

## **LINK CHANNELS OR HOW TO ENHANCE UPSTREAM-DOWNSTREAM RELATIONS IN SERVITIZED CONTEXTS**

Manufacturing strategy has been traditionally based on a combination of the following three foundations: vertical integration of supply and production processes to control costs and predict the flow of inputs; research which brings superior products to the market; and the creation of a sustainable market position to develop and strengthen economies of scale [1]. These foundations have been recently revisited.

Manufacturing firms covering the entire product life cycle activities outperform those focusing only on specific sections of the product life cycle. Research suggests that the reason behind this performance is the addition of services to the portfolio of product offerings, originating in downstream-oriented business models that capture additional value through the entire value chain. The movement of manufacturing firms downstream - coined “Servitization of business” [2] - generates new streams of revenues based on the offer of bundles of customer-focused combinations of goods, services, and knowledge. Those streams of revenue go beyond traditional manufacturing sources of revenue since services often have higher margins than products and are more difficult to imitate [3]. This is the starting point of the servitization journey in modern manufacturing.

However, servitization is not a panacea as moving downstream also presents some threats [4]. There are sources of uncertainty as in service offers the customer has a central role in creating value as part of the consumption experience. In this context, it is critical to identify customer needs, and transfer of demand signals from the market. Firms’ processes need to be aligned to achieve desired customer response, with disruptive innovations particularly affecting this alignment [5]. In these uncertain environments, firms must position themselves such that they are not displaced from the value chain by developing the capability to establish, maintain and enhance their relationships with their customer base [6]. By more closely engaging with their customer base firms create link channels which places the customer as the determinant in the process of understanding needs for value creation. Through these channels, firms directly share their value offerings based upon their interpretations of demand, articulating their value propositions in the value chain [3]. Value is generated and delivered to consumers through a network of organisations, linking upstream and downstream agents. Through channel linking firms are able to engage customers in the process of value generation. Link channels act as an essential tool to better manage markets where both services and products are part of the firm portfolio [6].

In a recent article published in *Dyna Management* [7], new evidence is provided supporting the benefits of innovative service channel linking. The findings indicate that strategies that facilitate the dynamic interaction of customers through link channels are more effective at generating revenue growth than traditional ‘push’ strategies based upon analysis of passive customer demand. The results provide empirical evidence contributing towards an explanation of how firms may increase value captured through maximizing their interaction with consumers. The study provides strong evidence that latent consumer attitudes provide valuable insight for value chain design and strategy formulation.

To better understand the relevance and applicability of link channels, it is illustrative to examine the example of the recorded music industry. The music industry, similar to the publishing and motion picture industries, has experimented in a process of digital servitization, in which the provision of IT-enabled services relies on digital components embedded in physical products [8]. To this extent, the process of digitalizing tangible goods is part of the process of implementing service business models.

Recorded music sold in physical format, either on vinyl or CD, historically generated significant financial returns for the industry. Global recorded music sales in 1997 were dominated by the physical products and generated USD 27.6 billion. However, once music entered the digital domain revenues radically reduced, totalling USD 15 billion in 2014. A further damaging contribution is music piracy which significantly decreases sales revenues and is a common problem around the world. Based upon conservative analysis 28% of people around the globe participate in illegal file sharing [9]. That's almost a third of the potential market and clearly represents a major problem for the music industry and the artists who don't get paid for their creative efforts.

The industry is slowly recovering revenues through offers which are centred upon consumer engagement. As an example, the launch of Apple music on June 2015 offers monthly subscription for unlimited access to the Apple catalogue of music. With millions of iPhones in operation, there is an expectation that this will bring the success the industry has been looking for. The offer represents a forward step in the digital servitization experimentation by the recording music industry over the last ten years which started with the launch of the iPod-iTunes business model. The iPhone platform strengthens the upstream and downstream relationships and in the context of the recorded music industry iPhones are the current link channels that engage consumers in purchasing and co-creating value [7].

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