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

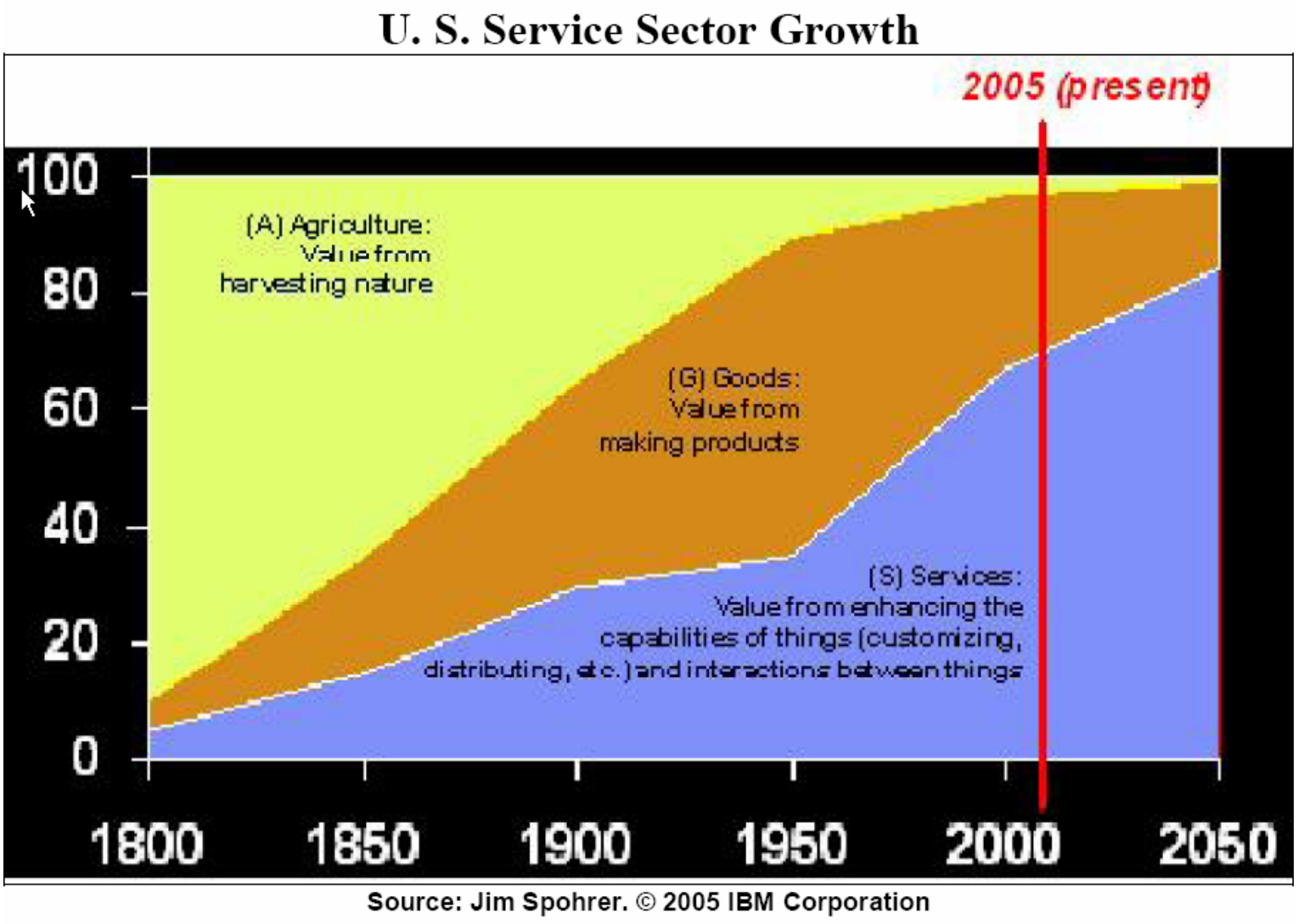
What's a service?

