Product Form Strategy: Selling Systems versus Components in Industrial Markets

Abstract

Considerable research in organization design has focused on how to organize the production of a given output (e.g., how to design a channel to reduce intra-brand free-riding between retailers or when to make versus buy a given component) or an activity related to that output. The classic "make versus buy" - i.e. vertical integration - decision is a canonical example of this stream of research. In contrast, the logically prior question on what output does the firm decide to sell in the market-place has hitherto received very little attention. We term this decision the firm's product-form strategy choice and in this research, which is part of a larger research program, seek to shed some light on it. Specifically, in the context of engineered industrial products, we seek to explain conditions under which firms choose to sell intermediate product-forms (i.e., components) versus final product-forms (i.e. systems). Our framework suggests some key technological, demand, and firm-level attributes as the key determinants of this decision. Micro-level data from 259 firms in 4 industry sectors are used to test the descriptive hypotheses and their normative implications. The results provide the first systematic evidence on why firms choose particular product-form strategies and choose different locations (being a component seller versus a systems seller) in the value-chain. We draw implications of this research for theory and practice.
Short Bio

Professor Mrinal Ghosh is the Soldwedel Professor and the Head of the Department of Marketing at the Eller College of Management at the University of Arizona. He holds a PhD in Marketing from the University of Minnesota. Prior to joining the University of Arizona, he was a faculty at the Ross School of Business, University of Michigan. His research interests lie in using and extending theories of organizational economics (transaction cost economics, principal-agent theory) to substantive marketing issues pertaining to Marketing Strategy, Industrial Marketing, Distribution Channels, and Salesforce Design and Management. He has worked, or is working, on a variety of topics including structuring of pricing and design features in procurement contracts, branded components and their pricing in B2B settings, product-form strategy, customization in B2B and B2C markets, pricing practices (e.g., leasing versus selling) for complex technology products, contracting issues in technology licensing, and sales force compensation plans. His research has been published in the Journal of Marketing, Journal of Marketing Research, Marketing Science, Organization Science, Journal of Law, Economics, and Organization, Review of Industrial Organization, Marketing Letters, and Applied Economic Letters. At the Eller College, he teaches in the FT MBA, Executive MBA, and PhD programs.