Development of Integrated Solutions: The Value Creation Potential of the Supplier

Summary of Master's Thesis
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Objective of the study

The goal of the master’s thesis is to analyze the customer value of water treatment applications and services for the mining industry customers and to discover new business development opportunities for the chemical supplier. Moreover, the research aims at understanding mining industry customer’s current and future needs for the water treatment applications and services. In addition, the study focuses on specifying the best practices from the competitors.

The main research question of the study is: What kind of value creation potential do the integrated solutions provide for the supplier? This question is further divided into three sub research questions: 1) What is the current state of the integrated water treatment solutions in the mining industry? 2) What kind of value do the customers require from the integrated water treatment solutions? and 3) What are the antecedents that drive actors to pursue integrated water treatment solutions? By answering the sub research questions, also the main research question is answered.

How the study was conducted

A qualitative research approach employing a single case study with three embedded units of analysis was chosen for the study. The use of multiple data sources is inherent in the case study method (Yin 2009), and the present study uses depth interviews as primary data source, complemented by archival data. The primary data was gathered by organizing interviews with the case company sales managers and employees from three customer organizations during the spring 2012. The interviews were organized primarily by face-to-face meetings within the limits of time and resources. The gathered archival data for benchmark analysis consisted of case company’s internal documents, presentations, competitor’s web-pages and other public available data sources. The abductive logic is chosen as the way of conducting scientific reasoning in this study.

Answers to research questions

Research question 1: Based on the findings of this research, it seems that the industry leading organizations are increasingly focusing on their business offerings to services and establish themselves as performance providers rather than material suppliers. Overall, the chemical suppliers are delivering higher value solutions packages from individual service contracts to outsourcing total business processes by introducing integrated water management and turnkey solutions as a part of their competencies. By introducing services as a part of the business offering the suppliers are able to become a more integral part of their customers business and to gain deeper level understanding of the mining industry customer’s requirements and, therefore, diminish the role of short-comings in understanding customer’s future needs. The industry special characteristics require suppliers to conduct business over long distances with the customers and, therefore, continuous service-elements increase contacts with the customer surface and enable enhanced knowledge of the customer’s business. The equipment as a service substitute was furthermore experienced as a future opportunity by the sales managers.
Research question 2: Based on the empirical analysis, it seems that the value potential in offering more extended services cannot be generalized among the customers. Firstly, the services seem to attract more interest among the customers that have more long-term history with the case company and already existing mutual development investments. Secondly, the case company’s strategic focus on water treatment influences on the customer needs as customer’s willingness to invest in water treatment solutions are highly captivated to environmental laws and external pressure. The customer with low-degree of water intensity did not seem to indicate any interest towards services as potential value addition but rather appreciate product related qualifiers such as price, logistic and quality of the product. Nevertheless, it seems that the outsourcing of total business processes was something that each customer organization considered as a future potential. What the customer’s seemed to value most with their suppliers in overall, was the technical and environmental know-how and proactive performance. It also came evident that the current customer perceived value was mainly related to customer organization’s own improved image and reputation.

Research question 3: The antecedents towards value additions in services seemed to be related to relationship characteristics, resources of the customers, long distances and dependency issues. It seemed that water-focused customers were interested in reallocating their resources from water treatment to their core processes. Nevertheless, by allowing supplier to gain higher responsibility by outsourcing processes meant for the customers, that the supplier would gain a monopoly position which might lead to a more decreased activity level among the actors, thus, increased expenses. It also came evident that investing in outsourcing required a higher degree of dependency between the actors, and customers emphasized the meaning of mutual trust and relational issues. It seemed that the customers were still unsure if the case company was able to take under such a responsibility. It seemed that the relationships and mutual trust seemed to be something that the customers were still developing with the case company in order to be more open to new business opportunities. Additionally, offering total solutions requires a great amount of competencies in the value assessment methods. The customer’s interest seems to be involved in gaining a more exclusive access to case company’s know-how, strengthening the consistency issues and furthermore assuring component compatibility.

Managerial implications

Therefore it seems that the outsourcing and turnkey solutions can be seen future potential opportunity for the case company. Company should invest more towards relationship development and trust. It seems that motivating customers to invest in new solutions are complex as their overall preoccupation lies in process improvements and gaining efficiency in production. Therefore, the value perceived by the customers seems to be more related to improved customer company image rather than gaining monetary benefits or having strong influence on the core processes. It seems that being more successful in supplying solutions should be based on economic benefits to attract customer’s interest. Thus, capitalizing the improved image and reputation as a part of value assessment should be considered. Based on the findings from the empirical analysis, it seems that the case company already has some degree of service elements with its customers and the next step should be as suggested by Kowalkoski (2010) to visualize these services in order to gain proper understanding of the existing possibilities. Nevertheless, focusing on serving customers in the early stages of the problems recognition seems to provide the most potential investment area. Some approaches from the literature include collaborative arrangements with partnership or outsourcing agreements with third party involved (Sawhney 2004; Windhal & Lakemond 2006), thus it can be suggested that this kind of combined resources approach seems to be focal for the case company, as it currently already has partnership agreements with equipment suppliers.