

The new shape of (e-)Services: the “quiet” revolution in services thinking, innovation & (agile) delivery

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Agenda & take-aways

- Services are 75-80% of US GDP
- Services result from business process outcomes
 - Want to change a service? Change the process!
- Thanks to recent standards, business processes are:
 - Represented, configurable and managed at the technology level (the “new” e-Services)
 - Becoming “standardized” & commoditized
- Market environments are turbulent and agility is overtaking planning
 - Need for “agile” processes (and flexible services)
- Service innovation is now more important than product innovation
 - But we still think in terms of product innovation
 - Need to track, measure & evaluate progress

What's a service?

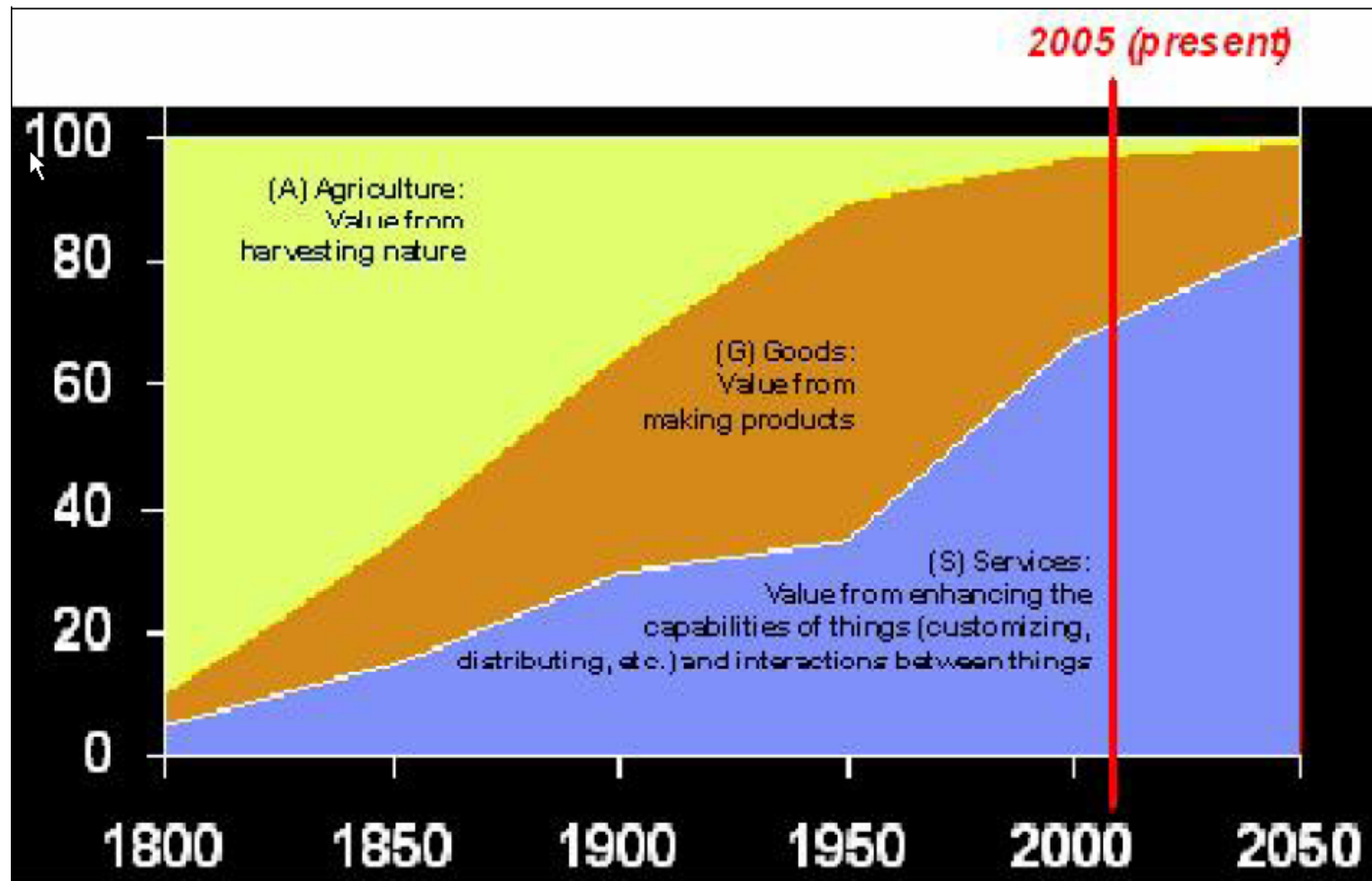
- Economics:
 - Intangible and perishable... created and used simultaneously (Sasser et al, 1978)
 - All economic activity whose output is not physical product or construction (Brian et al, 1987)
- Marketing:
 - Characterized by its nature, relationship with customer, decisions (customization and judgment), economics , mode of delivery (location and nature of physical or virtual space) (Lovelock, 1983)
 - A time-perishable, intangible experience performed for a customer acting in the role of co-producer (Fitzsimmons, 2001)
- Technology:
 - An encapsulated unit of work, exposed as a standardized (SOAP) interface.

Christensen definition

- Operational definition:
 - Something you hire (rent) to get a job/task done (a problem solved)
 - From: Clayton Christensen, Innovator's Solution (HBP)
- Focus on customer need expressed as a problem he/she has to be solved (not what you can solve)
 - Not the “solutions looking for problems” approach
- Shifts emphasis from (one-time) buy to (on-going) rent

