

# Hybrid offering as a servitisation strategy for financial SMEs

Author: Gershom van der Sluis  
University of Twente  
P.O. Box 217, 7500AE Enschede  
The Netherlands

## ABSTRACT,

*With the financial services sector being an established servitisation industry, regional SMEs often cannot out-service the bigger players in the market. This paper explores strategies that can be beneficial to both a financial SME and its potential customers. The gathered data, by means of a semi-structured interview as a qualitative research method, will provide insights on the usefulness of a hybrid offering strategy for SME's. It was found that the SME's favour a hybrid offering strategy but implement it for different reasons than suggested by previous research. This research was done with a small, local sample of SME's, which limits the accuracy of the results. For further research, it is suggested that the same be repeated with a larger, more demographically diverse sample.*

## Graduation Committee members:

1<sup>st</sup> supervisor: Dr. R.P.A. Loohuis

2<sup>nd</sup> supervisor: Dr. Yasin Sahhar

## Keywords

Servitisation, financial services, local SME, hybrid offering

## 1. INTRODUCTION

Servitisation is the practice of customers purchasing a service in place of a product to meet a demand. A consumer might receive a comprehensive car-lease program as an illustration rather than purchasing a vehicle. Using a service strategy is the norm for conducting business in the financial sector. Thus, the term "financial services" is most frequently used to characterize this sector. This includes businesses that offer services including investment funds, financial management, insurance, and accounting. Customers can pay for these services in a variety of ways, from commissions to a set fee per hour (Asmundson, 2012).

Many sectors changed to become online businesses as the internet of things took off in the early 2000s, and other businesses developed business plans and models to take advantage of these new possibilities. Different strategies were now possible as a result, one of which is the hybrid providing servitisation strategy. The hybrid offering strategy can be defined as "combinations of one or more goods and one or more services, creating more customer benefits than if the good and service were available separately," according to Shankar et al. (2007).

The financial services sector experienced the same thing; businesses gradually increased their internet presence to offer their services to more people. And the hybrid offering strategy was one of the tactics used by bigger financial services companies. There is a huge knowledge gap about how this phenomena affects SMEs, despite the fact that this problem has been thoroughly studied in large businesses. This gap in the literature is an essential subject for in-depth research because SMEs account for the majority of businesses.

The SME businesses, however, struggled to adjust to these changes and/or failed to put the innovations that were present into practice, as is typical with most significant innovations (Irene, 2010). This was due to a number of factors, the primary one being a lack of strategic resources and expertise. Even though most information will be accessible in 2023 with a short internet search, there won't be enough strategic resources. SME businesses frequently lack the resources, expertise, or time necessary to develop a hybrid offering approach that may not even be worthwhile in the long run.

### 1.1 Research focus

The focus of the research will be to explore if a hybrid offering strategy can be a sustainable servitisation strategy for small & medium enterprises (SME).

### 1.2 Research question

This paper intends to answer the following research question:

- (i) To what extent can hybrid offerings be a servitisation strategy that benefits both local customers and a financial SME?

### 1.3 Academic & practical relevance

The relevance of this research will mostly be in the practical implications that follow from the results. The results will lead to a clear indication of the use of hybrid offerings. If the results are positive, this may lead to some SMEs putting in the effort to create a basic hybrid offering strategy for their firm. If the results are negative, the SMEs might not consider a hybrid offering strategy at all.

The contribution to the academic community will be research on whether the hybrid offering strategy can be considered useful for SMEs in the financial industry. The research will also give

insights on the stance of SME owners and managers towards the present development of servitisation.

## 2. LITERATURE REVIEW

The literature and prior studies that served as the foundation for this study are discussed in this section. It will demonstrate how servitisation is linked to the banking industry. After that, the subject of hybrid offerings in services will be discussed, and then an example of a hybrid offering in the manufacturing sector will be given.

### 2.1 Role of servitisation & digitalization in hybrid offering

When customers purchase a product or service, the transaction usually ends with the finalization of the transaction. But with the use of said product or service, the customer may find himself not being able to maximize the use of the product or service. This is where servitisation provides a solution. Robinson et al. (2002) define servitisation as "a concept that goes beyond the traditional approach of providing additional services but considers the total offer to the customer as an integrated bundle consisting of both the goods and the services."

Servitisation plays a significant role in a hybrid offering. By allowing businesses to combine products with complementary services, a more comprehensive and valuable offering for customers is created (Prahalad and Ramaswamy, 2004).

In the context of financial services, servitisation involves offering a combination of financial products (such as loans or investment options) along with services that support and enhance those products. For example, a financial services company could offer a mortgage product along with a range of 'homebuying' services, such as home inspections, legal services, and home insurance.

By providing additional services to complement their financial products, businesses can add value and differentiate themselves from competitors. This approach can also help to build stronger relationships with customers, as they are more likely to perceive the business as a partner in achieving their financial goals rather than just a provider of products (Vandermerwe and Rada, 1988).

Here is where digitalization plays a critical role in facilitating hybrid offerings for financial firms. By combining traditional in-person services with digital channels and technologies, the integration enables a well-organized customer experience across multiple touchpoints such as physical and personal contact, mobile apps, online customer service, and websites with readily available information (Frank et al., 2019). This can be extended to offering fully digital services, such as online financial management tools, automated financial planning services, or personalized investment advice. For example, you open a bank account with a bank, and the bank provides an app to manage your finances, with easy access to new services like insurance and savings accounts.

