within IB firms: the capex business (capital expenditure, as when customers invest in new plants, heavy machinery or information technology systems) and the opex business (operational expenditure, such as services, maintenance and repair related to the capex investments done).

Customer embeddedness in customers' core vs. non-core processes

Many IB firms have established long-term relationships with customers. An increased focus on total cost of ownership and a lifecycle view of the equipment increase the opportunities for higher embeddedness in the opex side of the business. However, the transition toward solutions changes the relationships with the existing customers from reactive services (focused on repairs and maintenance) to more proactive service solution contracts (focused on optimization of customers' processes). A key issue for IB firms is to define focus segments and customers for the solution business, and develop segment and customer specific value propositions.

Offering integratedness and the capex and opex conflict

Whereas IB firms want to create integrated solutions, customers have a tendency to want to unbundle them. Even though it is technically possible to unbundle the core capex product, very few customers are interested in that, as this would require them to acquire the needed assembly capabilities and resources. However, it is quite possible to unbundle many of the opex services. In performance contracts, the customer usually signs an agreement with a single provider. The installed based created by the capex projects is a natural place for the opex side to start providing repair and maintenance services. As IB firms gain more experience, they often expand their repair and maintenance. The capex business has contacts to important powerful decision makers at the customer side, whereas the opex side has long-term operational relationships. Together this embeddedness creates the platform for integrated solutions that can dramatically improve value creation both for the customer and the supplier firm.

Operational adaptiveness through modular configurations

Increasing operational adaptiveness poses considerable demands for frictionless cooperation between the firm's sales, production, and service operations. On the capex side of the IB businesses, the innate adaptiveness to the customer situation varies considerably based on the nature of the core product. In more simple installed base equipment, the opportunities for product tailoring are relatively low and the ability to customize the offering based on customer needs is further lessened by the prevailing product-oriented sales processes. On the other hand, in the case of very complex and unique equipment (e.g., cruise liners), the product is always tailored to meet the customer-specific needs from the very beginning. On the opex side of the IB business optimal adaptiveness is not reached because of the separation of capex and opex sale processes.

Organizational networkedness and process harmonization

In terms of organizational networkedness, the division into opex and capex seems to create challenges for IB firms. In IB firms, capex sales are usually geographically dispersed and separated from production, and sale personnel in IB firms do not often possess experience from the operational processes. Production and/or assembly are relatively centralized, with a limited number of production and/ or assembly locations serving large geographical areas. The service operations (e.g., repair and maintenance), on the other hand, are typically organized locally, and many opex sale people have an operational background. Many IB firms operate within a business network that is characterized by a multitude of reciprocal and relationally oriented business relationships: the number of suppliers and other business partners is high, and the objective is to create relatively long-term and trusting relationships between the IB firm and its partners. Many IB firms therefore create smaller ‘solution units’ in order to be able to increase the internal networkedness and to experiment with different types of solutions.

Input-to-process firms need major steps toward solution business

The I2P logic is relevant for firms providing goods that are utilized as input in their customers' processes. The good is consumed or transformed during the customer's process in such a way that it ceases to exist as a separate entity and no installed base is created. I2P firms often have limited opportunities for offering differentiation, leading to slim margins. Many I2P firms aim for strategies enabling them to secure economies of scale and optimize their production capacity. I2P firms tend to strive toward solution business models in which their customers outsource their operations. An example of such solution business model can be found in the chemical business where solution providers offer chemical management processes

Customer embeddedness: From arm's length to embedded relationships

I2P firms have traditionally been suppliers of commodities. Even though the I2P firm stand to have very long-term customer relationships with long-standing contracts and regular contacts on the operational level, the customer relationships tend to be strongly driven by price. The relationships are usually based on technical and operational knowledge rather than knowledge about customers' business drivers. The I2P firms often produce goods that are used in customers' non-core processes. Many I2P firms lack direct contact with the end customer since their products are purchased and delivered to the end customer by a specialized middle-man (e.g., paper merchants). Opportunities exist to use their technical expertise and in-depth process understanding to create solutions improving the resource efficiency of specific customer processes. Similar to the IB firms, a well-functioning strategic account management program is usually a pre-requisite for increasing embeddedness.

Offering integratedness needs major steps

The core product of the I2P firms (paper, chemical, electricity) is such that it is technically not feasible to unbundle the product. The customer is usually not that interested to unbundle the offering as it would work against the overall value proposition of such a solution. The only way to differentiate commodities is to look at the processes related to providing and using them. There seems to be two approaches for I2P firms to help running their customers' processes more effectively: optimizing the use of the supplier's goods in the customer's process, and optimizing the customer's process.

Operational adaptiveness difficult due to asset heavy production

I2P firms often have asset heavy production facilities (e.g., paper machine, refinery, chemical plant, furnace, nuclear power plant, utility infrastructure), which are designed to achieve economies of scale. The good itself is standardized to enable long production runs, thus creating inbuilt flexibility challenges. Due to logistical challenges, production facilities are usually organized on a regional basis. Technical service is typically located in connection with customer plants/factories. Sales tends to have stronger links to production than in IB firms; In most cases, the core products of I2P firms offer technically limitless adaptation possibilities to the customer situations and processes. However, customizations are often deemed as economically unfeasible for the provider. Therefore, the mind-set of I2P sale personnel is more guided by economies of scale. I2P firms tend to favour creating guidelines that help the sale persons to increase adaptiveness without compromising economies of scale.

Organizational networkedness restricted by regional structure

The business networks of many I2P firms are characterized by market driven business relationships. The number of suppliers and other business partners may be high, but the relationships revolve mostly around price and much of the raw materials are purchased through auctions or other market mechanisms. The regional and relatively de-centralized organizational structure makes it also fairly difficult to establish firm-wide partnerships or partnership management programs.

the de-centralized structure makes it difficult to create and implement corporate wide solution initiatives, and achieve internal networkedness. In conclusion, there are several possible solution business models that may be equally successful.

Chapter 2: Analysis of the Moncler case

2.1 Company overview

Moncler is an historic French brand created in 1952 in Monestier de Clermont, with a vocation for sportswear for the mountain. In the 80s, after a period of great diffusion, Moncler became a well-known brand among young people and a fashion phenomenon, but only after the designation of Remo Ruffini, as creative director in 1999, with the repositioning of the brand, its products obtained a unique character. Now, its product range covers different segments of the luxury pyramid, and includes[5]:

• Haute couture collections, as Gamme Rouge and Gamme Bleu, characterized by the exclusivity of the products and by the distribution limited to the boutiques located in the most prestigious shopping streets in the world;

• The Grenoble collection, technical sportswear with style content;

• The "Special Projects" with cutting-edge and innovative design;

• The collection Main, high products quality to wear every day;

• The collection Enfant, consisting in new interpretations of the adult ranges.