Importance of services

U. S. Service Sector Growth



Source: Jim Spohrer. © 2005 IBM Corporation

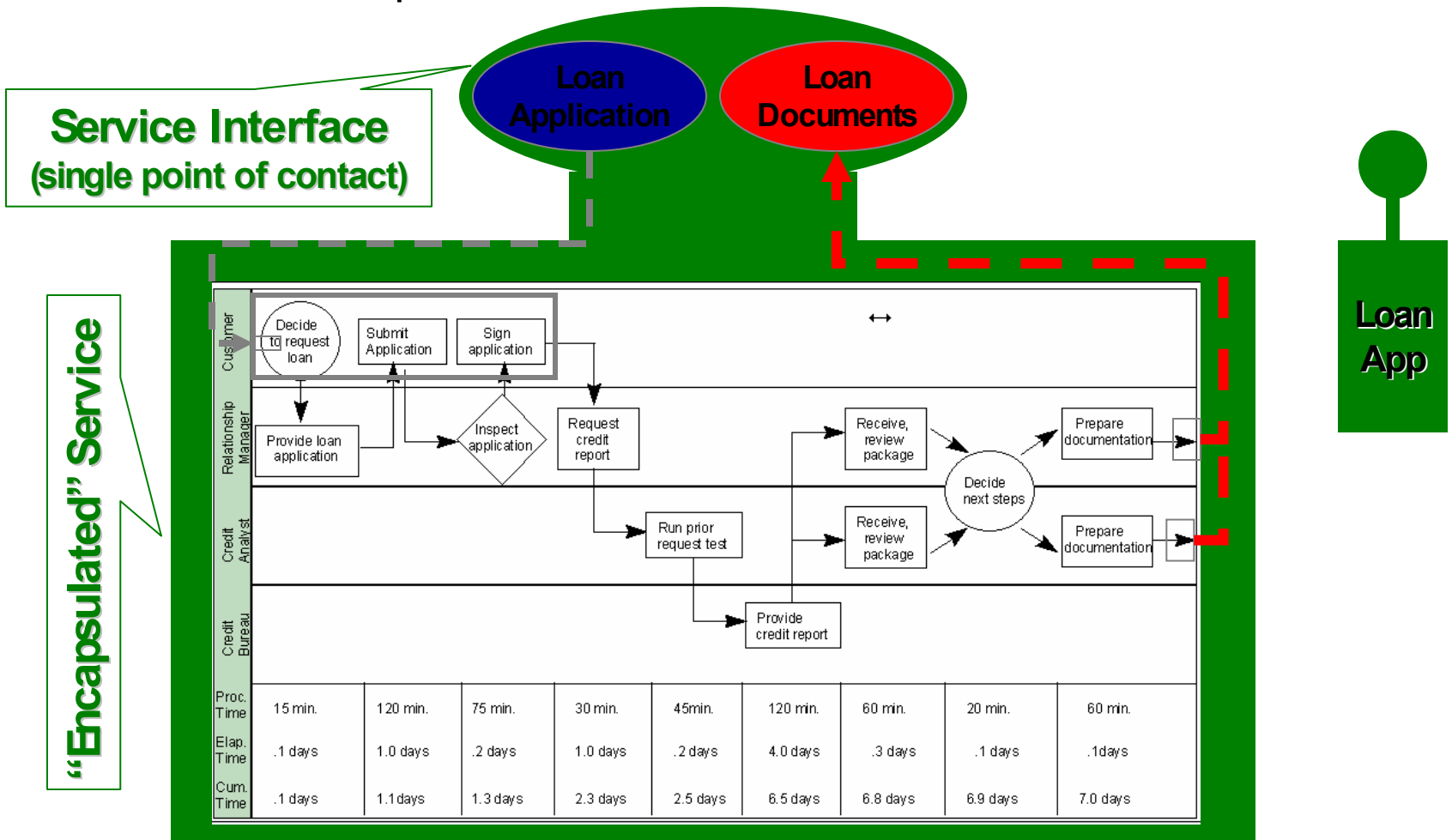
The shift to “service thinking”

- Platform (product) as service-delivery vehicle
 - Computer (services)
 - Cell phone (services)
 - iPod (services)
 - Residential/commercial buildings (services)
 - Maintenance
 - Entertainment
 - HVAC
 - Automobile (services)
 - Appliance (services)
 - Apparel (services)
 - OLED and paper-based “electronic” clothing
 - Etc.

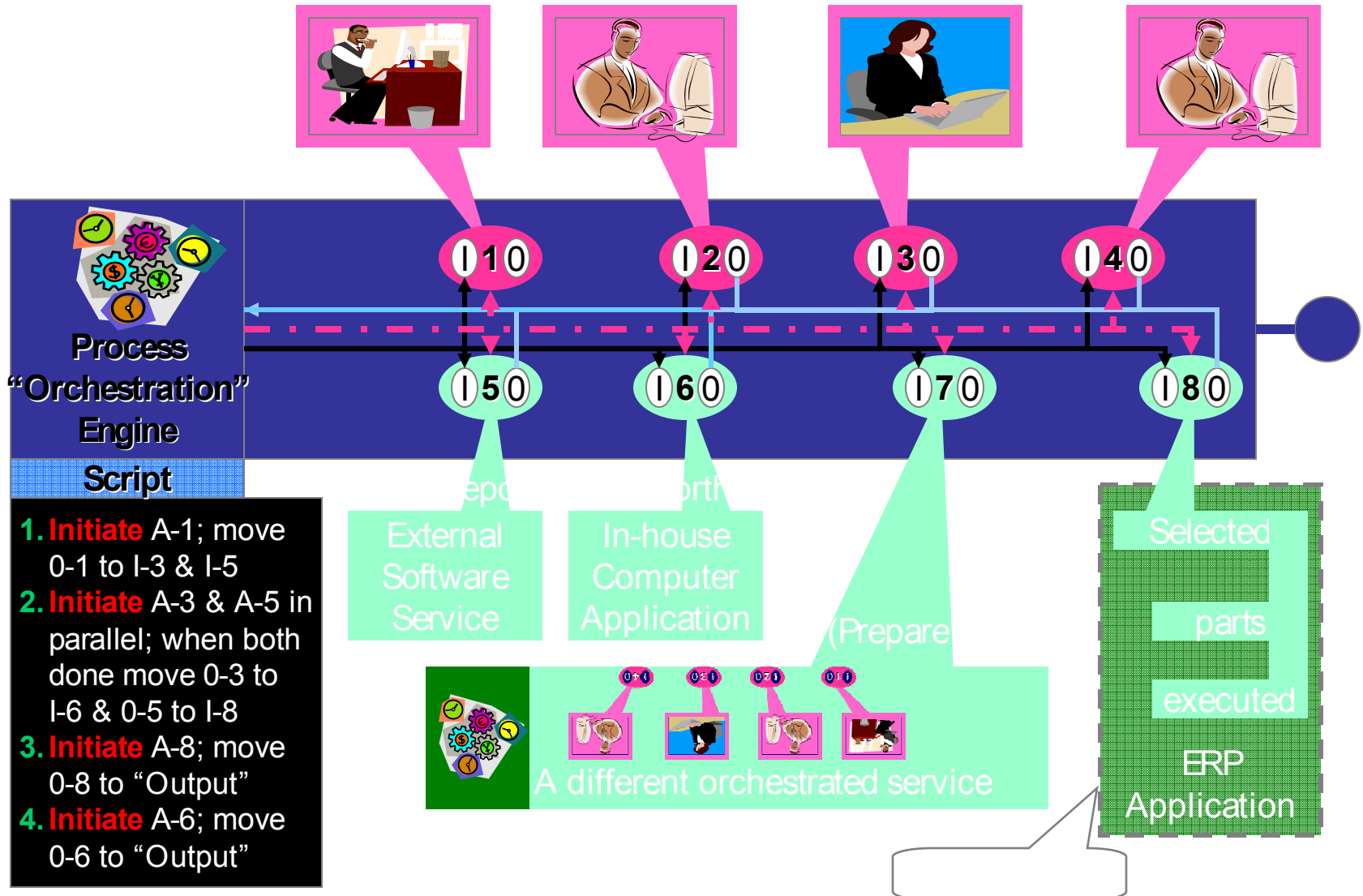


Behind a service – its process(es)