Financial firms leverage digitalization to enhance accessibility and expand their customer base. By using the available digital channels, they can reach a wider audience, tap into new markets, or reaffirm their old audience by providing financial services to customers who may not know of all that they offer (Tronvoll et al., 2020).

Digital technologies offer personalized and customized services by analysing customer data. Financial firms can tailor their offerings to meet individual needs and preferences, leveraging insights they get from customer behaviour and preferences (Behl et al., 2023). Automation and data analytics improve operational

efficiency by reducing manual effort and providing valuable insights into customer behaviour, thereby enabling informed decision-making and enhanced customer experiences.

In conclusion, the adoption of digitalization in the financial sector allows for a hybrid offering approach that combines the advantages of physical and digital channels. This approach enhances the overall customer experience, expands accessibility, and improves operational efficiency, enabling financial firms to thrive in the evolving digital landscape.

*Proposition 1: A digitalized, servitisation strategy provides customers with a more seamless experience*

## 2.2 Servitisation in SMEs

The emergence of servitisation culture has brought about a renewed focus on how businesses can transform from selling products to offering services.

One reason why SME servitisation has not been extensively investigated is because their access (or lack thereof) to important organisational resources can manifest in distinct ways compared to larger firms (Irene, 2010). While SME objectives in pursuing servitisation may be similar to those of larger firms, the methods they use and resources they allocate for such efforts may differ significantly. This can create potential barriers to higher financial gain but also present a higher risk of failure during implementation.

Furthermore, servitisation research suggests that transitioning to a broader servitisation model from a traditional product model requires a significant amount of assets (Kinnunen & Turunen, 2012). However, many SMEs may not have an expendable amount of resources to refit their firms for a progressive service model. This lack of resources is compounded by overwhelming competition from wealthier and better-known organisations as well as an inherently diminished range of influence on the market (Ahmad et al., 2019).

In light of these barriers, servitisation for SMEs may manifest differently from mainstream implementation as expressed in efforts in larger firms. Therefore, investigating how servitisation works in SMEs is critical not only for understanding its impact on this important segment of the business landscape but also for identifying potential barriers and opportunities for growth. This is especially important given that SMEs may be restricted in their access to and presence in markets that have already undergone comprehensive service restructuring.

*Proposition 2: SMEs will benefit from implementing a servitisation strategy to be more appealing to customers in comparison with larger financial institutions*

## 2.3 Financial effects of hybrid offering

In the financial services sector, a hybrid offering can be used to provide a combination of traditional financial services and digital financial services. According to Kamakura et al. (2003), a big driver behind this movement is the idea that offering hybrid solutions opens up the way to cross-selling and cross-buying.

A lot of large institutions have already started implementing these hybrid offering methods years ago, creating platforms and services that create a certain ease for the customer but also make it easier for them to buy other of their financial services at the push of a button. Examples of these methods include:

- Online banking: Hybrid offering allows customers to perform banking transactions, such as checking their account balances, transferring money, and paying bills, through a digital platform. This provides customers

with a convenient and flexible way to manage their finances, while still having access to traditional banking services such as branches and ATMs.

- Investment management: Hybrid offerings can provide customers with access to investment management services, such as robo-advisors and digital investment platforms, in addition to traditional investment services such as financial advisors and mutual funds.
- Insurance: Hybrid offerings can allow customers to purchase insurance policies online, through a digital platform, while still having access to personal and traditional insurance services such as agents and brokers.
- Payment services: Hybrid offerings can provide customers with a combination of traditional payment services, such as credit and debit cards, along with digital payment services such as mobile wallets and contactless payments.

By offering a hybrid solution, financial services companies can cater to the evolving needs and preferences of their customers. This does not only help increase customer satisfaction and retention; it also provides new revenue streams (through the cross-selling of products and services) and differentiates the business from competitors (Liu et al., 2007). But there is a negative effect as well; when the customer becomes dissatisfied with one of the offered services of the financial service provider, the customer will have a high chance of becoming dissatisfied with every other service they have at the financial service provider. This leads them to consider switching their complete hybrid solution to another competitor (Panther and Farquhar, 2004). In previous research, it has been proven that some customers will even feel ‘trapped’ because of the complexity of the hybrid solution they have at a certain institution and the substantial costs that arise with switching to a different provider (Panther and Farquhar, 2004; Liu et al., 2007).

*Proposition 3: Customers of financial firms have a higher chance of cross-buying and staying with a company if the company has a good hybrid offering strategy*

## 2.4 Optimizing the hybrid offering strategy

Through previous research, there is one clear industry where hybrid offering strategies have played a very large role. This industry is the manufacturing industry. Manufacturers in the field of servitisation have shifted their focus from solely providing products to embracing a service-oriented approach (Baines et al., 2009). This transition involves combining tangible products with intangible services to create hybrid offerings that cater to specific customer needs, where the products that they sell come with varying forms of service attached to them. This is called the servitisation of manufacturing’ (Karatzas et al., 2020).