- 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

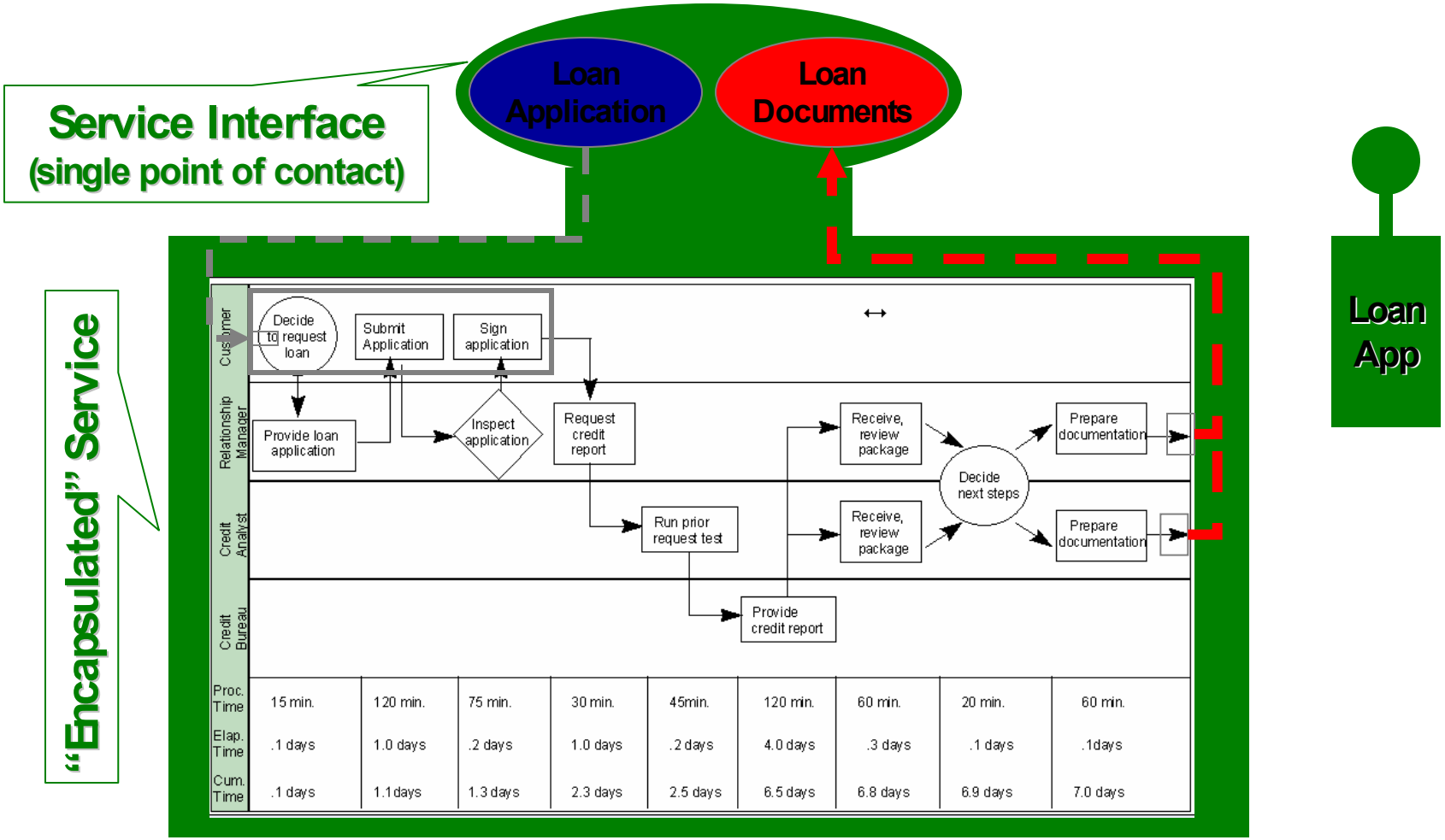


The shift to “service thinking”

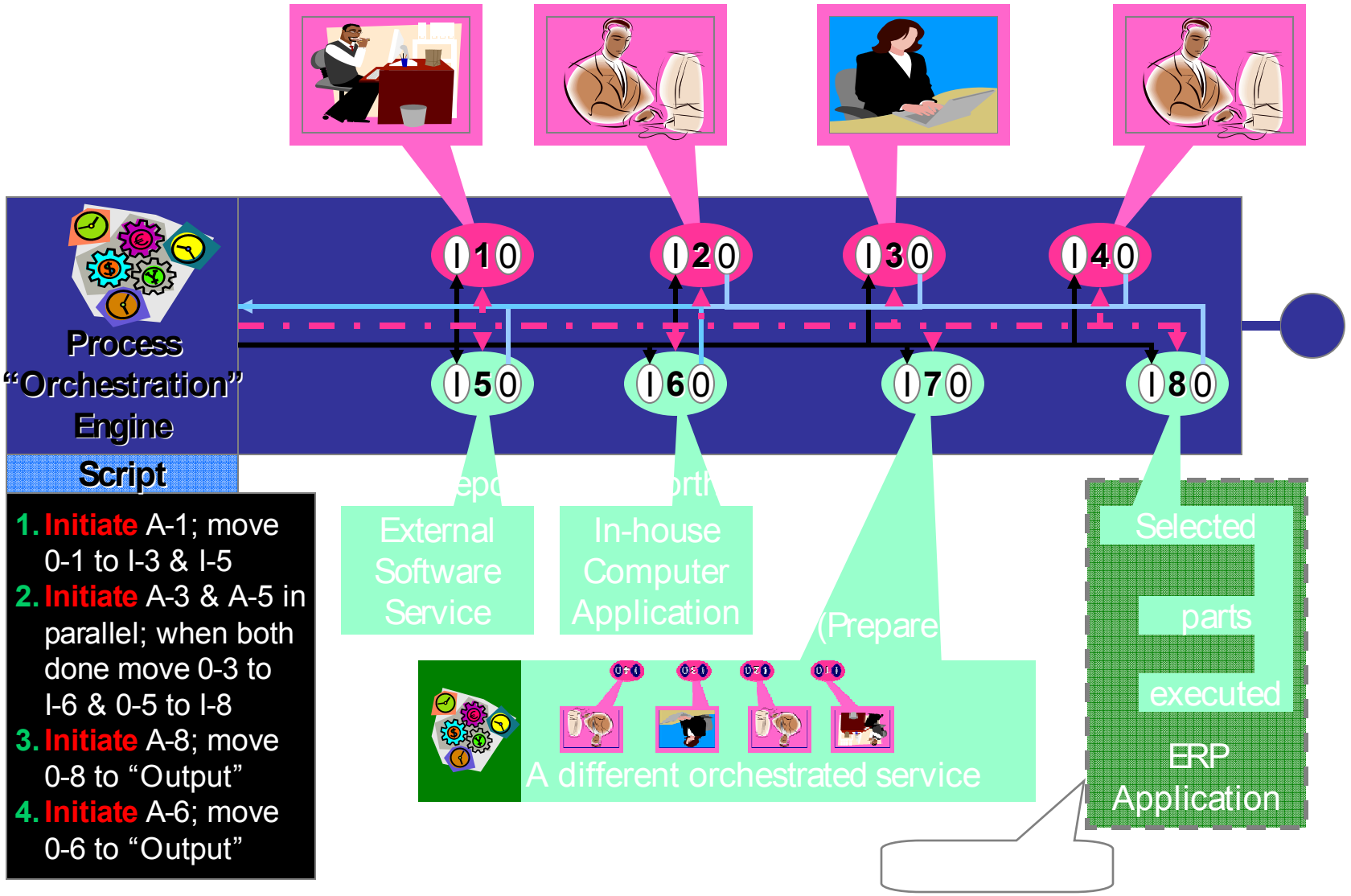
- Platform (product) as service-delivery vehicle
  - Computer (services)
  - Cell phone (services)
  - iPod (services)
  - Residential/commercial buildings (services)
    - Maintenance
    - Entertainment
    - HVAC
  - Automobile (services)
  - Appliance (services)
  - Apparel (services)
    - OLED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