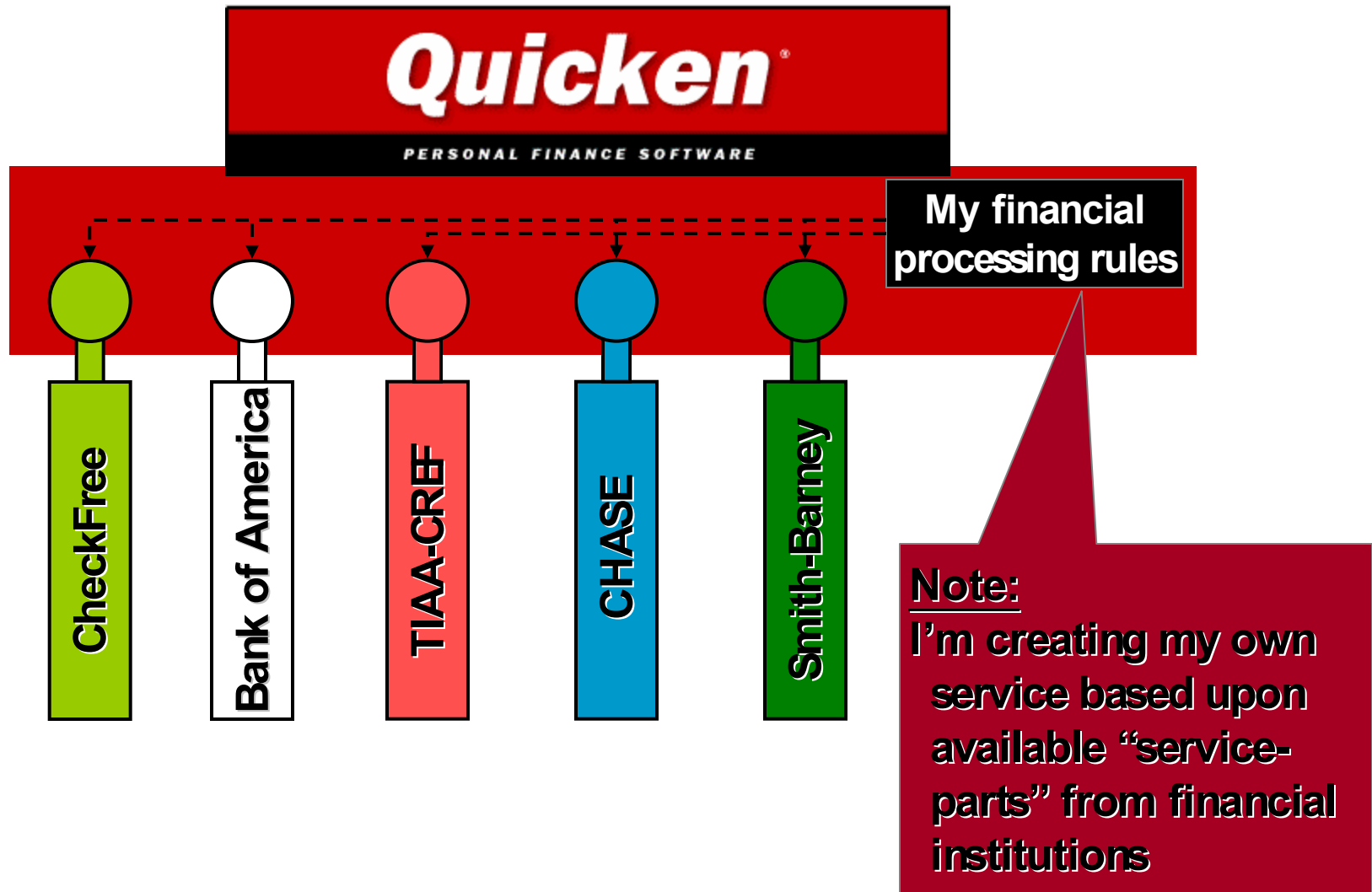
- Loan application
 - Service: Request loan and receive loan documentation