The level of customizable options that manufacturers are offering increases year over year, as does the degree to which these added services are digitalized. This allows the customer to have a smoother product experience, while the manufacturer can gather product data and realise product functions through online diagnosis and remote monitoring (Choi et al., 2021). On the one hand, advanced technological products encourage manufacturers to develop complementary services, leading to reduced service costs, increased service reliability, and an increased product life span. The complexity of the product plays a role in determining the motivations behind offering services (Eggert et al., 2011). On the other hand, services are flexible and can be integrated into any stage of the product life cycle to address personalised customer issues. By offering more personal services,

manufacturers can foster closer relationships with customers, enhance the diversity and flexibility of their hybrid offerings, and bridge the gap between themselves and their customers (Xie et al., 2021).

The effectiveness of hybrid offerings depends on the degree of compatibility between the products and the accompanying services. Problems with technical or economic consequences may arise, potentially leading to delivery failures and reduced customer satisfaction (Song and Sakao, 2016).

Additionally, research suggests that a higher level of complementarity between services and products positively impacts performance. In essence, when the service content aligns and corresponds with the functions of the enterprise's products, it generates greater market acceptance (Zhao, 2022).

*Proposition 4: The degree of personal attention and presence of flaw in the hybrid offering determine the customer satisfaction*

## 2.5 Implementation challenges for SMEs

SMEs encounter distinct challenges when starting a hybrid offering strategy. These challenges stem from the unique characteristics and resource limitations of SMEs. With the most prominent limitation being that SMEs often operate within constrained financial resources, restricted manpower, and limited expertise (Ahmad et al., 2019). Consequently, the implementation and maintenance of a hybrid offering strategy can deplete or strain their resources, making it necessary for them to carefully budget and prioritise beforehand. Moreover, SMEs may face difficulties later in the process. For example, in developing and updating the necessary digital infrastructure This can be due to a lack of IT capabilities and dedicated staff, thereby hindering the integration of the needed components to get the hybrid offering up and running (OECD, 2019).

In addition to resource limitations, SMEs can encounter challenges with regards to market reach and customer acceptance of the new hybrid offering strategy. Building a customer base and driving customer acceptance of the hybrid offering can be difficult for SMEs due to factors like limited brand recognition, small to non-existent marketing budgets, and hesitancy from customers towards digital channels. The creation of credibility for the hybrid offering solution and the encouragement of customers to adopt the new solution require extra efforts and resources on the part of the SME. Only after overcoming these hurdles will the SME be able to achieve new customer segment penetration and create current customer adoption (Visnjic et al., 2012). For SMEs, this can be seen as a large risk to take if they are already pleased with the results of their business.

Furthermore, SMEs need to provide security, compliance, and potential scalability when they implement a hybrid offering strategy. Implementing strong security measures and ensuring that they comply with data protection regulations can be demanding, even for a large company. For example, in 2022, there was a large security breach among some large financial institutions, with personal data ending up on the dark web (Van Ellen Timmer, 2022). For SMEs, securing the additional personal data that the hybrid offering will bring is especially difficult given the limited resources and expertise typical of SMEs. As SMEs grow, scaling the hybrid offering strategy introduces additional complexities. Expanding physical operations and managing increased demand for both physical and digital components can drain resources and require detailed planning to maintain quality and customer satisfaction (Rabetino et al., 2017). On top of that, gathering and analysing data from the hybrid offering may prove challenging for SMEs, as they may lack access to analytics tools and expertise.

Despite these challenges, SMEs can leverage their agility, customer-oriented focus, and flexibility to evolve their hybrid offering strategy over time. Starting the strategy with a focused objective, gradually scaling operations, using cost-effective digital solutions, collaborating with partners, and prioritising customer feedback can make sure that SMEs navigate and overcome these obstacles, leading to a successful implementation of a hybrid offering strategy.

*Proposition 5: SMEs will struggle with limited resources, market adaptation and compliance complexity, but the result is worth the effort*

## 3. METHODOLOGY

### 3.1 Research context

This study aims to determine whether hybrid services can give SMEs a sustainable strategy that gives them an edge over big businesses in the eyes of consumers. The local financial SME businesses were looked at to do this; these businesses are the main focus of this study. They offer financial services to the neighbourhood and potentially a larger area surrounding it, but they don't have many branches or offices and are mostly still a small, neighbourhood business. Local SMEs can fill the void created by these companies as many large banks and other large financial institutions close their local branches due to a lack of business (NU.nl, 2022). However, in order to do that, they do need a plan that enables them to compete on an equal footing with these large companies, if not even acquire an advantage in the local client markets. The solution as a service approach that can equalise local SMEs with larger companies can be found in hybrid offerings in this situation.

The town of Enschede was chosen for the research because it is home to the University of Twente, which attracts a variety of clients, including farmers, students, and office workers, and because it contains a lot of financial SMEs.

### 3.2 Research design

To collect the data needed for the research, a qualitative research method was used. To gather information from the local SMEs, the most comprehensive and fitting approach was deemed to be in-depth interviews, as interviews allow the companies to fully explain their experiences and perspectives while still getting full answers to the questions presented. Furthermore, it will allow for a more complete picture of how these companies operate and what factors may play an additional role in their decision-making. As those factors may not be covered in the scholarly literature that will be used in the other parts of the research. The sample consisted of seven interviewees who all owned or managed a SME in the Enschede region.