In its history, Moncler demonstrated many times its ability to realize unique garments, combining quality, together with a strong innovation, both stylistic and technological. This ability is understandable looking at its main strengths, which are[6]:

• Unique positioning in the luxury sector at an international level with over 60 years of history, able to combine the heritage of the brand with innovative products, versatile and "timeless";

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[5] Moncler website, http://www.monclergroup.com/en/brand#merging-fashion-and-high-performance
[6] Moncler, annual report 2015

• Excellence in quality and innovation of the product, thanks to the ability to sense new trends, always respecting the distinctive character of the mark;

• A cross-generational male and female customer base. The Moncler products fit a variety of lifestyles and are suitable for several occasions of use, including a formal and elegant use as well as a purely sporty or daily use;

• A careful, targeted and innovative communication strategy, able to generate interest in the brand and in the products, as well as to let customers perceive the values of Moncler, who wants to be a style icon;

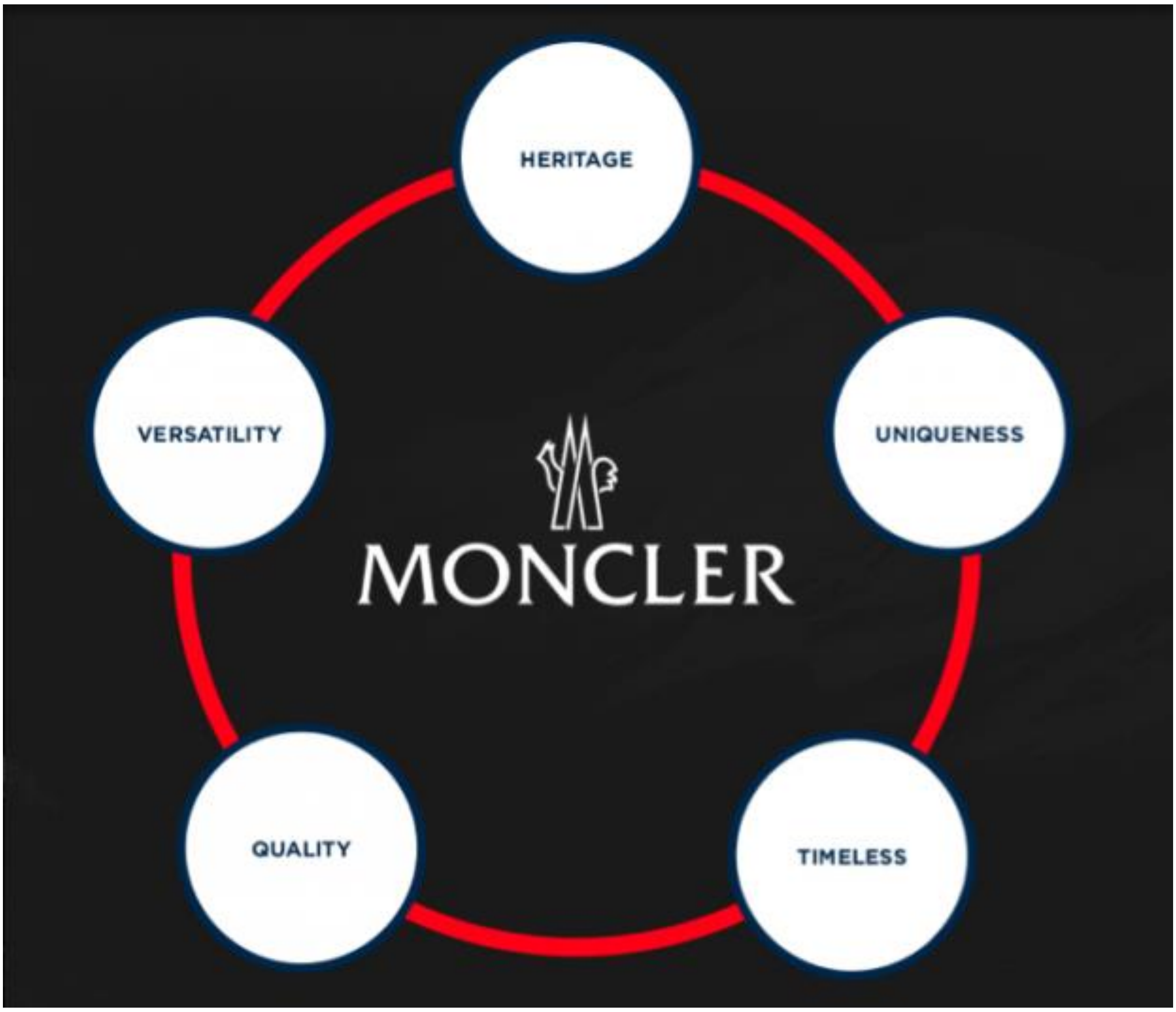
• The control of the distribution network, both wholesale, through directly managed showrooms, and retail. In particular, the brand's presence in the most important multi-brand and major department stores for luxury and the retail strategy, implemented through a selective localization in the most prestigious shopping streets and resort locations around the world, have allowed Moncler to strengthen its unique positioning.

• The distribution network, supported by an efficient value-chain;

• The geographical diversification, with an established presence in Europe, Asia and the Americas;

• A flexible and scalable business model thanks to an efficient organization, integrated and focused on the value chain and quality control, managing and coordinating directly the phases with the greatest added value and the use of selected third parties for production activities, with which entertain stable and lasting relationships;

• A cohesive senior management team, motivated and highly experienced, led since 2003 by Remo Ruffini as President, who demonstrated the ability to generate important results in key areas for the consolidation of Moncler, such as the development of the retail channel, the brand management and the geographic expansion.



Picture 6: Moncler values

2.2 Company history

In 1952, René Ramillon, a brilliant entrepreneur, manufacturer of equipment for the mountain and author of dozens of patents and his friend André Vincent, retailer of sport equipment in Grenoble, founded Moncler. The name of the brand derives from the abbreviation of Monestier de Clermont, a village in the mountains near Grenoble. At the beginning, under the name of Moncler, were produced quilted sleeping bags, a single model of a lined hooded cape and tents with a telescopic structure and an external flysheet.

The first down jackets are designed in 1954 to protect the workers of the small mountain factory from the cold. Lionel Terray, a French mountaineer, foresaw their huge potential and asked Ramillon to realize snowsuits, gloves and high resistance sleeping bags suitable for the most extreme climates to use in his climbing. Hence, it was born the specialized line "Moncler pour Lionel Terray". Each garment was developed and enhanced thanks to the technical counsulting of Terray and experimented on the field, during his expeditions. In the same year, the Moncler down jackets were chosen to equip the Italian expedition on Karakorum, culminated with the conquest of the world’s highest summit by Achille Compagnoni and Lino Lacedelli and in 1955 were supplied to the French expedition that conquered the Makalù (8470 meters).

In 1968, for the Winter Olympic Games in Grenoble, Moncler became the official supplier of the French downhill ski team. A special event that also marked the change of the logo: Mount Aiguille, which soars above the village, was replaced by the famous cockerel.