Behind a service – its process(es)

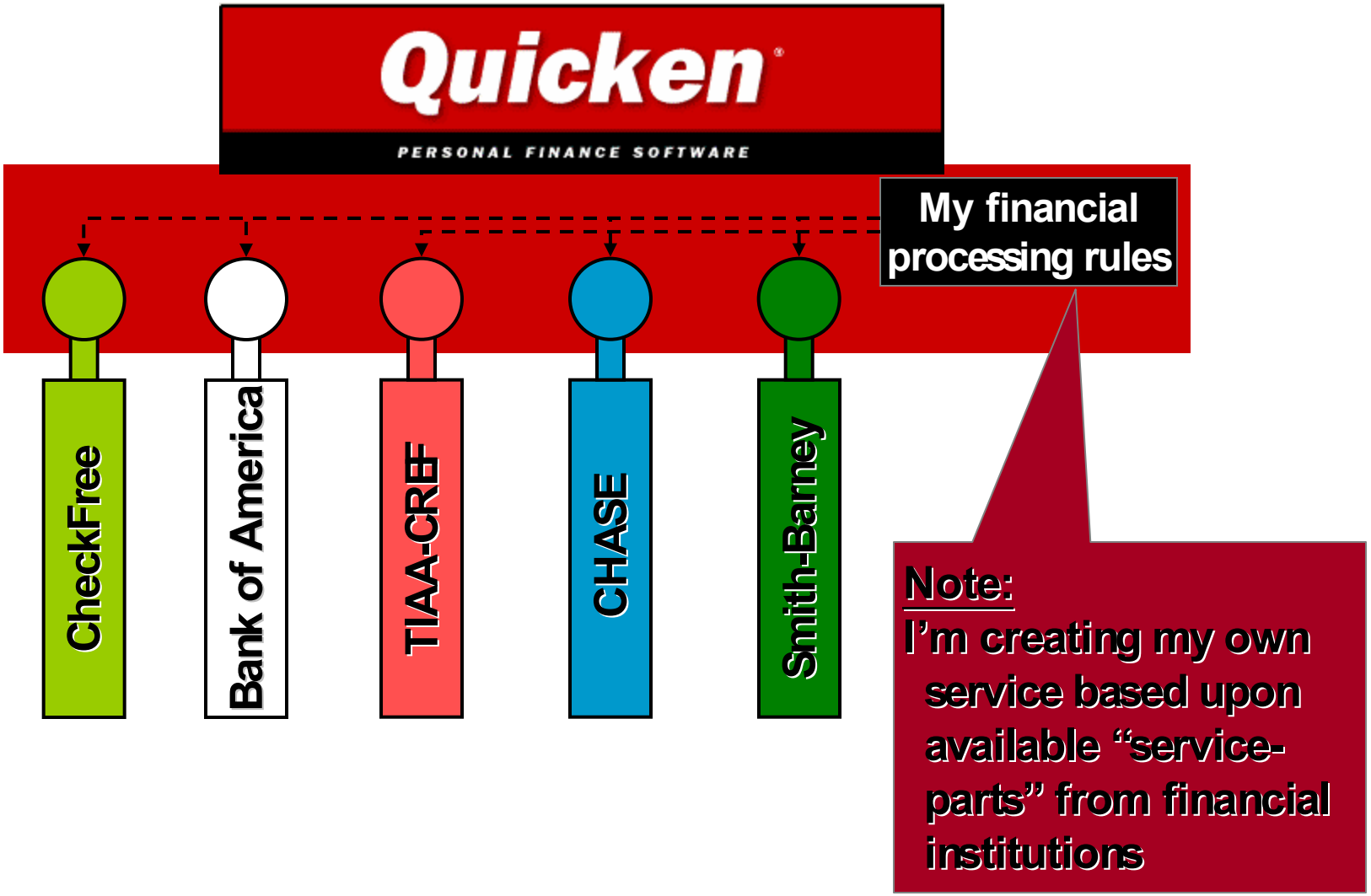
- Loan application
  - Service: Request loan and receive loan documentation