To make sure the interviews are conducted in a similar manner, the interview method will be semi-structured, see appendix 7.1.1. This means that a prepared set of questions will be used to guide the interview along the dimensions needed to answer the research question. This does not mean that interviewees cannot divert from the questions and/or bring up their own questions during the interview. If an interviewee does not have any personal experience with one of the subjects, he can still give his professional opinion on the matter, which can still be useful to answer the research question. This way of interviewing will hopefully stimulate the interviewees to elaborate on their experiences and also provide them with the opportunity to explain which other factors can play a role in optimising a hybrid offering strategy. This will further stimulate the process and quality of the collected data.

### 3.3 Defining the theoretical constructs

To answer the research question, the data gathered needs to be analysed. This will be done using the propositions made in the previous chapter. With the propositions being created from reviewing and analysing a large number of academic research papers and books retrieved from online research databases like Scopus, Emerald, and Elsevier.

The propositions in this research all look at the different effects and stages of implementing a hybrid offering strategy. With the digitalized service strategy used by SMEs entailing them using the internet of things to their advantage in one or multiple ways to assist customers, This can be as simple as having a website with basic information about what the company does. The degree of customer appeal is defined as the number of customers who choose to go to a SME instead of a larger company because the SME provides better service options. While the benefits of this customer appeal are any extra projects, products, or services gained from higher customer appeal, The chances of a customer remaining with a company and cross-buying due to a hybrid offering are defined as the different services and/or products the SME offers due to customer initiations or preferences.

### 3.4 Data analysis

All the interviews were taken in person, which allowed for additional unspoken communication, physical expressions, and some character evaluation during the interview.

To ensure the interview was well captured, minutes were taken throughout the useful conversations (excluding things like coffee talk or unrelated rants about government practises). Afterwards, content analysis was used on these minutes to evaluate the answers given by the interviewees. Using the analysis as a base, the answers of the SMEs were compared to the propositions that were made before the interviews. To confirm or reject the propositions, the answers of the SMEs were compared to each other and the proposition. If they agreed or shared strong similarities to the proposition, then it would be counted as confirming the proposition; otherwise, it would count as rejecting the proposition. Then the number of interviewees that agreed and the number that disagreed with the propositions were counted, and the proposition could be either confirmed or rejected based on those results.

Most of the analysis needed comparison and rephrasing because the SME interviewees displayed insights that were highly motivated and strongly worded, answered with in-depth knowledge, and some answers showed that the interviewees had complex feelings about the subject of the research. This also resulted in the first batch of interviewees all going in complete opposite directions from each other. But with the addition of the second batch of interviewees, there was more consensus among the interviewees.

The interviews have been summarised into small conclusions. And to fully comprehend the stances of the interviewees, an unspoken conclusion has been added to each of the interview summaries.

## 4. RESULTS

### 4.1 Role of servitisation & digitalization in hybrid offering

The first proposition made was that a digitalized servitisation strategy would provide customers with a more seamless

experience. The opinions on this proposition were divided, with two out of seven interviewees not agreeing with it. Interviewee 4 specifically mentioned that the seamless experience for a customer does not come from digital solutions or extra services but more from quick and well-done services. Interviewee 2 stated that he does not believe that the strategy would provide a more seamless experience for the customer but can see how it would create a more flawless operation overall. Interviewee 7 said that the seamless experience for customers is more about the service the SME provides and less about the digitalized options offered.

Interviewees 1, 2, 3, 5, and 6 all agree that having a digitalized servitisation strategy in the present day is beneficial to creating a seamless experience for customers. They all mentioned (in different ways) that in the current age, customers are used to having access to their finances at all times, and thus the SME should also put in the effort to facilitate that, otherwise, they agreed, in the long run, there would not be a future for their business.

Reviewing the arguments made on Proposition 1, A digitalized, servitisation strategy provides customers with a more seamless experience, can be confirmed.

### 4.2 Servitisation in SMEs

The next proposition states that SMEs will benefit from implementing a servitisation strategy to be more appealing to customers in comparison with larger financial institutions. The interviewees were mostly unanimous on this proposition, with only interviewee 4 standing out and mentioning that you don't have to cater to a customer's need for additional services or products, as the extra effort put into this could also be used to generate a new project or customer. He stated 'If the work you deliver is quick, well-organised and to the point, then customers will return when they need you again. This is something large companies like ING, Rabobank, and Aegon don't get or just refuse to do.' In stark contrast with interviewee 4, there was the statement from interviewee 7, who stated, 'Companies like the big 4 are very efficient in handling clients, but what they don't offer is the friend-like client-agent bond that a SME can provide. We take our time to listen to everything that is going on in their lives and can recommend our (or others) services when they need them. This strategy creates a customer-for-life for us.'

These perspectives both agree that large companies don't fully fulfil the needs of a customer, but they are looked at from completely different angles. Here it can be seen that the servitisation strategy is not the only way to be more appealing, as interviewee 4 makes a good argument. But with 6 out of 7 interviewees agreeing with proposition 2, SMEs will benefit from implementing a servitisation strategy to be more appealing to customers in comparison with larger financial institutions. Proposition 2 can be confirmed.