In 1972, it happened a decisive event: the French team required a new variant of the down jacket: no longer the double padding version, which still remains in the collection with models like "Karakorum", but a single padding version easier to handle, lightweight and suitable for competitions. First called "Huascaran" and then "Nepal", with the addition of leather epaulettes to place the skis without damaging the fabric, the down jacket in this more flexible and comfortable variant is to all effects the precursor of the current one. It was a success, especially because in those years the skiing holidays were becoming an authentic mass phenomenon.

In the 80s, Moncler, with its original stitching and its ‘lacquered’ effect in dazzling colours, finally made its grand entrance into town. Also thanks to the designer Chantal Thomass, one of the coolest creative stars of the Parisian scene, that worked alongside the company until 1989, reworking the look of the classic down jacket and giving it a high-powered fashion injection. The designer replaced the zips with buttons and introduced fur trim, satin and reversible fabrics

In 1992, the ownership of the Moncler brand was acquired by Pepper and then, in 1998, by Fin.Part Group S.p.A., a company active in the luxury apparel sector. In 1999, Moncler presented the first spring/summer collection, to start diversifying the product range in terms of seasonality.

In 2001, it opened in Saint Moritz the first Moncler store directly managed. This boutique marks the start of a series of store openings in famous ski resorts.

2.3 Moncler becomes “Italian”

In the recent history of Moncler, there is an event that radically changed its fate: the acquisition of the brand by the Italian entrepreneur Remo Ruffini in 2003. Ruffini entered in the Fin.Part group in 1999, with the role of Creative Director of Pepper. He had already a consolidated experience in the apparel world, in 1984, he had found New England, a company specialized in men's shirts. There, supported by the growing sales, he extended the offer to a complete line of sportswear, distributed in Europe, United States and Japan and in '93, also added successfully a women's collection: Ingrose. Ruffini assumed the role of President of Moncler when Fin.Part, on the brink of bankruptcy, decided to sell the brand to a newly formed company, owned for the 51% by the same Ruffini, for the 25% by Pepper Industries, of the Fin.Part group, and for the remaining 24% by Vela Financial Holding, of the Bucherer group. Ruffini worked on wearability and materials, and started the "piumino globale" strategy to explicit the universal soul of Moncler, going from the the historical roots to the innovation, from the mountains to the city, from the sport to the everyday life. Each garment re-edited or newly created, it is strictly made in Europe and the feathers used in the down jackets are a guarantee of a high fill power, or the ability of the down to occupy volume. In addition, the distribution channels enhance the versatility of the brand. Today Moncler is present in the most prestigious stores worldwide and counts on numerous flagship stores located in the most prestigious ski resorts and since 2007, also in the heart of principal cities as Paris, Milan, London, Shanghai and Hong Kong.

Evidences of the success of the work of Ruffini are:

• The revenues increased from 45 million euro reached in 2003 to 580.6 in 2013;

• Since 2003 more than 120 mono-brand stores has been opened;

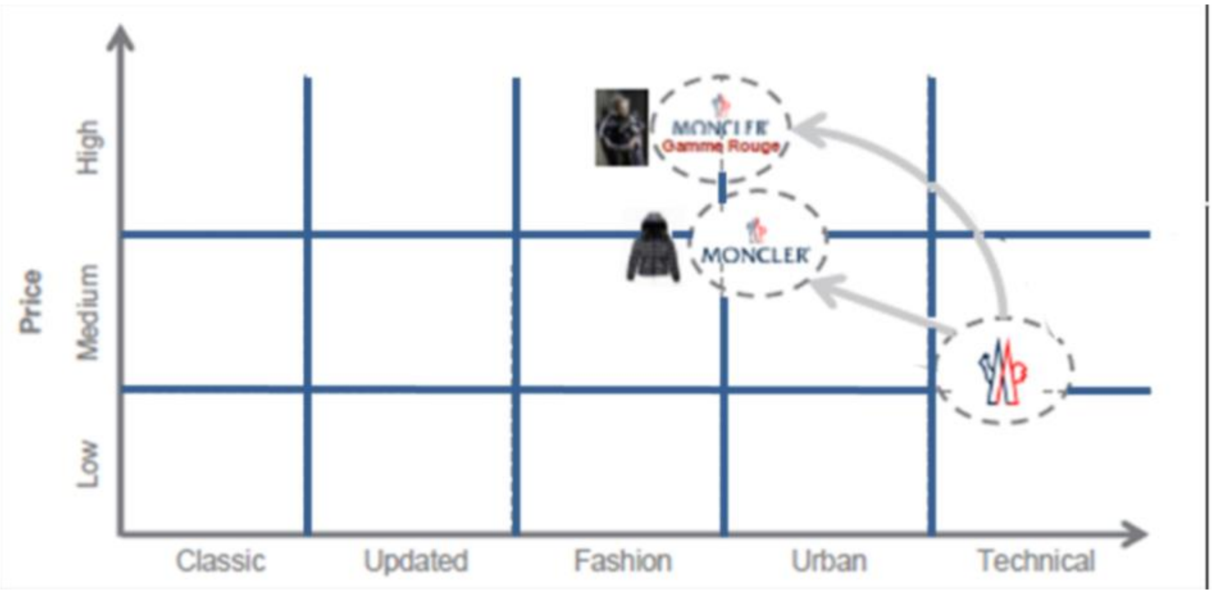
• The brand value, sold to Ruffini for 30 million euro, it reached a market capitalization of 2.55 billion euro at the time of listing on 15 December 2013.

Although the overt charisma, the initiative and the entrepreneurial intuition combined with an innate creativity of Ruffini represent the core elements behind the sensational growth of Moncler, should not be overlooked the merit of the three PE funds that have alternated in the share capital of the group since 2005: Mittel, Carlyle and Eurazeo.

2.4 PE investors and evolution of Moncler

The influence of PE funds in the Moncler Capital officially began the 17th March 2005, when Fin.Part communicates the transfer at Brands Partners SpA of the industrial and commercial activities belonging to Pepper Industries Group, included the brands Marina Yachting, Henry Cotton, Coast Weber Ahaus and the licenses of Cerruti Jeans and Moncler. Brand Partners SpA consisted of a company set up specifically to carry out this operation, owned 49% by Mittel SpA, a financial investment company active in management of PE funds, 26% by Remo