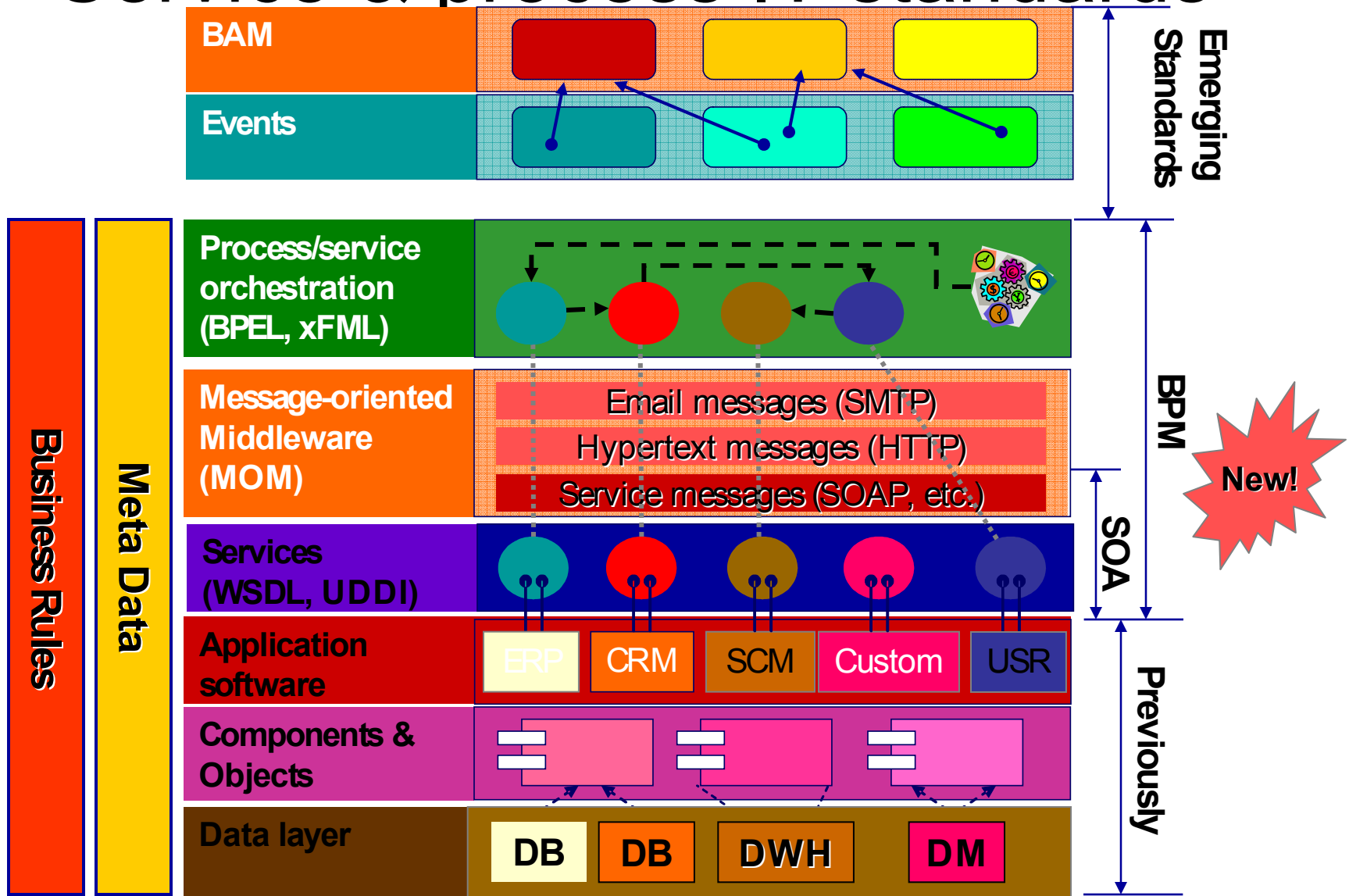
“Orchestrating” the process



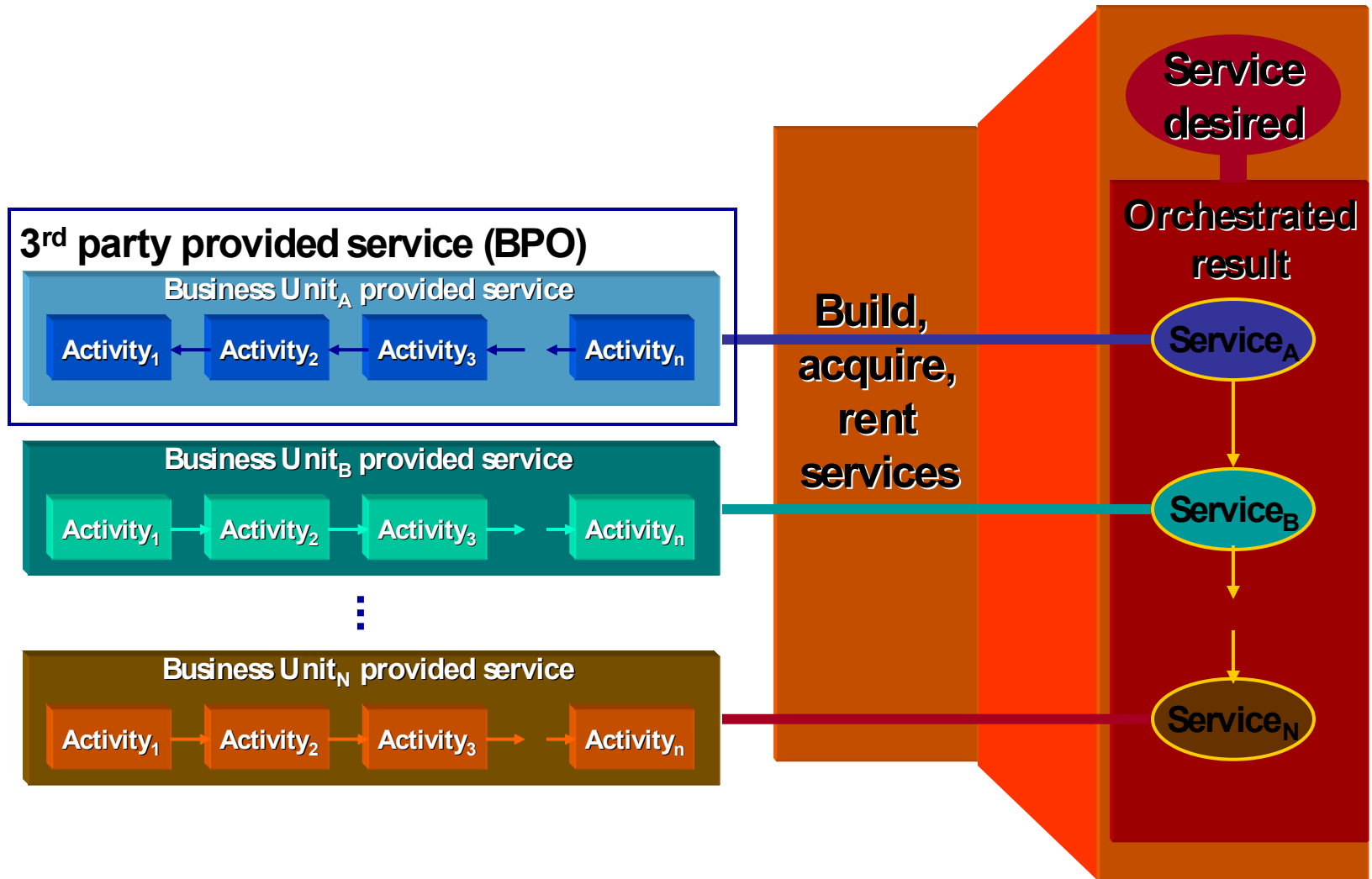
Consumer “orchestration” example



Service & process IT standards



Standards allow organizations to



Normative (standardized) models

- What are they?
 - A process model constructed from a predefined set of alternatives
 - Prescribed view of how the process should be seen and behave
- What is their value?
 - Simplification of modeling (constrained choice vs. green field)
 - Overcoming complexity; lack of transparency
 - Standardization enables
 - **Exchange of models** across units & organizations
 - Description of common **problems and metrics**
 - Exchange of industry norms (**benchmarking**) and **best practices**

Standardized process content

- In order to “plug-and-play” services between organizations, the underlying processes (and data) must, to some extent, be standardized as well
- Enter the era of process standardization (and

Harvard Business Review 
www.hbr.org

A huge wave of change bearing down on the services sector should make you rethink your strategy and revamp your organization.