### 4.3 Financial effects of hybrid offering

Proposition 3 stated that 'customers of financial firms have a higher chance of cross-buying and staying with a company if the company has a good hybrid offering strategy'. Interviewees 1, 2, 4, and 6 agreed that they believe this is not the case. While interviewee 4 stated his stance before, interviewee 1 made a case against cross-buying due to a hybrid offering strategy. Interviewee 1 mentioned that customers are unpredictable and will undertake certain actions in line with events happening in their lives. If they want to stay and buy other services from them, it has nothing to do with a hybrid offering but rather the fact that they already knew the SME. This stance was also backed by interviewees 2 and 6. Interviewee 6 stated, Customers like having

the hybrid offering solution I created, but it has never led to more cross-selling or customer loyalty for me. Most customers were satisfied when they ended our relationship, which was enough reason for me to continue with it.’

Interviewee 3 claims that having a hybrid offering solution led to a lot of cross-selling and also made customers remain with the company even though they could have left, as his main services were not needed anymore. Along the same line, interviewee 5 mentioned that the hybrid offering would provide the insurance business with the right method of cross-selling, as she has seen how banks do it with their mobile app that offers insurance with the click of a button if you are already a customer there.

Interviewee 7 had a neutral stance and said he couldn’t make an estimate on this proposition.

While both interviewees 3 and 5 make an appealing case in favour of proposition 3, customers of financial firms have a higher chance of cross-buying and staying with a company if the company has a good hybrid offering strategy. This proposition cannot be confirmed.

#### **4.4 Optimizing the hybrid offering strategy**

The following proposition focuses on the degree of personal attention and the presence of flaws in the hybrid offering that determine customer satisfaction. Here, the interviewees were again all in alignment with the proposition, apart from interviewee 4.

All the interviewees shared the belief that when you are implementing a strategy like a hybrid offering, you cannot get away with providing a half-working service or product. It needs to be thoroughly tested and working well before customers can use it; otherwise, as interviewee 3 stated, ‘customers can be very content with the services you provide, but if a new idea you are just trying out doesn’t work, they’ll be dissatisfied before you can ever get the chance to explain yourself.’

Interviewees 1 and 7 mentioned that the hybrid offering likely didn’t need to be flawless, as long as it worked and didn’t make mistakes visible to the customers. They also think that the more personal you can tailor the hybrid offering to a customer, the happier the customer will be with the service provided by the SME. Briefly mentioned by interviewee 5 is the role that the average age of your customer base plays in this proposition, as she mentioned that different age groups have different expectations of the degree of flawlessness and personal attention.

Considering the arguments given by the interviewees, proposition 4, The degree of personal attention and presence of flaws in the hybrid offering determine customer satisfaction, can be confirmed.

#### **4.5 Implementation challenges for SMEs**

The final proposition is that SMEs will struggle with limited resources, market adaptation, and compliance complexity, but the result is worth the effort. Interviewee 1 likes the idea of the hybrid offering strategy but agrees that the biggest hurdle that kept him from doing so was a lack of time and knowledge on his part. Thus, he decided not to further pursue it, noting that the result was not worth the effort an SME would have to put in. The same reasoning applied to interviewees 5 and 6, only they were willing to admit that for the company to be future-proof, it was or is necessary to be adept. Furthermore, while interviewee 6 does have a hybrid offering strategy, the scaling and updating of the strategy required more compliance with data regulations and a lot more resources. Which in turn did not provide him with

higher customer satisfaction, so he never scaled the strategy further, but he considered the result of his hybrid offering worth the effort he put in.

Interviewees 2 and 4 both shared the opinion that the resources and complexity that are needed for implementation could be better used elsewhere. Interviewee 2 additionally stated, By the time the generation that relies on these digital solutions gets my age, then the level of complexity and resources needed have dropped to a standard that everyone can use it. But till then, it is likely not worth the effort.

Lastly, interviewees 3 and 7 both agree that the resources, compliance complexity, and market adaptation might provide hurdles in the road of implementation, but both believe that the result will be worth it as long as you listen carefully to your customers feedback. Interviewee 3 further mentioned that the results will outperform the input in the long run.

4 out of 7 interviewees agreed with proposition 5. SMEs will struggle with limited resources, market adaptation, and compliance complexity, but the result is worth the effort. So proposition 5 can be confirmed.

### **5. DISCUSSION**

#### **5.1 The usefulness of hybrid offering for financial SMEs**

The findings that were discovered during the research will be discussed in this part. Here it will be explained how the different factors influence each other and how this influences the extent to which a hybrid offering can be a servitisation strategy that benefits both customers and SMEs. The first aspect that plays a role in this is that the digitalized servitisation strategy would provide customers with a more seamless experience. This was confirmed by the majority of the interviewees. Who argued that with the rise of new technologies, the need to provide digital services is ever-increasing? With the others providing a stance that puts emphasis on the well-executed services that matter most to customers, disregarding the digital aspect. This leads to the conclusion that a seamless experience for customers can be created with a good servitisation strategy, but without the use of a digitalized strategy, it will not be sustainable to continue doing so as society is increasingly reliant on digital conveniences.

The second aspect focused on the customer appeal of a SME’s implementation of a servitisation strategy over a larger financial institution. Almost all interviewees backed this proposition, as the consensus is that having a good servitisation strategy will make you more attractive to customers, as customers get a level of personal service from a SME that they don’t get from a larger company. This will result in more customers for the SMEs and more revenue. Thus concluding that it is appealing to customers that a SME has a servitisation strategy, which will in turn become beneficial for the SMEs.