Ruffini, and 25% by Vela Financial Holding Ltd, an investment partner of Moncler (Fin.Part data, 2005). Ruffini, in the new company would have continued to be the chairman, CEO and creative director, assisted in his task by a number of managers, including many ones joined from the institutional investor. Among the new members of the company management, the more prominent role was assigned to Cristina Gugnoli, with decades of experience in Ralph Lauren, where she held the position of sales manager of all lines of the group in Italy. In Moncler, she would have assumed the position of General Manager, with responsibilities going from marketing to communication, through the product, but always controlled directly by Ruffini. She represented the strong managerial figure requested by Mittel to assist and support the CEO, referring to her background and expertise developed in the fashion industry. In addition, Mittel assigned the position of manager to Antonio Arcaro, considered the right man to lead the relaunch of the group, having been the architect of the reorganization plans of Calvin Klein and Guess. Behind this choice, there were not only his successful experiences in business realities similar to Moncler, but also his experience in managing situations of financial distress, useful to obtain from the banks the money needed to launch the new collections, after the financial vicissitudes of Fin.Part. As usual for institutional investors, Mittel had also included a proper representative on the board of Moncler, to directly protect its investment and increase involvement in the governance of the value creation process. Given the importance of the investment, the figure chosen to represent the interests of the fund was the CEO of Mittel, Guido de Vivo, which in addition to being a director of Moncler S.p.A., obtained the position of Chairman of the Board of Directors. Under Fin.Part, in 2003, Moncler produced jackets strictly sporty, the latest collections were composed mostly from hi tech ski suits with little room for creativity and originality. Ruffini believed, however, that the company had to return to the original business vocation, the down jacket, but extending the occasions of use, so was born the strategy of "piumino globale". The first step was to sign, between 2004 and 2005, a series of co-branding agreements with major international designers such as Watanabe and Yamamoto, or with international brands as Comme des Garçons and Balenciaga (maison of Gucci Group). With the aim to create mini-luxury collections, producing no more than some thousand pieces, with a higher retail price than the average of other collections and marketed only to few selected customers. The intent of Ruffini was to "educate" the public about the new soul of the Moncler down jacket, able to overcome the original sportswear function and to become a pure street wear urban chic, assuming a very strong aesthetic value. The collaborations with prestigious designers pioneered the launch, in February 2006, of a revolutionary new line of women's down jackets entirely signed by Moncler: the Gamme Rouge. The collection, designed by Alessandra Facchinetti, a former Gucci designer house, was a project that rewrote the rules of luxury, transforming a sport garment as the down jacket in a luxury "statement" with unexpected shapes and games of precious materials, such as organza, tulle, satin and mink. To enhance the uniqueness and exclusivity, the new haute couture collection of Moncler initially went on sale only in 2500 stores worldwide belonging to 120 selected customers, at a price that ranged from $ 1,500 for the simplest models, up to reach 7-8 thousand for mink models (Ansaloni, 2006). The launch of a collection characterized by the extreme sophistication of shapes and materials, as Gamme Rouge, was strategic. Not from the point of view of revenues, which represented an insignificant percentage of sales, but because attributed to a brand with a strong heritage, linked to its origins and to its glorious past and appreciated for the quality of its products, using selected raw materials, a character of exclusivity and refinement that allowed to radically reposition the brand image of the Main Collection, at that time generating over 90% of revenues. In parallel, the relocation of the Moncler brand allowed to redefine the pricing of its products, which in turn represented an essential lever to feed the exclusivity and uniqueness of their down jackets: the price went gradually from the middle range (e.g. 400 €) to medium-high, in the case of the Main Collection, and to high in the case of Gamme Rouge (average price for a down jacket € 800).



Picture 7: repositioning of the Moncler brand (source www.eurazeo.com)

Repositioning in terms of image of the Main Collection was inevitably accompanied by a rethinking of the concept of products: initially Ruffini confided in the historical archives to design new down jackets, to enhance the link with the past and recover the glamorous image characterizing Moncler in the 70-80s. So, reappeared famous enamelled down jackets in nylon that became the hallmark of the "Paninari" generation. Subsequently, with the intent to strengthen the brand-recognition, Ruffini established that in all the Moncler garments, was given extreme importance in terms of size and visibility to the company logo. The repositioning of the brand was accompanied also by a substantial communication campaign that involved as testimonials Madonna, Caroline of Monaco and Elle Mcpherson, and with Gamme Rouge presented for the first time in the fashion week in Milan, with the aim of explicit and transfer the values of exclusivity and uniqueness of the Moncler brand. Were implemented, finally, the strategies of Ruffini to challenge the seasonality of sales and, indirectly, the cash generation that was the main problem with the business model of Moncler. In 2007, is presented in London a collection of accessories that includes bags, technical boots for women and unisex boots, while in 2008, was born the "longue season" down jacket, usable for the entire year thanks to just 160 grams of feathers and to the 3 mm of thickness that in winter allowed to wear it under the real one.

On 5th August 2008, was signed an agreement between the shareholders of Moncler S.p.A. and the PE fund The Carlyle Group, through which the fund acquired the 48% of the Moncler share capital through the CEP III Participations Luxembourg, company wholly owned by the fund, for a total amount of € 408 million. Despite Carlyle became the majority shareholder, the fund decided to respect the shareholders' agreements before established, allowing Ruffini to keep the governance rights. Again, as happened previously with Mittel, the institutional investor confirmed him as chairman and creative director of the group. Based on the provisions of the Board, he was encharged of powers on ordinary administration and to legal represent the company towards third parties, including particular powers regarding the supervision and coordination, strategic management, consulting, marketing and promotional activities, intellectual property and human resources, to exert with single signature and with the power to sub-delegate. As with Mittel, the decision of Carlyle to maintain a low profile in the ordinary management of the company was justified by unfamiliarity with the sector in which Moncler operates, this was the first investment in the luxury apparel market, as well as the recognition of the managerial skills of Ruffini and his superior knowledge of the business. Carlyle decided to place in the board a proper representative, in order to be able to closely monitor the performance of their investment and oversee the fund's interests. Also in this case, the institutional investor opted for a prestigious and charismatic person, Marco De Benedetti, Managing Director in Carlyle since 2005. Carlyle recognized, from the preliminary stages of the purchase, the highly competent management team as one of the main strengths of the Moncler Group. The fund believed therefore, that reconfirm all the managers were the most appropriate strategy to continue the growth path started under the control of Mittel. The only relevant turnover was the enchargement of Alberto Lavia as new CEO of the group instead of Ruffini.