Will You Survive the Services Revolution?

by Uday Karmarkar

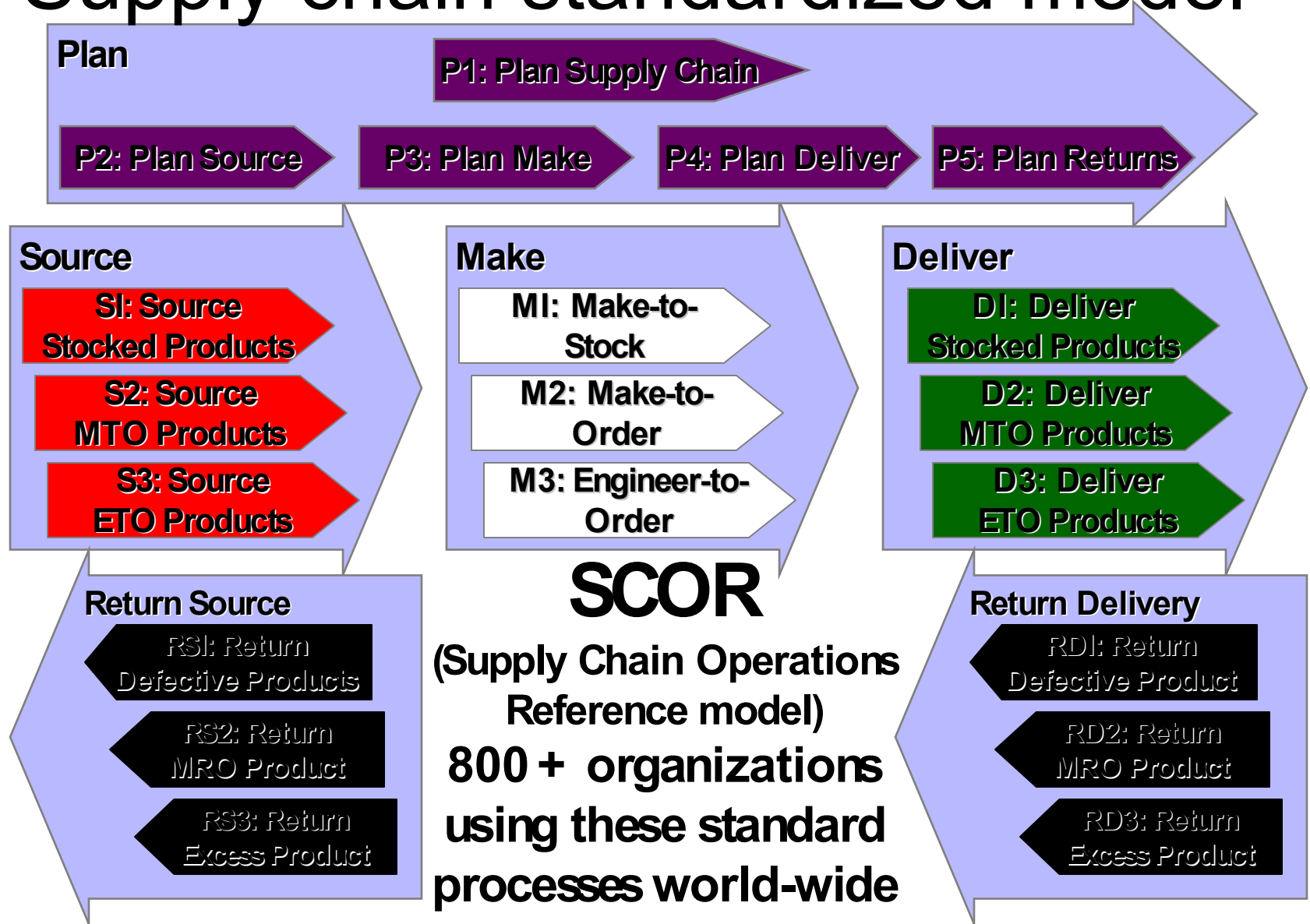
Harvard Business Review 
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Business processes—from making a mousetrap to hiring a CEO—are being analyzed, standardized, and quality checked. That work, as it progresses, will lead to commoditization and outsourcing on a massive scale.

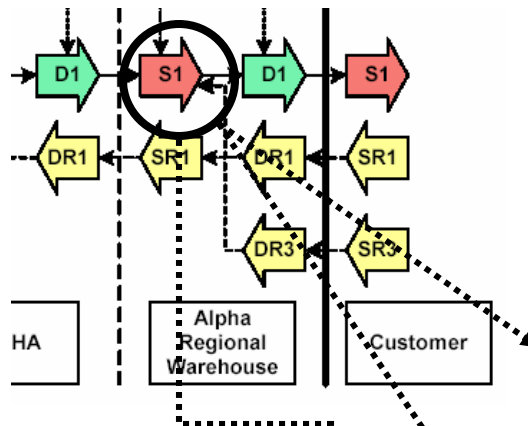
The Coming Commoditization of Processes

by Thomas H. Davenport

Supply chain standardized model



What's standardized?



Supply Chain SCORcard

			Industry Benchmarks				
	Overview Metrics	SCOR Level 1 Metrics	Actual	Parity	Advantage	Superior	Value from Improvements
EXTERNAL	Supply Chain Reliability	Delivery Performance to Commit Date	50%	85%	90%	95%	
		Fill Rates	63%	94%	96%	98%	
		Perfect Order Fulfillment	0%	80%	85%	90%	\$30M Revenue
	Responsiveness	Order Fulfillment Lead Times	35 days	7 days	5 days	3 days	\$30M Revenue
		Supply Chain Response Time	97 days	82 days	55 days	13 days	Key enabler to cost and asset improvements
	Flexibility	Production Flexibility	45 days	30 days	25 days	20 days	
INTERNAL	Cost	Total SCM Management Cost	19%	13%	8%	3%	\$30M Indirect Cost
		Warranty Cost	NA	NA	NA	NA	NA
		Value Added Employee Productivity	NA	\$156K	\$306K	\$460K	NA
	Assets	Inventory Days of Supply	119 days	55 days	38 days	22 days	NA
		Cash-to-Cash Cycle Time	196 days	80 days	46 days	28 days	\$7 M Capital Charge
		Net Asset Turns (Working Capital)	2.2 turns	8 turns	12 turns	19 turns	NA