Following this line of benefits for SMEs is the third aspect: customers have a higher chance of cross-buying and staying with a company if the company has a good hybrid offering strategy. The interviewees were not in agreement on this, with one interviewee taking a neutral stance because he couldn’t estimate the effects. The majority of the interviewees were of the opinion that implementing a hybrid offering strategy wouldn’t lead to cross-selling or retaining customers, but rather argued that it would help a lot with the satisfaction of their customers and potential customers. The interviewees who did agree that it would lead to cross-selling and retention of customers also confirmed that a hybrid offering would increase customer satisfaction and potential customer acquisition. Concluding that

the reason for SMEs to implement a hybrid offering strategy would be primarily to satisfy customers and attract new customers. Which, with regards to the work of Singh (2006), can be argued to still lead to customer retention.

The fourth aspect connects with the previous two aspects and can be interpreted as a continuation of the third aspect. The aspect is on the degree to which personal attention and flawlessness in a hybrid offering determine customer satisfaction. All interviewees, apart from one, agreed on this proposition. It is considered that while you don't need a flawless solution to satisfy customers, you need a well-operating solution to make sure that customers appreciate it. Most interviewees mentioned that only after having a good hybrid offering strategy should you start adding personal attention details. The common perception is that customers pay more attention to the seamless operation than to the inclusion of more personal attention in a hybrid offering. Leading to the conclusion that a well-operating hybrid offering strategy will increase a customer's satisfaction.

Lastly, the aspect that focuses on the challenges that come with implementing a hybrid offering strategy for SMEs. Here, all the interviewees agree that a hybrid offering is not an easy feat. With all of them stating a lack of strategic resources and being somewhat intimidated by the complexity of compliance requirements. But a majority still insists that the effort put in will bear fruit and is worth the struggle of implementation and operation. It must be noted here that only interviewees 3 and 6 have actual experience implementing a hybrid offering strategy; these SMEs know of the struggles associated with implementation and still consider it worth it. I draw the conclusion here that it is worth the effort to implement a hybrid offering strategy for SMEs, regardless of the initial challenges that they might face.

With all the findings of the conducted research discussed and reviewed, it can be concluded that 4 out of 5 aspects positively influence the usefulness of a hybrid offering strategy for both customers and SMEs. From the findings, it became apparent that the most important aspect for SMEs is customer satisfaction when choosing a hybrid offering strategy. The largest negative aspect that prevents SMEs from choosing a hybrid offering strategy is the lack of strategic resources and complexity. But overall, the consensus is that a hybrid offering strategy will result in a more future-proof company for SMEs. While customers benefit from an increased level of access to their financial services at the SMEs and more personal services on the level of some larger financial institutions while remaining with a local SME.

Therefore, it is recommended that financial SMEs look into implementing a hybrid offering strategy to increase customer satisfaction and potentially attract new customers.

## 5.2 Implications

### 5.2.1 Academic implications

The topic of servitisation in other industries than manufacturing hasn't been researched a lot, so the research available for the construction of this paper is limited. For the specific topic of hybrid offerings in the financial industry, there has been almost no research done. But with the combination of different literature on servitisation in SMEs (Ahmad et al., 2019), hybrid offerings and customer involvement (Behl et al., 2023), and hybrid offerings in the servitisation of manufacturing (Luo et al., 2023), the paper attempts to make the potential of hybrid offerings in financial SMEs visible. One of the largest implications can be said to be that there is a need for financial SMEs to implement

more digitalized solutions to keep up with the new age of technology.

### 5.2.2 Practical implications

With the research on servitisation being mostly focused on how physical products can be servitised, the goal of this research is to show that other businesses can also tap into some of the servitisation strategies available to leverage the unique characteristics of a SME and, as a result, become more attractive to their local customers. This has been done in this paper by examining the hybrid offering strategy. And it can be concluded that this strategy can positively assist a financial SME with fulfilling customer satisfaction and potentially attracting new customers.

## 6. CONCLUSIONS

### 6.1 Conclusions

By looking at the related theory in existing research, the statement can be made that SME's and customers both benefit from implementing a hybrid offering strategy. Even if the implementation stage is challenging, the result is worth the hassle. When combining this with the results from the interviews, it can be concluded that SME's indeed experience that hybrid offerings provide value to their business operations.

There was only one proposition not fully confirmed by the interviewees. The proposition based on the theory by Liu et al. (2007) and Panther and Farquhar (2004) proposes that hybrid offering can benefit businesses with cross-selling and customer retention. The interviews with the SME's clearly show that the hybrid offering strategy would instead be implemented to increase customer satisfaction and customer attraction. This, however, could be because SMEs have different priorities and function differently than larger businesses.

### 6.2 Future research opportunities & limitations

This research has been created using related theory without extending on previous research in this area of research. Thus, it is recommended that similar research be conducted to double-check the authenticity and extend what is researched in this paper. Through this method, a more comprehensive outlook on the servitisation of financial SMEs can be created.

Furthermore, this paper has limited the research to conducting interviews with 7 SMEs in the Enschede region, which might limit the outcomes of this research to being region-specific. Thus, it is recommended that the research be conducted in other regions as well. The method of research could also be switched or improved by adding other groups to the interviews to generate a broader outcome or by creating a survey to gather results.

### 6.3 Acknowledgements

First of all, I would like to thank my supervisor at the University of Twente, Dr. Raymond Loohuis, for his assistance, patience with my personal situation during the research proposal, and giving advice when I was unsure what needed to happen next.