He was the CEO Polo Ralph Lauren in Europe, Calvin Klein Europe and Façonnable, and Chairman of Kenzo, Lavia was considered the figure equipped with the right skills to continue the strategy of development and strengthening of the brands considered functionally for the listing scheduled for the following spring. The support of Carlyle was strategic for Moncler accelerating its international expansion, considered essential to diversify revenues, reducing dependence on the European market (in particular from Italy) and the risks related to the Economic crisis just started. From the organizational point of view, the expansion of the retail channel led the Group to add local management team with the task of supervising the performance of the business in the most strategically important markets, namely China, Japan, Russia and the United States. Even in this situation, the contribution of Carlyle, with its structure globally developed and its relationship capital was decisive in the process of selecting the most suitable managerial figures. In addition, again with the assistance of Carlyle, Moncler worked further to restructure its organization, creating two separate divisions dedicated, respectively, to the brand Moncler and to all other brands. This move was necessary because of the size reached by the Moncler brand over the other brands, aimed to achieve a better control of both businesses taking in consideration the specific characteristics and the different competitive positioning. Regarding the product, Ruffini continued the policy of diversification of the range, continuing to focus on exclusivity and uniqueness of the Moncler clothes. In this view, it was strategic the launch, in 2009, of the collection Gamme Bleu, who represented the male equivalent of Gamme Rouge, which is a line of High Fashion with a high design content, conceived by Tom Browne, considered at the time as the architect of the US men's fashion. As it was for Gamme Rouge, the clothes were intended to promote the brand image and represented the result of studies specifically aimed at seeking solutions of excellence from the point of view of style and quality. They were, also, garments produced in Italy with a realization technique entirely manual, capable of ensuring the highest levels in terms of finished product quality. As for Gamme Rouge, they were distributed through selected stores at a price equivalent to that of the female line launched earlier. With the intent to continue the coverage of the various segments of the luxury pyramid, meeting at the same time to the different requirements of the customers, in 2010, was born the Grenoble collection. The line, aimed at the return to the beginning sports idea that connoted the brand in the origins, was made of garments intended for outdoor sports and characterized by high technical content combined with innovative design. To the outerwear, remained the main product, were combined pants, shirts, sweaters, polo shirts, shoes and gloves, trying to counter the problem of seasonality typical of the sales of Moncler. The collection, inspired to the historical garments of the mark used in alpine sports, was directed to the medium-high segment of the market for luxury goods and to maintain the image of the brand's exclusivity. It was intended for a selected market, after being presented during the fashion week in New York.

Picture 8: the complete repositioning of the Moncler brand (Eurazeo, 2011)

It was with a view on the diversification of the product, the action made on Main Collection of the brand. That in order to meet the tastes and the needs of different types of customers looking for clothes more accessible in terms of price and more versatile in terms of use and wearability, it was gradually divided into five segments: Archive, Bridge, Sport Chic, Premiere, and Enfant:

• Archive included the most iconic and figurative products, inspired to the historical tradition of Moncler products, characterized by a purely sporty line able to cover all the seasons of the year, despite having as its diamond point the down jacket in nylon;

• The Sport Chic segment, dedicated to the urban and labour environment and was the result of the combination of a strong research component in terms of fabrics and a pushing for innovation in the shapes;

• The garments of the Bridge segment constituted a sort of link between the Archive and the Sport Chic segment;

• The garments of the Premiere segment, intended for women, represented the classic segment, elegant and refined of the collection Main. The products were characterized by the elegant and refined lines that constituted an evolution of the traditional Moncler down jacket;

• The Enfant line, divided in junior and baby segments, offered products mainly of direct derivation and reinterpretation of adult lines to preserve the identity of the Moncler brand. As evidence of the growing interest of Moncler for this type of market, characterized by huge growth opportunities, since December 2008, the marketing of the collection was internalized through a joint venture with Altana owned 50.1% by the same Moncler. Until that moment, the same Altana fully managed the Moncler distribution based on a license agreement.

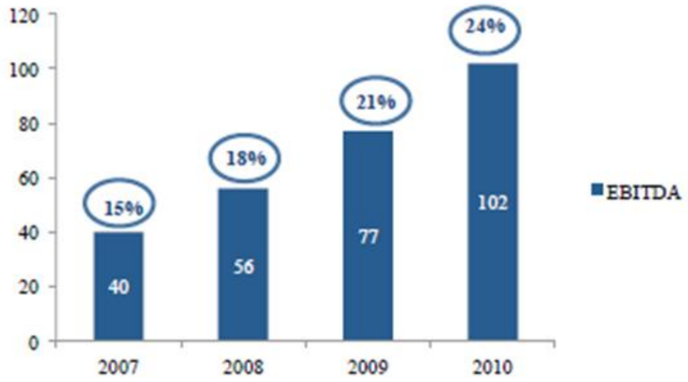
In terms of communication and marketing, an important contribution to establish and transfer the values of uniqueness and exclusivity of the brand on the market came from:

• The location of its own boutiques in the most prestigious shopping streets of the world's major cities;

• The presentation of the Gamme Rouge and Gamme Bleu and Grenoble lines during the fashion weeks, respectively, of Milan, Paris and New York;

• The preparation of an internal group of visual merchandising to create productions emerging for originality, sophistication and innovativeness.

The EBITDA of the group increased from the 40 millions Euro of 2007 to the 102 millions of 2010, growing from 15% to 24% of the revenues.



Picture 9: The evolution of the EBITDA and of the EBITDA margin (Eurazeo data, 2011)

Carlyle stayed as majority shareholder of Moncler S.p.A just over three years, from August 2008 to October 2011, until when Eurazeo, a French PE investor, will acquire its shares. Even this time the PE fund, decided to concede to Ruffini the power on ordinary administration, confirming him as Chairman and creative director of the group with annexed powers. Moreover, he was renominated CEO of the group, because of the Lavia resignation. The institutional investor opted for the integration of two figures of great prestige and charisma, Virginie Sarah Sandrine Morgon, Chief Investment Officer of Eurazeo, as a counsellor and vice chairman and Vivianne Akriche, Executive director of the fund, as a counsellor. On the managerial front, the Board decided to insert as Chief Corporate Officer Luciano Santel. He had experiences as International Business Development Director of Luxottica and as CEO of Geox and Stefanel. He assumed the responsibility for all staff functions, in particular finance, human resources and retail. All the other managers were confirmed to reward the management that made Moncler protagonist, under the guidance of Ruffini. In November 2013, it was sold Industries Sportswear Company, the business unit in which they were made concentrate the Marina Yachting brands Henry Cotton's, Coast Weber & Ahaus and 18CRR81 Cerruti license, to Emerisque Brands UK Limited, British PE fund specializing in operations investment in medium-sized companies in terms of turnover. On the product front, the most important innovation concerned the constitution, in the February of 2013, a joint venture with Allison S.p.A., one of the world's leading companies in the glasses sector. The agreement achieved through the creation of a new company, Moncler Lunettes Srl, 51% owned by Moncler and the remaining 49 by Allison, provided that the activity on the marketing was carried out by Moncler Lunettes through its own network of agents and distributors, while production would be entrusted to third parties with the Allison support. The expansion of product categories, always preserving the brand positioning in price as in style, was a further attempt to diversify the product range in terms of seasonality. Although, in fact, in recent years the gap between the revenue of the season spring/summer and autumn/winter had reduced both sales channels, seasonality linked to the high incidence of winter outerwear remained high: in 2012 spring/summer collections had accounted for 23% of the turnover compared to 77% of the collections of the autumn/winter season.