1. Metrics

Process Category: Source Stacked Product		Process Number: S1
Process Category Definition		
The procurement, delivery, receipt and transfer of raw material items, subassemblies, product and or services.		
Performance Attributes	Metrics	
Reliability	% Orders/lines processed complete	
Responsiveness	Total source cycle time to completion	
Flexibility	Time and cost related to expediting the sourcing processes of procurement, delivery, receiving and transfer	
Cost	Product acquisition costs	
Assets	Inventory DOS	
Best Practices	Features	
Joint Service Agreements	None identified	
Alliance and Leverage Agreements		

2. Industry benchmarking

S1. Source Stacked Product



3. Prescribed level 3 processes

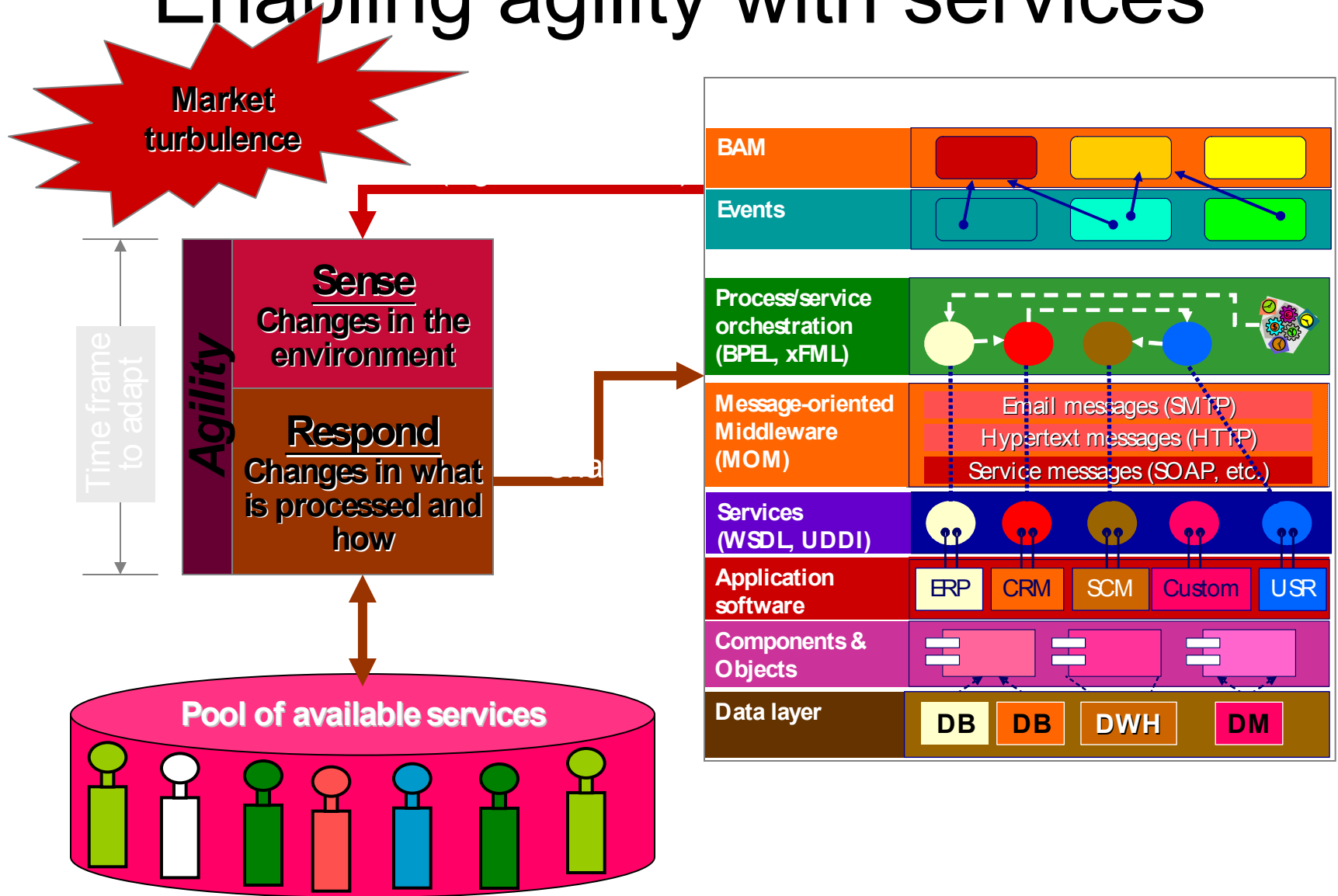
Other emerging process standards

Plan					Govern										
VP Plan Value Chain	VP1 Gather Value Chain Requirements	VP2 Assess Value Chain Resources	VP3 Balance Value Chain Strategy	VP4 Create Value Chain Plan	VG Govern Value Chain	EG1 Strategy & Vision	EG2 Performance Policy	EG3 Information Policy	EG4 Financial Policy	EG5 Asset Policy	EG6 Social & Ethical Policy	EG7 Network Policy	EG8 Change Guidelines	EG9 Compliance Policy	EG10 Life Cycle Policy
MP Plan Market	MP1 Gather Market Requirements	MP2 Assess Market Resources	MP3 Balance Market Strategy	MP4 Create Market Plans	MG Govern Market	MG1 Govern Rules	MG2 Govern Performance	MG3 Govern Information	MG4 Govern Financial	MG5 Govern Assets	MG6 Govern Personnel	MG7 Govern Network	MG8 Govern Change	MG9 Govern Compliance	MG10 Govern Life Cycle
RP Plan Research	RP1 Gather Research Requirements	RP2 Assess Research Resources	RP3 Balance Research Strategy	RP4 Create Research Plan	RG Govern Research	RG1 Govern Rules	RG2 Govern Performance	RG3 Govern Information	RG4 Govern Financial	RG5 Govern Assets	RG6 Govern Personnel	RG7 Govern Network	RG8 Govern Change	RG9 Govern Compliance	RG10 Govern Life Cycle
DP Plan Develop	DP1 Gather Develop Requirements	DP2 Assess Develop Resources	DP3 Balance Develop Strategy	DP4 Create Develop Plan	DG Govern Develop	DG1 Govern Rules	DG2 Govern Performance	DG3 Govern Information	DG4 Govern Financial	DG5 Govern Assets	DG6 Govern Personnel	DG7 Govern Network	DG8 Govern Change	DG9 Govern Compliance	DG10 Govern Life Cycle
SP Plan Sell	SP1 Gather Sell Requirements	SP2 Assess Sell Resources	SP3 Balance Sell Strategy	SP4 Create Sell Plan	SG Govern Sell	SG1 Govern Rules	SG2 Govern Performance	SG3 Govern Information	SG4 Govern Financial	SG5 Govern Assets	SG6 Govern Personnel	SG7 Govern Network	SG8 Govern Change	SG9 Govern Compliance	SG10 Govern Life Cycle
AP Plan Acquire	AP1 Gather Acquire Requirements	AP2 Assess Acquire Resources	AP3 Balance Acquire Strategy	AP4 Create Acquire Plan	AG Govern Acquire	AG1 Govern Rules	AG2 Govern Performance	AG3 Govern Information	AG4 Govern Financial	AG5 Govern Assets	AG6 Govern Personnel	AG7 Govern Network	AG8 Govern Change	AG9 Govern Compliance	AG10 Govern Life Cycle