I would also like to thank the interviewees who assisted me with the research. Thank you for the unfiltered opinions and experiences you shared with me.

## 7. REFERENCES

- Ahmad, A. H., Shafaruddin, N., Masri, R., Rahman, N. R. A., & Hussin, W. N. W. (2019). Theorizing Servitisation for SME Performance. *International Journal of Financial Research*, 10(5), 66. <https://doi.org/10.5430/ijfr.v10n5p66>
- Asmundson, I. (2012, February 29). Finance & Development (By International Monetary Fund). Finance & Development | F&D. <https://www.imf.org/external/pubs/ft/fandd/basics/finserv.htm>
- Baines, T. S., Lightfoot, H. W., Benedettini, O., & Kay, J. M. (2009). The servitization of manufacturing: A review of literature and reflection on future challenges. *Journal of Manufacturing Technology Management*, 20(5), 547–567. <https://doi.org/10.1108/17410380910960984>
- Behl, A., Kamboj, S., Sarmah, B., Pereira, V., Sharma, K., Rammal, H. G., & Arrigo, E. (2023). Customer involvement and servitization in hybrid offerings: moderating role of digitalization and co-creation. *International Marketing Review*. <https://doi.org/10.1108/imr-11-2021-0325>
- Choi, J., Kim, B., Han, C. S., Hahn, H., Park, H. S., Yoo, J., & Jeong, M. K. (2021). Methodology for assessing the contribution of knowledge services during the new product development process to business performance. *Expert Systems With Applications*, 167, 113860. <https://doi.org/10.1016/j.eswa.2020.113860>
- Eggert, A., Hogueve, J., Ulaga, W., & Muenkhoff, E. (2011). Industrial services, product innovations, and firm profitability: A multiple-group latent growth curve analysis. *Industrial Marketing Management*, 40(5), 661–670. <https://doi.org/10.1016/j.indmarman.2011.05.007>
- Frank, A.G., Mendes, G.H., Ayala, N.F. and Ghezzi, A. (2019), “Servitization and Industry 4.0 convergence in the digital transformation of product firms: a business model innovation perspective”, *Technological Forecasting and Social Change*, Vol. 141, pp. 341-351.
- Kamakura, W.A., Wedel, M., de Rosa, F. and Mazzon, J.A. (2003), “Cross-selling through database marketing: a mixed data factor analyzed for data augmentation and prediction”, *International Journal of Research in Marketing*, Vol. 20, pp. 45-65.
- Kinnumen, R. E., & Turunen, T. (2012). Identifying servitisation capabilities of manufacturers: A conceptual model. *Journal of Applied Management and Entrepreneurship*, 17(3), 55-78.
- Liu, T-C. and Wu, L-W. (2007), “Customer retention and cross-buying in the banking industry: an integration of service attributes, satisfaction and trust”, *Journal of Financial Services Marketing*, Vol. 12 No. 2, pp. 132-45.
- Luo, J., Jiang, Q., & Song, W. (2023). Hybrid offering configuration in servitization of manufacturing. *Elsevier*, 224, 120028. <https://doi.org/10.1016/j.eswa.2023.120028>
- NU.nl. (2022, December 30). De drie grootste Nederlandse banken sloten dit jaar meer dan honderd kantoren. NU.nl. <https://www.nu.nl/economie/6244821/de-drie-grootste-nederlandse-banken-sloten-dit-jaar-meer-dan-honderd-kantoren.html>
- OECD (2019), *OECD SME and Entrepreneurship Outlook 2019*, OECD Publishing, Paris, <https://dx.doi.org/10.1787/34907e9c-en>.
- Panther, T. and Farquhar, J.D. (2004), “Consumer responses to dissatisfaction with financial service providers: and exploration of why some stay while others switch”, *Journal of Financial Services Marketing*, Vol. 8 No. 4, pp. 343-53
- Prahalad, C.K. and Ramaswamy, V. (2004), “Co-creation experiences: the next practice in value creation”, *Journal of Interactive Marketing*, Vol. 18 No. 3, pp. 5-14.
- Rabetino, R., Kohtamäki, M. and Gebauer, H. (2017), “Strategy map of servitization”, *International Journal of Production Economics*, Vol. 192, pp. 144-156
- Robinson, T., Clarke-Hill, C.M. and Clarkson, R. (2002), “Differentiation through service: a perspective from the commodity chemicals sector”, *Service Industries Journal*, Vol. 22 No. 3, pp. 149-166.
- Ros, M. (2023, January 23). Nederlandse banken hebben bijna geen kantoren meer. Bank.nl. <https://www.bank.nl/nieuws/nederlandse-banken-hebben-bijna-geen-kantoren-meer/>
- Shankar, V., Berry, L.L. and Dotzel, T. (2007), “Creating and managing hybrid innovations”, presentation at AMA Winter Educators’ Conference, San Diego, CA, February 16-19. <https://doi.org/10.1787/20780990>
- Singh, H. (2006). The importance of customer satisfaction in relation to customer loyalty and retention. *Academy of Marketing Science*, 60(193-225), 46.
- Song, W. Y., & Sakao, T. (2016). Service conflict identification and resolution for design of product-service offerings. *Computers & Industrial Engineering*, 98, 91–101. <https://doi.org/10.1016/j.cie.2016.05.019>
- Tronvoll, B., Sklyar, A., Sforhammar, D. and Kowalkowski, C. (2020), “Transformational shifts through digital servitization”, *Industrial Marketing Management*, Vol. 89, pp. 293-305.
- Van Ellen Timmer, B. a. B. (2022, September 12). Datalek van banken | ING Bank, Banco Bilbao Vizcaya Argentaria | AVG, UAVG. Ellen Timmer - Juridische Artikelen En Berichten. <https://ellentimmer.com/2022/06/26/avg-64/>
- Vandermerwe, S., & Rada, J. (1988). Servitization of business: Adding value by adding services. *European Management Journal*, 6(4). [https://doi.org/10.1016/0263-2373\(88\)90033-3](https://doi.org/10.1016/0263-2373(88)90033-3)
- Visnjic, I., & Looy, B. V. (2012). Servitisation: Disentangling the impact of service business model innovation on the performance of manufacturing firms. *ESADE Working paper*. <https://doi.org/10.2139/ssrn.2117038>
- Xie, X., Wang, H., & García, J. S. (2021). How does customer involvement in service innovation motivate service innovation performance? The roles of relationship learning and knowledge absorptive capacity. *Journal of Business Research*, 136, 630–643. <https://doi.org/10.1016/j.jbusres.2021.08.009>
- Zhao, M. (2022). The impact of cognitive conflict on product-service system value cocreation: An event-related potential perspective. *Journal of Cleaner Production*, 331, Article 129987. <https://doi.org/10.1016/j.jclepro.2021.129987>