Picture 10: Revenues of the trimester generated by distribution channels (Moncler, 2014)

As can be seen from the picture, for the wholesale channel, revenues are concentrated in the first and third quarter, matching purchase of the products of two different seasons from the department stores, while in the retail channel sales are concentrated in the fourth quarter because of the significance of the fall/winter collection for Moncler customers and the fact that the opening of new DOS are typically concentrated in the second halfof the year. In general, the Group meets its working capital requirement by resorting to debt, mainly in the third quarter of the year (especially in September), where suppliers of materials and services purchased are paid for the fall/winter collection. The weight of which is predominant compared to receipts relating to the Spring/Summer collection. Normally, the company enjoys greater liquidity in the months of December, January and February due to the seasonality of collections both on the retail channel and the wholesale channel. Also as part of the product lines, Ruffini decided not to renew the joint venture with Altana Moncler Enfant, expired on 31 December 2013 and, consequently, to directly manage the activities related to the design, prototyping, modeling, sales and distribution of the line child. The purpose of this choice was to implement a strategy of direct control of a strategic business such as that represented by the baby line, to develop a comprehensive and coherent brand strategy across all business segments and access to distribution synergies.nAs for the advertising and marketing, it is important to point out three initiatives that testify the attempt by Moncler to increase its brand recognition in the US market:

• collaboration with Pharrell Williams, well known American singer and producer, called to draw four frames of sunglasses, men and women, made entirely of titanium;

• the event to celebrate the first 60 years of the history of Moncler in Miami during Art Basel, an important manifestation of contemporary art Americana;

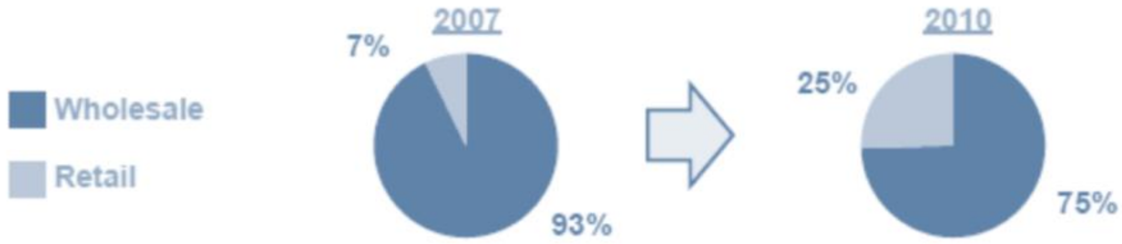
• the association with the well-known American photographer Bruce Weber, for the realization of the advertising campaigns of the brand.

Eurazeo remained the majority shareholder of Moncler until December 2013, when, as part of the IPO, the PE fund provided approximately half of its participation in the market, reducing its stake from 45 to 23%. The debut of Moncler in the Stock Exchange was really successful. In the first day, from 10,2 euro, the price fixed for the IPO, there was an increase until 14,97 euro, 46,76% higher. This success was unexpected, especially because many listed competitors were struggling in that period. However, it was not an isolated case, considering the common highs and lows of these years, the Moncler shares now, have a value of more than 15 euro, higher than the listing price. There was a selection even among the investors that had to represent the company market sectors, Europe, America and Asia. New shareholders of Moncler became Ferragamo, Zegna, Loro

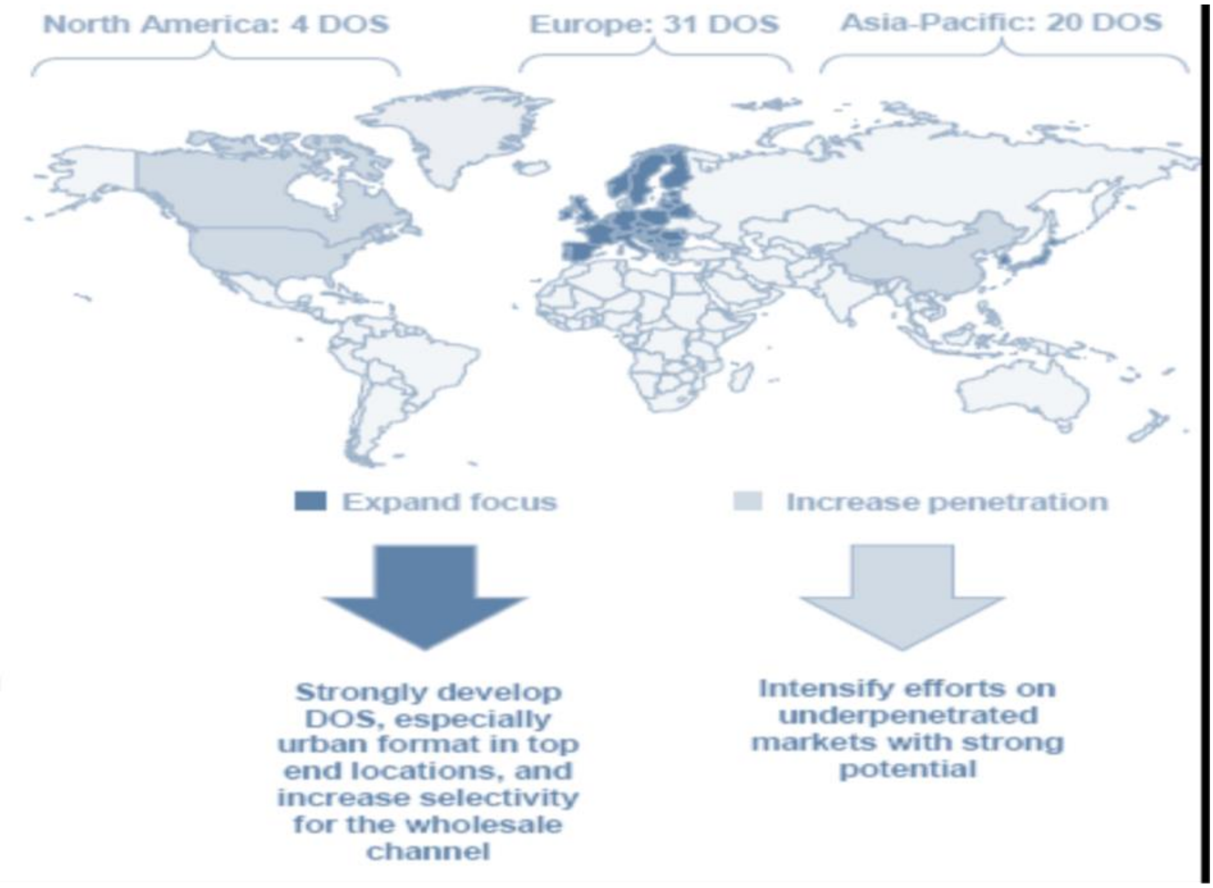
Piana and Renzo Rosso, Bernard Arnault (Lvmh) and even sovereign wealth funds of Qatar, Singapore and Abu Dhabi.