BP Plan Build	BP1 Gather Build Requirements	BP2 Assess Build Resources	BP3 Balance Build Strategy	BP4 Create Build Plan	BG Govern Build	BG1 Govern Rules	BG2 Govern Performance	BG3 Govern Information	BG4 Govern Financial	BG5 Govern Assets	BG6 Govern Personnel	BG7 Govern Network	BG8 Govern Change	BG9 Govern Compliance	BG10 Govern Life Cycle
FP Plan Fulfill	FP1 Gather Fulfill Requirements	FP2 Assess Fulfill Resources	FP3 Balance Fulfill Strategy	FP4 Create Fulfill Plan	FG Govern Fulfill	FG1 Govern Rules	FG2 Govern Performance	FG3 Govern Information	FG4 Govern Financial	FG5 Govern Assets	FG6 Govern Personnel	FG7 Govern Network	FG8 Govern Change	FG9 Govern Compliance	FG10 Govern Life Cycle
UP Plan Support	UP1 Gather Support Requirements	UP2 Assess Support Resources	UP3 Balance Support Strategy	UP4 Create Support Plan	UG Govern Support	UG1 Govern Rules	UG2 Govern Performance	UG3 Govern Information	UG4 Govern Financial	UG5 Govern Assets	UG6 Govern Personnel	UG7 Govern Network	UG8 Govern Change	UG9 Govern Compliance	UG10 Govern Life Cycle
Execute															
Market	Research		Develop		Acquire		Build		Sell		Fulfill		Support		
M1 Analyze Market	R1 Define Opportunity		D1 Define Product Req		A1 Issue Request		B1 Schedule Resource		S1 Target Customer		F1 Order Inquiry		U1 Register Customer		
M2 Analyze Performance	R2 Forecast Technology		D2 Select Technology		A2 Evaluate Proposal		B2 Issue Material		S2 Quality Target		F2 Confirm Order		U2 Manage Incident		
M3 Define Need	R3 Acquire Technology		D3 Design Product		A3 Negotiate Contract		B3 Build Product		S3 Position Solution		F3 Plan Load		U3 Resolve Problem		
M4 Architect Solution	R4 Define New Technology		D4 Design Process		A4 Place Order		B4 Verify Product		S4 Develop Relationship		F4 Receive at Warehouse		U4 Process Return		
M5 Develop Business Case	R5 Validate Technology		D5 Validate Product		A5 Receive Order		B5 Package Product		S5 Assess Need		F5 Fill Order		U5 Educate Customer		
M6 Validate Opportunity	R6 Protect Technology		D6 Define Life Cycle		A6 Verify Order		B6 Stage Product		S6 Develop Proposal		F6 Ship Order		U6 Deliver Service		
M7 Create Roadmap	R7 Transfer Technology		D7 Launch Product		A7 Transfer Inventory		B7 Release Product		S7 Present Proposal		F7 Deliver Order		U7 Monitor Experience		
M8 Create Marketing Plan	R8 Introduce Technology				A8 Authorize Payment				S8 Finalize Contract		F8 Verify Receipt				
									S9 Review Win / Lost		F9 Install & Test				
											F10 Invoice				

VCOR
VALUE-CHAIN OPERATIONS REFERENCE MODEL™

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Enabling agility with services