## 8. APPENDIX

### 8.1.1 Interview structure

How do you perceive the current situation of digitalization in the financial services in general?

Would you say SMEs have a better digitalization rate than some of the larger financial institutions?

Short explanation of the terms 'servitisation' and 'hybrid offering'

Do you consider the company to have a servitisation strategy? And why?

Does your company currently pursue a hybrid offering strategy? Could you please explain?

Did you have customers that remained because of that? Have you gained new customers due to that? Did you sell related products or services due to servitisation or hybrid offering?

Would you say SMEs have more trouble implementing a servitisation strategy? And is that the same for a hybrid offering strategy?

What benefits do you think it would have for your company?

What benefits do you think it would provide for your customers?

Do you think that if you increase the level of servitisation, that customers will be more satisfied? Why?

What problems do you encounter when implementing a hybrid offering strategy? Or which problems do you foresee with an implementation of hybrid offering?

### 8.1.2 Interview summaries

#### Interview 1

40+ man, who inherited family insurance business from dad who had it for almost 30 years. Is open to the idea of using a digitalized, hybrid offering strategy. But never got to it, as he has not enough time and knowledge in his opinion. Does have a basic website. Also notes that he doesn't think hybrid offering is needed to satisfy and retain his customers, while he does admit it would help tremendously with attracting new customers.

#### Interview 2

60+ man, started in the late 80' with his own accountant office. Stuck with the technology from his age, still has a fax machine and keeps a data of each customer in a map. Doesn't think a hybrid offering is going to improve his business and believes that it is not what his customers want, as most of his customers are from the same era as him. He does believe that it might hold potential for next generations, but says that he firmly believes that customers will always appear if you are a local SME.

#### Interview 3

30ish man, freshly started his own tax consultancy a few years ago. Implements a hybrid offering strategy making use of an app he offers to clients to keep track of their finances, while also serving as his administration for his clients. Also offers personal finance advice based on tax services provided. Employs a staff of 2 to make sure he has a customer service available 6 days a week. Agrees that hybrid offering will retain and attract customers, but does see why for some SMEs it is not feasible to start with it, as it indeed takes a large amount of resources.

#### Interview 4

40-50 man, took over the real estate agency/mortgage provider company from his father and uncle. Is not a big fan of servitisation and hybrid offering. He believes in delivering quick and good work and says that will bring in the customers by themselves. He also says that implementation of a hybrid offering strategy would create the need for an extra employee, while he could also use the employee to bring in extra work.

#### Interview 5

30ish woman, took over from her father in the insurance business. She has little experience with hybrid offering, but after explaining the concept she likes the idea a lot and has already thought of doing something similar with the business. She believes that these kind of endeavors are mainly possible for the larger financial institutions and not really SMEs. She thinks that the biggest problem is the availability of resources for SMEs. When it comes to customer retention and attraction, she believes that it will help a lot with solidifying the business in the local region.

#### Interview 6

40ish man, started his own insurance, pension and mortgage business. Has started with hybrid offering a decade ago, but then he got busy and never further updated it from then on. He has a active website with databases and also has online ecosystem that clients can use to keep track of blog posts, their insurances and fill in report forms. He believes SMEs have much more trouble implementing hybrid offering than a large institution, as they are usually a one-man show or don't have enough personnel.

#### Interview 7

57 year old man, started an accountancy with his dad in the early 90', currently runs it with 3 others. He prefers to only take on clients who he knows through his network and because of that doesn't see the use of a hybrid offering strategy. But he is a firm believer of servitisation, he offers his clients all the personal service or financial products they need. He understands that a lot of other SMEs don't have his kind of privilege and also gets the benefits that a hybrid offering strategy brings with it. He explained that for a determined SME, there shouldn't be any problems implementing a strategy like that, as they could always put in extra time to research and develop it themselves.