

# CUSTOMIZED SOLUTIONS IN SMALL FIRMS: FACTORS INFLUENCING PROFITABILITY

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## **Abstract**

The decision concerning the degree of product and service customization is particularly crucial, yet has scarcely been studied for small business in B2B contexts. This paper analyses the profitability of customization undertaken by small businesses in terms of cost-benefit, and examines the drivers of profitable customized projects in terms of the ability to strengthen relationships with clients (customer investment and customer involvement) and the firm's resources to offer a tailored project (expertise and modularity). Analysis of a sample of small firms reveals that customer involvement in the customized solution, even when it requires investing in equipment, time or human resources has a positive effect on customization and, ultimately on profitability, since the cost of this customer interaction is lower than the revenue it provides. Moreover, expertise is a key input in the value creation process since it enables appropriate use of the flexibility derived from modularity.

**Keywords:** *customization; small businesses; profitability*

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