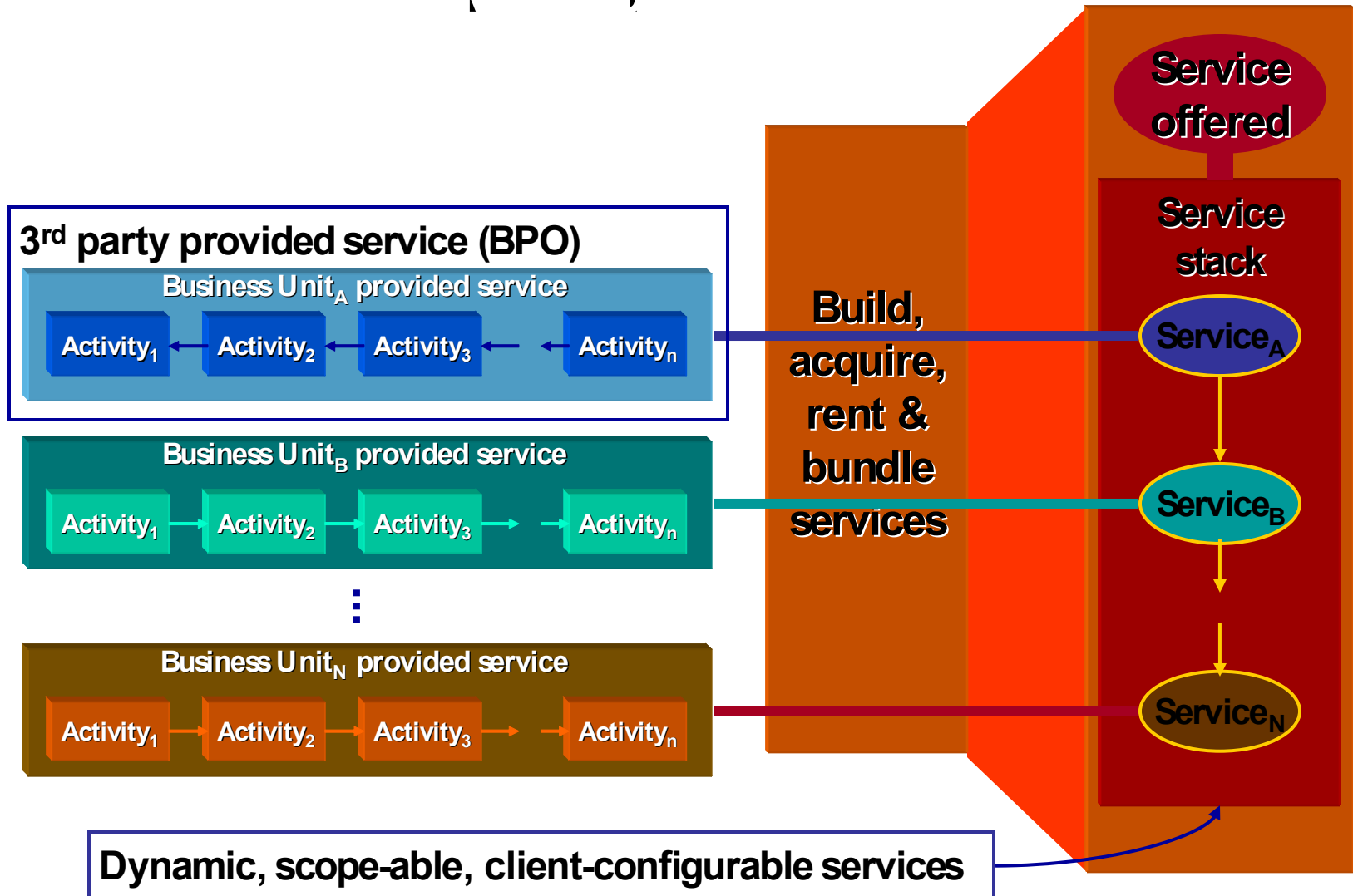


Service innovation

- Improve back stage process productivity
 - Applying six sigma, process reengineering, and other transformation activities to the back stage (e.g. process improvement)
- Improve front stage scope
 - Addressing more or better the custom requests of clients, as well as exploiting more of the unique capabilities of providers
- Improve coordination
 - Standardize processes and interactions to boost quality (compliance) and productivity (e.g. SCOR)
- Improve dynamic evolution
 - Continuously migrate provider-client pairs to higher value creation and capture points on an ongoing basis (e.g. agile)

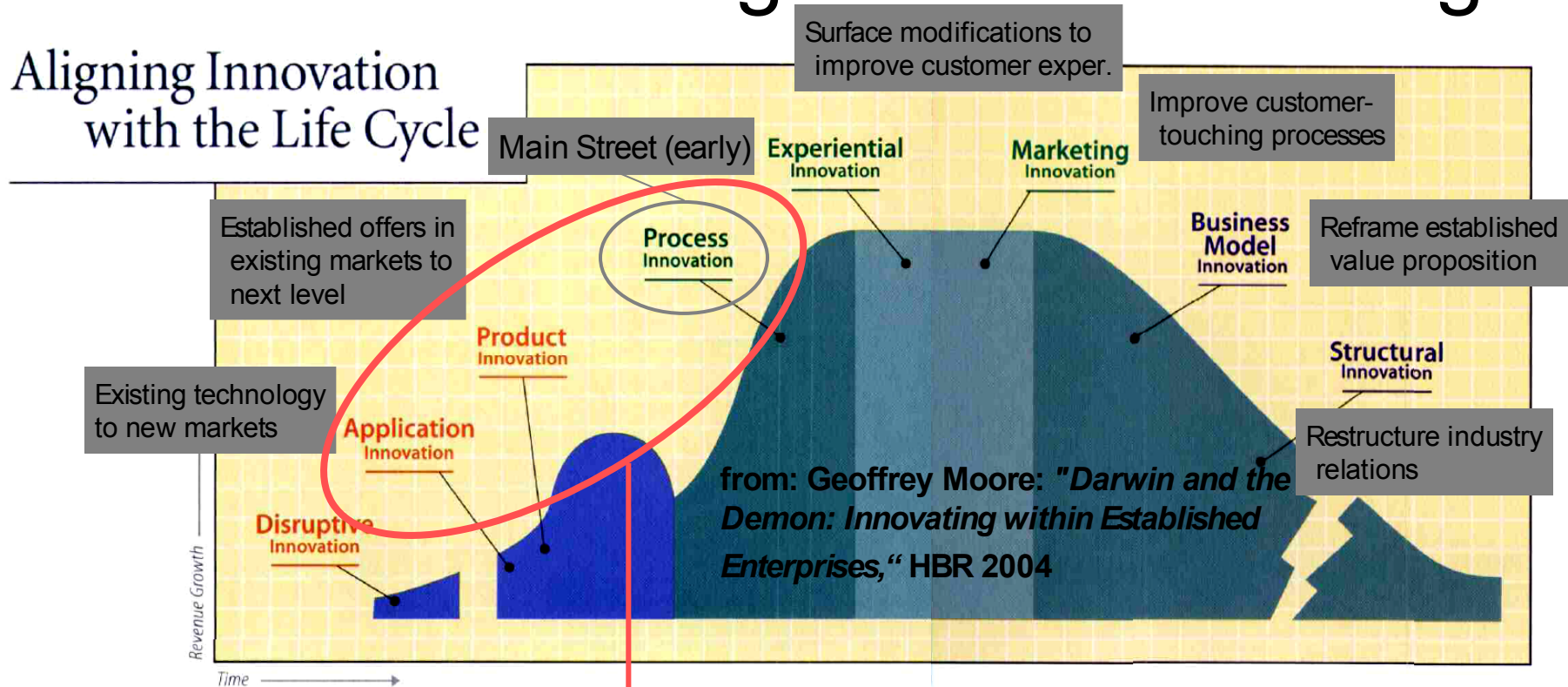


Innovation: A service-stack perspective



Innovation thinking needs re-thinking

Aligning Innovation with the Life Cycle



6 FT Mastering Innovation

HENRY CHESBROUGH

A failing grade for the innovation academy

Services dominate economic activity in developed economies, and yet understanding of innovation in this sector remains very limited



And monitoring

- EU has initiated studies and trial assessments of service innovation activity by country & sector
 - Determine type and level of activity
 - Shape policy on support and incentives for
- No equivalent work known in the U.S.
 - Shades of e-commerce and outsourcing/offshoring?



Wrapping up

- Once relegated to the “other” category of GDP, services are now being distinguished from “product thinking”
- Services, in turn, are driven by their underlying business processes and these are in turn being
 - IT-enabled
 - Standardized and commoditized
 - Made “plug-and-play”
- This can and will drive significant changes in how “service innovation” is conceived of and executed
 - While standardization will permit outsourcing, innovation will drive new business models
- It will also permit a shift from plan-and-command to sense-and-respond modes of visioning & execution
- Evolutionary or revolutionary? Your call.