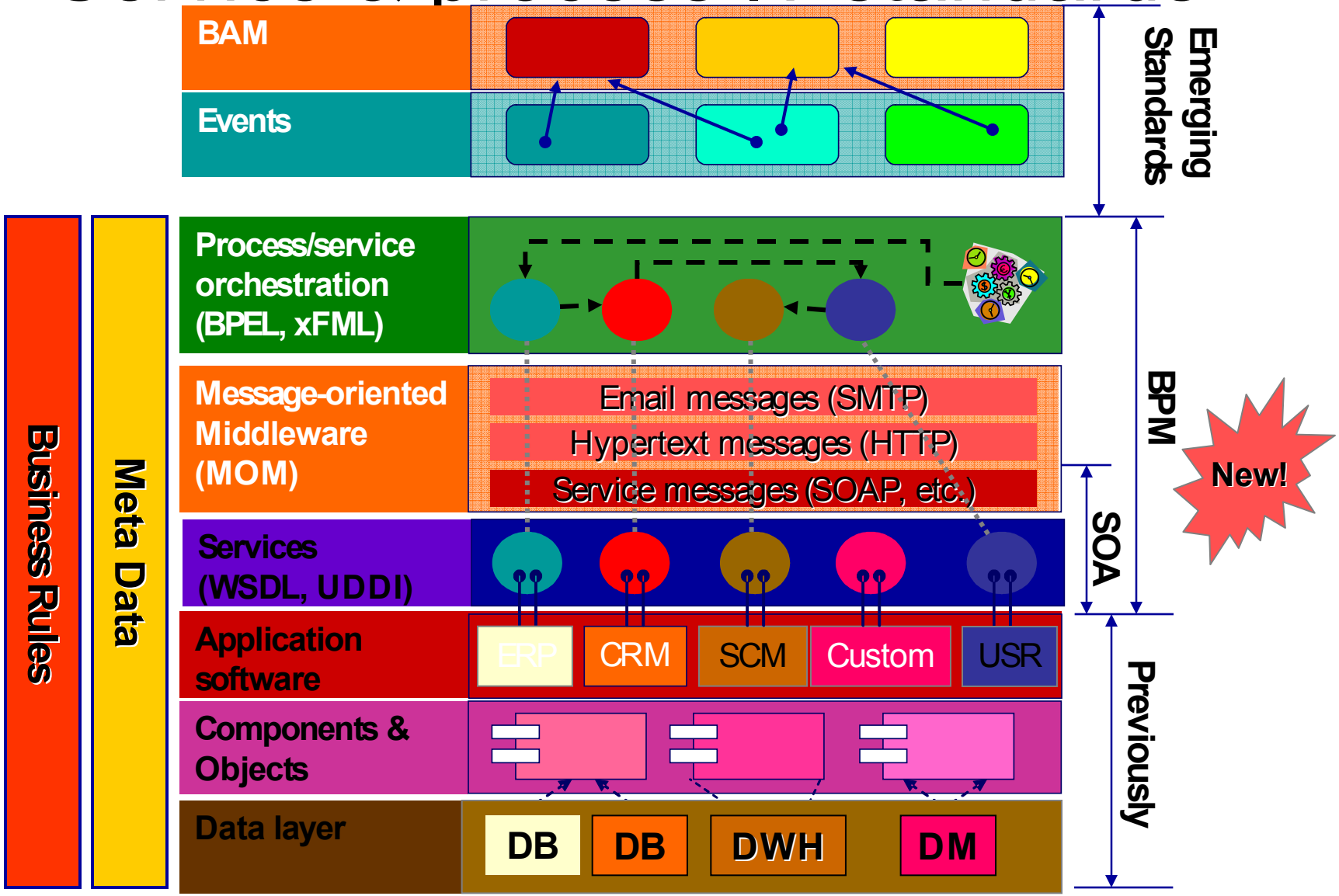
“Orchestrating” the process



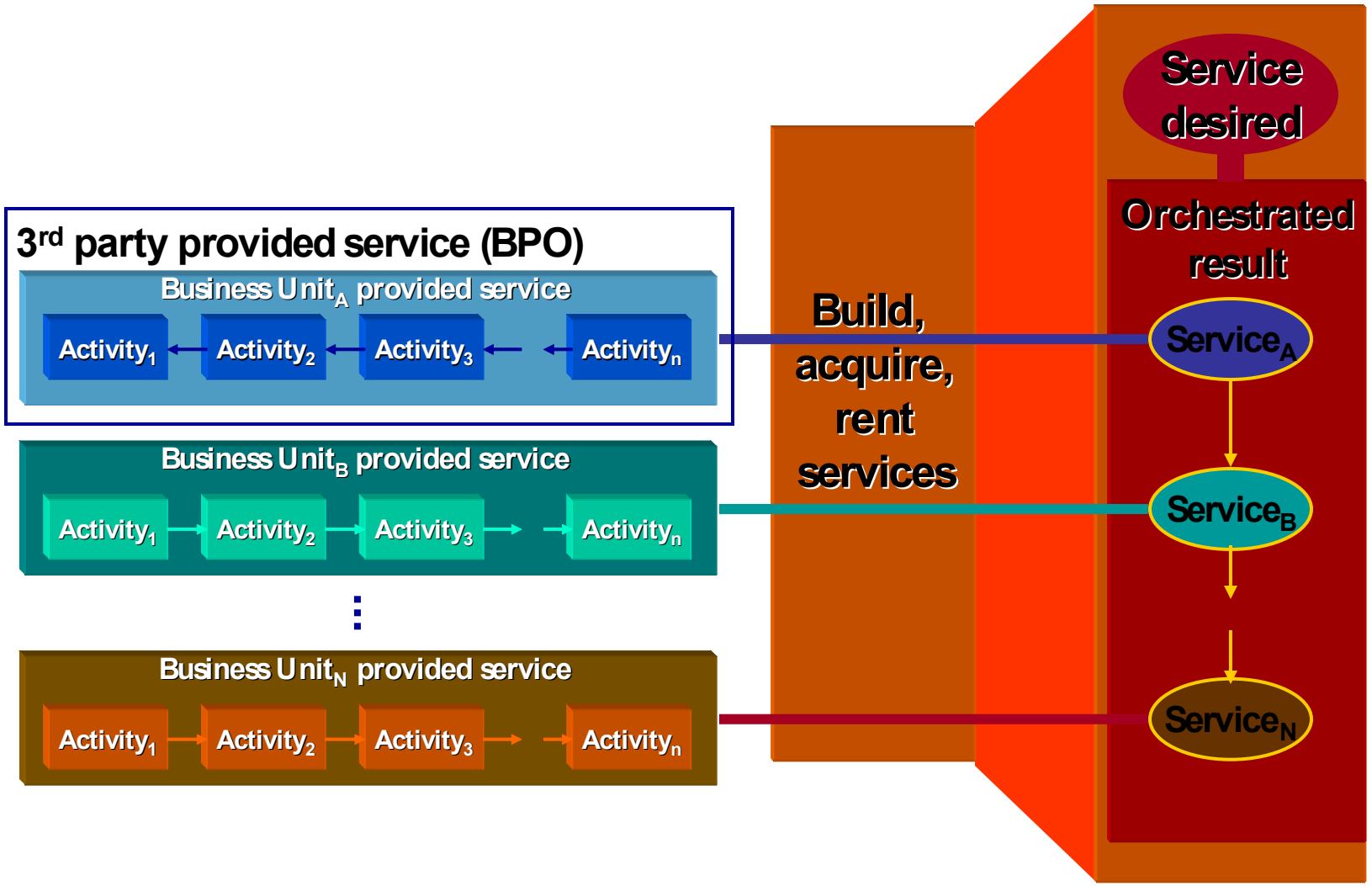
Consumer “orchestration” example



Service & process IT standards



Standards allow organizations to



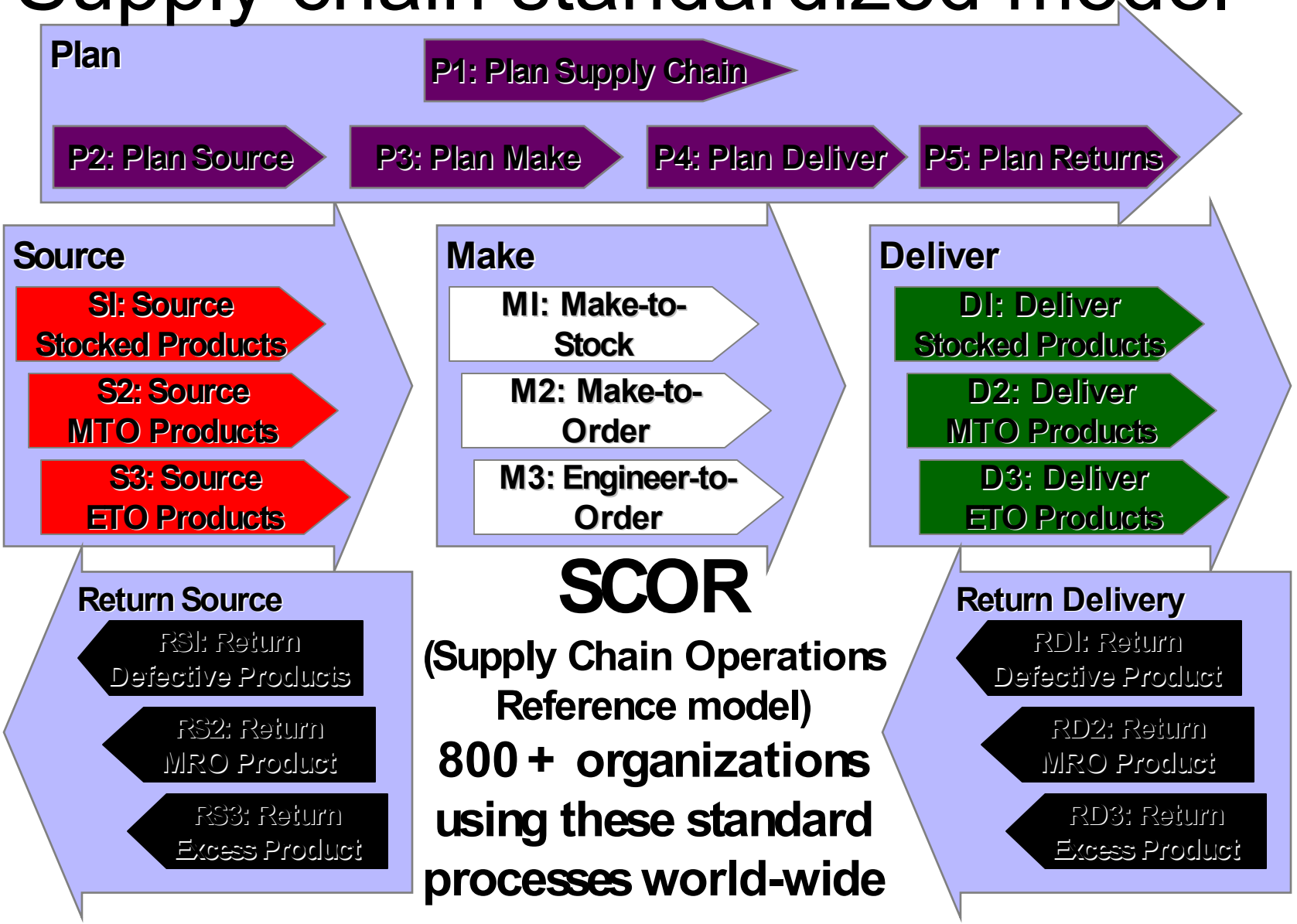
Normative (standardized) models

- 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**