2.5 Retail excellence

The process of diversification of the range of products from an exclusivity point of view, which was achieved through the launch of Gamme Rouge, along with the new urban chic connotation of the main collection, required at the same time a redefinition of Moncler distribution structure: more precisely the one brand channel was enhanced with four new openings. On the one hand, the flagship of Megeve and Crans on Sierr were added to the other boutique located in the holiday resort on the most exclusive ski areas; on the other Moncler inaugurated its presence in the heart of large cities with the opening of two flagship stores in Paris (2007) and Milan (2008). In this way, even at the distribution level, the passage of Moncler clothing from a sports wear product, intended for use on the slopes, to an urban garment usable on all occasions was strengthened. Between 2008 and 2010, many Moncler flagship stores opened in major fashion capitals of the world, including Hong Kong, Beijing, Shanghai, London, Monaco, Rome, Copenhagen, New York, Chicago and Geneva. Through direct showrooms, Moncler could exercise a more effective monitoring of the customers' preferences, it increased efficiency, margins and encouraged the growth of markets not yet developed through a direct control of the territory. In markets where direct intervention through the retail channel was considered more difficult by the presence of barriers to entry, the policy was to enter into joint ventures with local partners in which Moncler held a majority. The most significant agreement was the one signed in December 2008 with the Japanese company Yagi Tsusho Limited, in charge until then of the Moncler brand product distribution in the Japanese market. The contract, which concerned the creation of a Japanese company called Moncler Japan Corporation, 51% owned by the same Moncler S.p.A., was aimed at internalizing, at least in part, the supply of products in the Japan. The expansion of the retail distribution channel it led the number of single-brand stores to grow from 6 to 55 in three years, with a consequent increase (from 7% to 25%) in the share of DOS with respect to sales revenues at the expense of the wholesale channel.



Picture 11: Sales evolution in the distribution channels



Picture 12: Geographic location of Moncler DOS and strengthen strategies

Eurazeo, relying on the local organization and management structures of the Group (previously prepared by Carlyle with the aim of covering the areas of greatest interest) and taking advantage of the relational capital of its professionals located around the world, it succeeded to expand presence distribution of the Group especially in Greater China, bringing the number of stores at 30 September 2013 to 19 (15 in China, three in Hong Kong and one in Taiwan). On the contrary, the institutional investor has encountered major difficulties in penetrating the American market, especially related to the fact that the brand has not reached a level of knowledge so mature as in Europe and Asia: Until the 30 September 2013, the new openings were only two, Los Angeles and Miami. The joint implementation of the two strategies has increased the number of stores Moncler to go from 55 to 98 in just over two years (from June 2011 to September 2013).

EMEA	N. DOS
Italia	17
Francia	12
Svizzera	8
Regno Unito	6
Germania	4
Austria	3
Paesi Nordici	1
Europa dell'Est	1
Turchia	1
Altri	3
Totale	**56**

Asia	N. DOS
Giappone	17
Cina	15
Hong Kong	3
Taiwan	1
Totale	**36**

America	N. DOS
Stati Uniti	6
Totale	**6**

Picture 13: DOS division per geographic area (Moncler 2013)

Alongside the expansion of the retail network, Ruffini, assisted by Eurazeo, decided to pursue selective development of the wholesale channel in order to enhance the brand's exclusivity. In particular, in markets where the wholesale distribution was already highly developed (including Europe and Italy), the Group would undertake a policy of rationalization and selection of the number of customers, by placing the product only if it guaranteed the level of prestige of the point of sale, in quality and assortment representativeness. Instead, in markets with a consolidated distribution of luxury brands through the wholesale channel, and particularly in North America, the Group intended to selectively increase its penetration through this channel. In 2011, the brand of down jackets activated its online shop, thus reaching all the major competitors in the luxury sector. The portal, managed by YOOX SpA, a leading e-commerce specialist operators and leaders in the segment of luxury goods, (with the support and the coordination of the Group), allowed to reach a wider, but selected, target consumers (especially the younger) and, second, allowed the effective immediately understanding of consumer preferences in each country in which it was possible to buy online, or in Europe, USA and China.

	December 31, 2015	December 31, 2014	Net Openings
Retail mono-brand	**173**	134	**+39**
Italy	19	19	-
EMEA (excl. Italy)	53	51	+2
Asia	82	50	+32
Americas	19	14	+5
Wholesale mono-brand	**34**	38	**-4**
Total	**207**	172	**+35**

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Picture 14: mono-brand stores

Another initiative launched in 2015 was the new Retail Excellence project. The project has a three-year horizon and targets various areas of intervention. These include the complete overhaul of engagement practices and client relationship contents, the enhancement of the skills of retail personnel and their sense of belonging to the brand, the overhaul and standardisation of internal store procedures and the optimisation of stock management and communication flows between corporate offices and stores. Attending precise financial data, today is not possible evaluate the efficacy of this project yet.

2.6 Moncler Customer Service

In an increasingly competitive market, building a durable relationship with clients depends not only on product quality and design but also on an ability to build a relationship of trust and offer a special experience that is distinctive, compelling and consistent across all geographic regions and the various sales and engagement channels. In 2014, Moncler created a new organisational division dedicated to Clienteling – the active management of client relationships. The division is responsible for creating and fostering a strong culture of client care and client engagement and for understanding and organising opportunities, contents and terms of contact to reach out to client. In 2015, a new professional role was introduced of Worldwide Retail Client and Performance Director, in an effort to focus the business more closely on the client and coordinate the levers that can enhance the shopping experience (from the training of personnel to store procedures).[7] Sales personnel play a fundamental role in the shopping experience. A competent and enthusiastic boutique assistant, who understands how to convey the uniqueness of the product and the values of the brand, not only enriches the personal and emotional quality of the shopping experience but becomes a trusted advisor, contributing substantially to the retention of loyal clients, especially local clientele. Sales assistants are brand ambassadors of Moncler. At the same time, however, they are an active earpiece, listening to clients and passing on observations to the corporate office, where they are analysed and form the basis for actions. For Moncler, supporting sales personnel in the growth of skills and expertise is a strategic lever and way of differentiating the brand. Understanding the brand and its history, products, style, materials and production process and adopting the right interpersonal style with clients form the fulcrum of the ongoing training provided to boutique personnel. In 2015, approximately 6,100 hours of training were delivered around the world, an average of approximately one entire

[7] Moncler website, http://www.monclergroup.com/en/sustainability/clients/focus-on-the-client

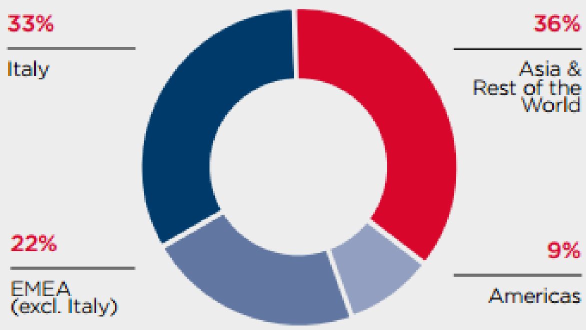
working day (7 hours) per person. With a view to offering a unique shopping experience and the highest levels of service, the Company assists sales personnel in creating personalised client relationships through a series of initiatives focused on proactive engagement. In an effort to understand clients and offer tailored services, Moncler has created a worldwide database collecting various information about client and their shopping habits (addresses and telephone numbers, frequency of purchases, value and type of items purchased, etc.). This wealth of data is managed with guarantees ensuring the protection of personal identity and privacy. Data analysis activities underpin the management of the client care service and contribute to the creation of initiatives focused on the person, such as the mailing of catalogues and newsletters, previews of new collections, invitations to in-store events and the organisation of personalised experiences. Moncler employs a number of different tools to assess and improve client service, including a mystery shopper programme. Mystery shoppers are professionals who impersonate potential clients, making regular visits to stores and scoring them on more than 50 different assessment parameters, including service efficiency, how products are presented, courtesy and competence of sales personnel and the ability to satisfy the specific needs of the potential client. More than 1,000 mystery shopping visits were performed worldwide during 2015. The outcomes of the mystery visits were positive overall, with three mystery shoppers out of four scoring their in-store experience at 8/10 or above.