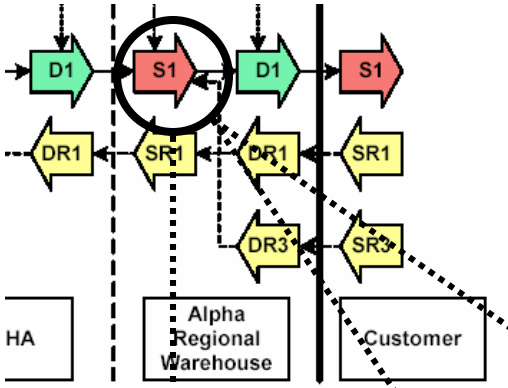
Standardized process content

- 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

Supply chain standardized model



What's standardized?



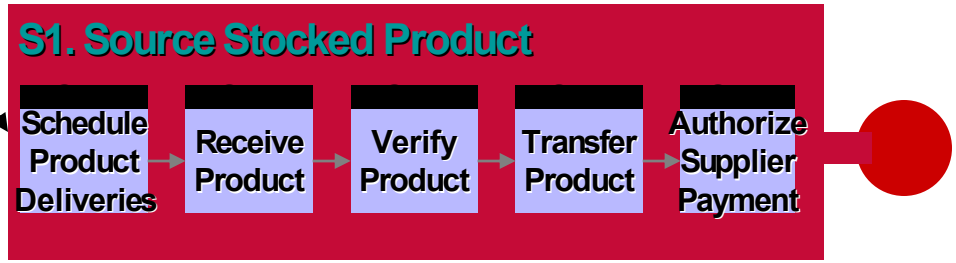
Supply Chain SCORcard

	Overview Metrics	SCOR Level 1 Metrics	Actual	Industry Benchmarks: 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
	Flexibility	Supply Chain Response Time	97 days	82 days	55 days	13 days	Key enabler to cost and asset improvements
		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 Stocked 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 Alliance and Leverage Agreements	None identified

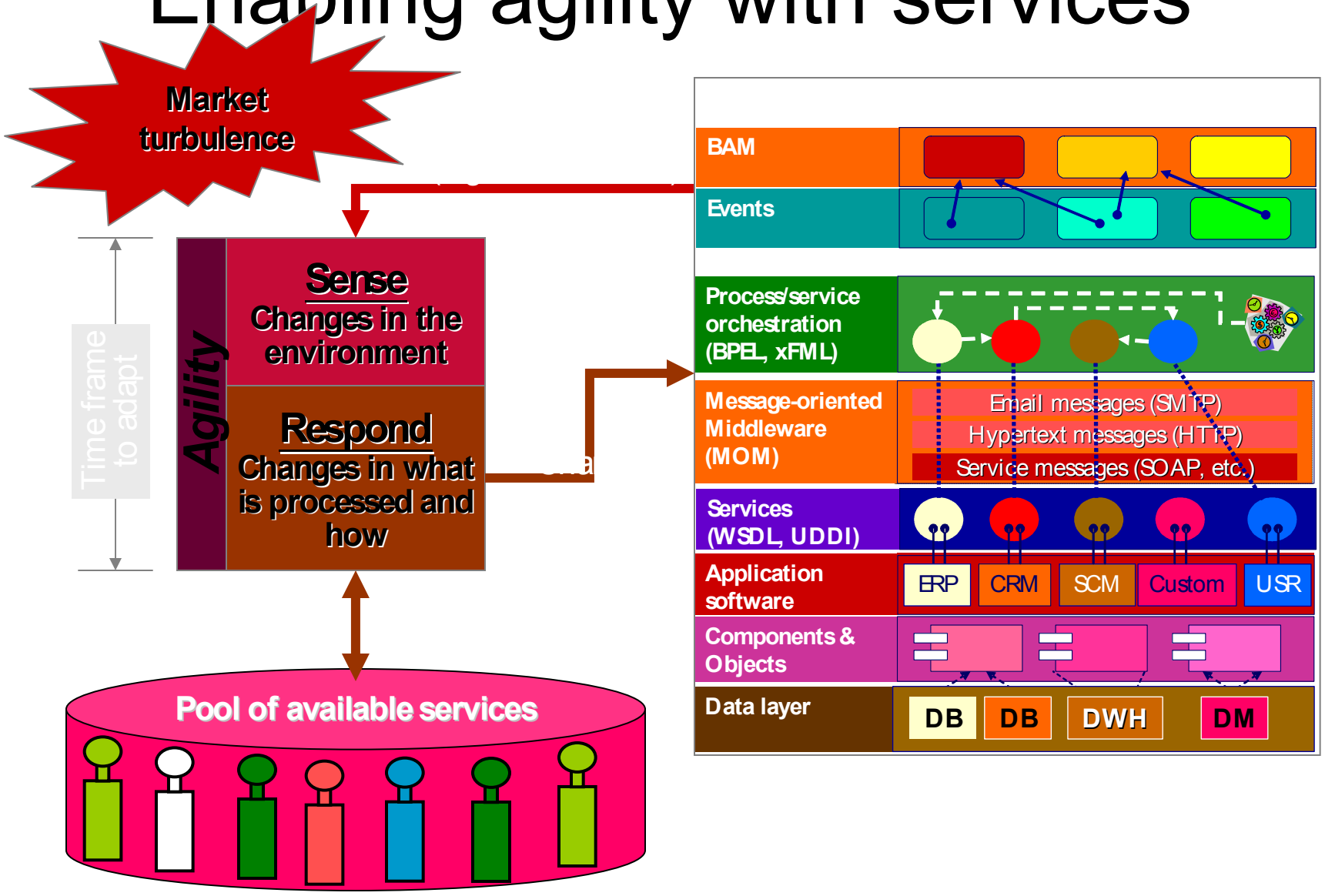
2. Industry benchmarking



3. Prescribed level 3 processes

Other emerging process standards

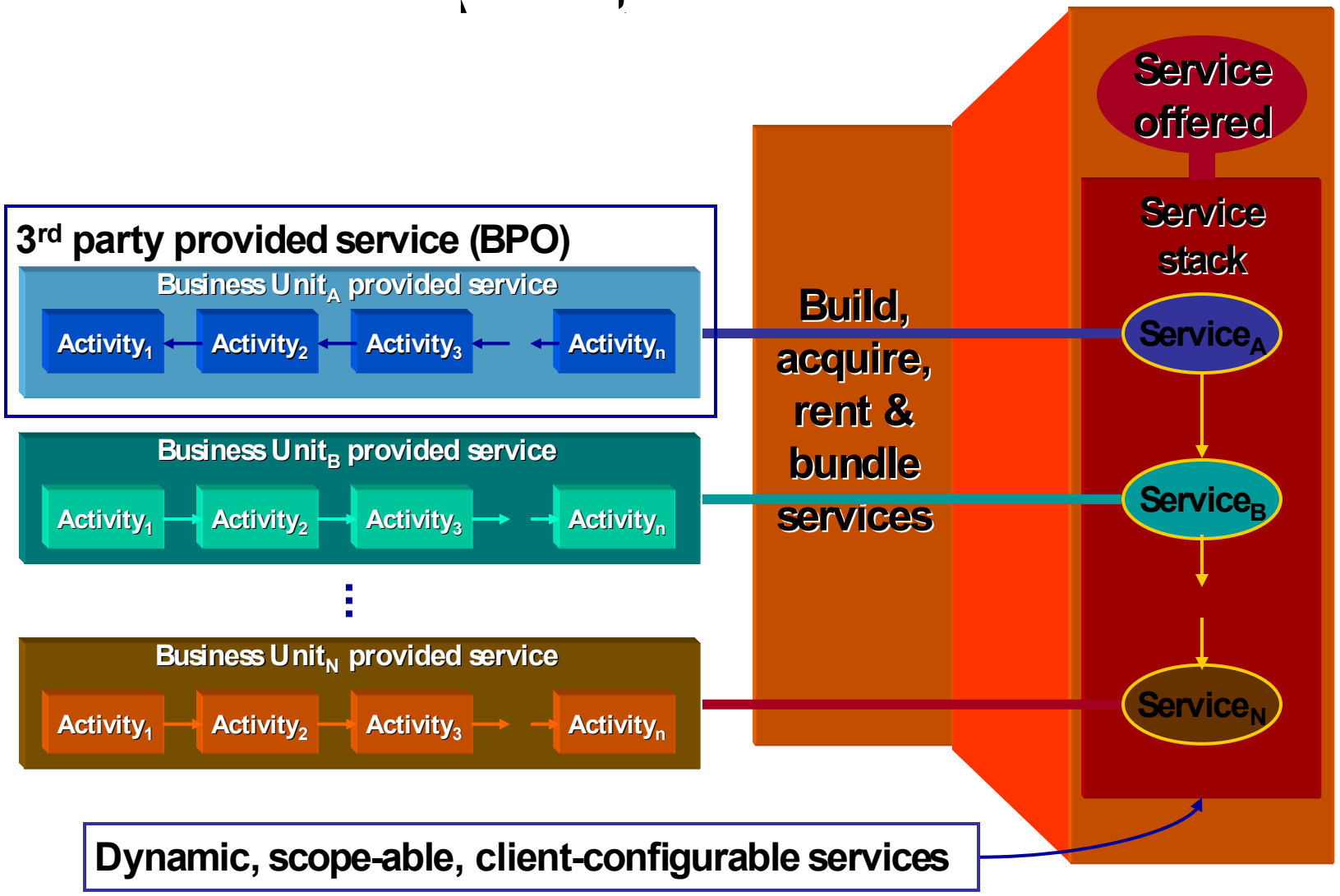