2.7 Moncler current situation

On 1 January 2015, Moncler Shinsegae, a joint venture controlled by Moncler (51%), took over the 12 Moncler mono-brand stores in Korea from Shinsegae International. In 2014, in fact, the subsidiary Industries S.p.A. signed a joint venture contract with Shinsegae International, a Korean company listed on the Seoul stock exchange, Moncler’s distributor in Korea and one of the country’s leading retailers in the fashion and luxury sector. This joint venture started operations in 1 January 2015 to promote, develop and manage Moncler stores in the Asian country's most prestigious locations. By reaching direct control on Korea, Moncler has realised its strategy of directly controlling all markets in which it operates. On August 31, 2015, Moncler acquired, through its subsidiary Industries Yield S.r.l., a small production unit in Romania that manufactures apparel products and that was already a Moncler supplier. This production unit, which is today not significant in the context of the Group, represents the first step in a project aimed at partially integrating production. On September 22, 2015, Marcolin Group and Moncler S.p.A. announced the signing of a worldwide exclusive license agreement for the design, production and distribution of Moncler branded men's and women's sunglasses and eyeglasses, as well as ski masks for men, women and children. The license will be effective from January 2016 until December 2020 with the possibility of renewing for an additional five years. In October, Moncler, through its subsidiaries Moncler UK Ltd and Moncler USA Retail LLC, signed two important lease agreements to open respectively a store in London (Old Bond Street) and a store in New York (Madison Avenue).

Full Time Equivalents in 2015

	2015	2014
Italy	598	568
EMEA (excl. Italy)	390	301
Asia & Rest of the World	651	428
Americas	159	110
Total	**1.798**	1.407
of which Retail Direct	1.086	834

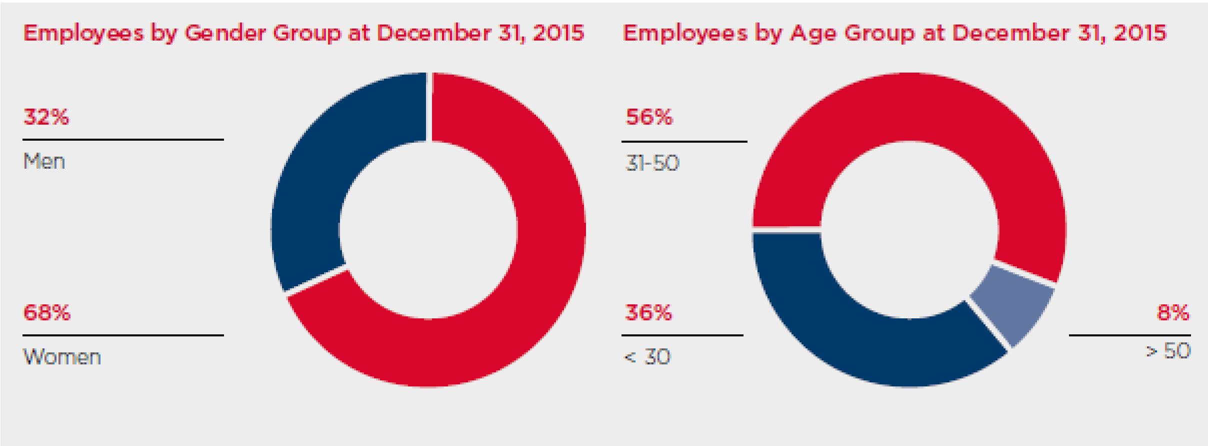


Picture 15: Full Time Equivalents (Moncler Annual Report 2015)

Revenues by Region (Euro/000)	**Fiscal Year 2015**	**%**	Fiscal Year 2014	%	**YoY growth % At current exchange rates**	**YoY growth % At constant exchange rates**
Italy	136,997	15.5%	130,625	18.8%	+5%	+5%
EMEA (excl. Italy)	268,468	30.5%	232,743	33.5%	+15%	+13%
Asia & Rest of the World	333,501	37.9%	235,153	33.9%	+42%	+28%
Americas	141,427	16.1%	95,668	13.8%	+48%	+27%
Total Revenues	**880,393**	**100.0%**	694,189	100.0%	**+27%**	**+19%**

Moncler achieved revenue growth in all regions.

Picture16: Revenues by Region (Moncler Annual Report 2015)



Picture 17: Employees by Gender Group and by Age Group (Moncler Annual Report 2015)

Conclusion

Taking in consideration the past years, manufacturing firms are spending more capital on new services development. Now, find a product and service bundle is more common. However, it emerged that develop new services is not sufficient to obtain higher profitability. It is important that the value created through the services offered, returns to the firm, otherwise only the customer will benefit from this. The process of service development is long and costly and if the firm is not able to take advantage of the value created, it will not recover the time and the capital spent in order to realize the service. To enhance the services offered, firms should restructure their organization, understanding which are the changes to do and how to implement them. Moreover, the firms must evaluate if the proper resources and capabilities are sufficient, if they need to develop new ones or to buy them from outside. They also have to be proactive to the innovation that represents probably the most significant way to outperform competitors. Innovating is not easy, but in the right environment can be possible. A good business model can help innovation. Furthermore, involving customers in the service development process should be a routine, they are at the centre of firms strategies and they know what are their needs. Including them is the right move to create a good service, even feedbacks can help firms in offering services. It also became a focus point to treat inside the business, the creation of a service culture, managers should emphasize the relevance of services, only stressing the point, the workers will absorb the concept. Services make the difference. Not only in terms of product differentiation, but also even in terms of profitability. Firms that successfully implement a sevice offer, are able to reach greater revenues than competitors which do not do the same. The same Moncler is an example of a company that focus on customers. It has implemented during the years several strategies to be closer to them. It opened and it is still opening many stores, to offer them a unique experience with a dedicated service. The sales people are also a key factor for Moncler; working as brand ambassadors, they are able to support constantly customers in their purchases. Moreover, its website provide further assistance to the clients, from the information about products, to the shopping, to the deliveries.

Future researches

Retail excellence, the project launched by Moncler in 2015, lasting three years, seems to be really interesting, looking at the topics treated in this Thesis. Today however, given the lack of financial data, is not possible to evaluate if it is a success or not. Only when the company will concede more information about that, will be possible make an analysis.

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