Enabling agility with services



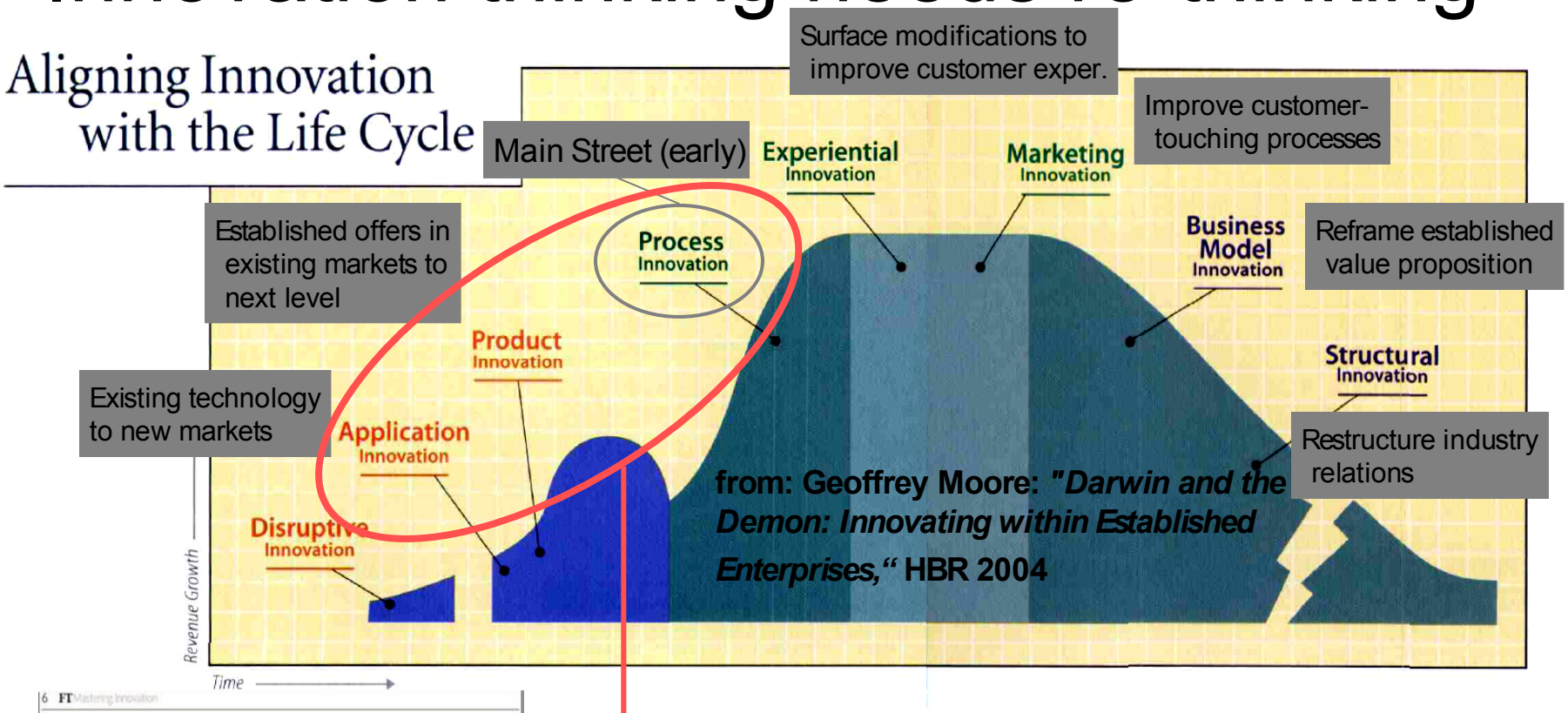
Service innovation

- 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




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.