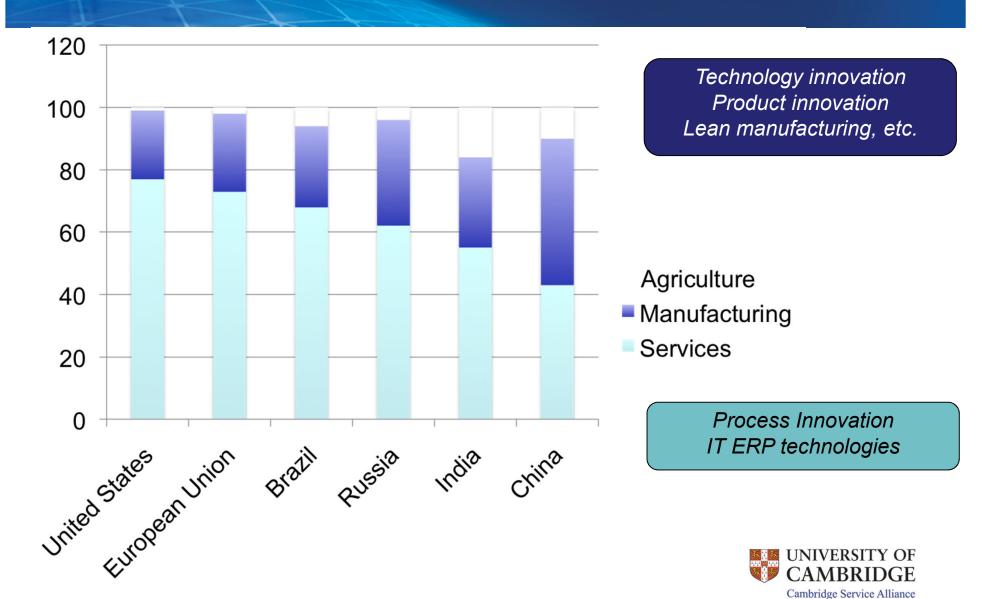
From Processes to Promise:

How complex service providers use business model innovation to deliver sustainable growth

Ivanka Visnjic and Andy Neely



The Shift to services on a global scale. Is it a good or bad sign?



Sources: CIA The World Factbook, 2010

Just a couple of examples of how technology revolutionizes firms

VAWE 1: Digitalization of services:

- Retail.... Amazon, eBay
- Finance... PayPal, Kiva
- Tourism & Hospitality... Expedia, Groupon
- Communications... Skype, VOIP
- Education... Live Mocha, Academic Earth
- Healthcare.... m-health
- Government... DVLA (e-taxes)

Wave 2: Instrumentalization of services:

- Sensors, RFID, smart meters, mobile phones, digital cameras, etc
- IBM, HP, Siemens, GE, Cisco, etc
- Energy, water, construction, oil excavation, complex engineering

The wealth of data produced...

- From 60 million transistors per human in 2001 to 1 billion transistors by 2010
- 1.3 billion of RFID tags in 2005, 30 billion by 2010





Challenges that underpin the shift to services

From a world of	-	To a world including
Products	Service business models are becoming more complex	Solutions
Outputs	How do firms innovate their business models in this world of service?	Outcomes
Transactions		Relationships
Suppliers		Network partners
Elements		Ecosystems

- Services are not easy to scale costs are high, margins are compressed
- Services often involve long-term commitment and performance-based contracts
- With multiple parties co-operating to ensure delivery



A study of targeted set of 12 service providers

Diversity across ecosystems/ sectors	Comparable companies within ecosystems/sectors	
Rail ecosystem	• 2 train solution providers	
Defense ecosystem	• 2 defense solution providers	
Utility ecosystem	Water service provider Energy service provider	
Local public ecosystem (councils*)	2 support service providers	
IT sector (multiple ecosystems**)	• 2 IT solutions provider	
Professional service (multiple ecosystems)	Supply chain consultancy Open innovation consultancy	



^{*} One of the support service providers was working with other ecosystems too

^{**} One of the IT solution provider was mainly focused on the local public ecosystem

ECOSYSTEM

STAKEHOLDERS/ SYSTEM OF CLIENT(S)

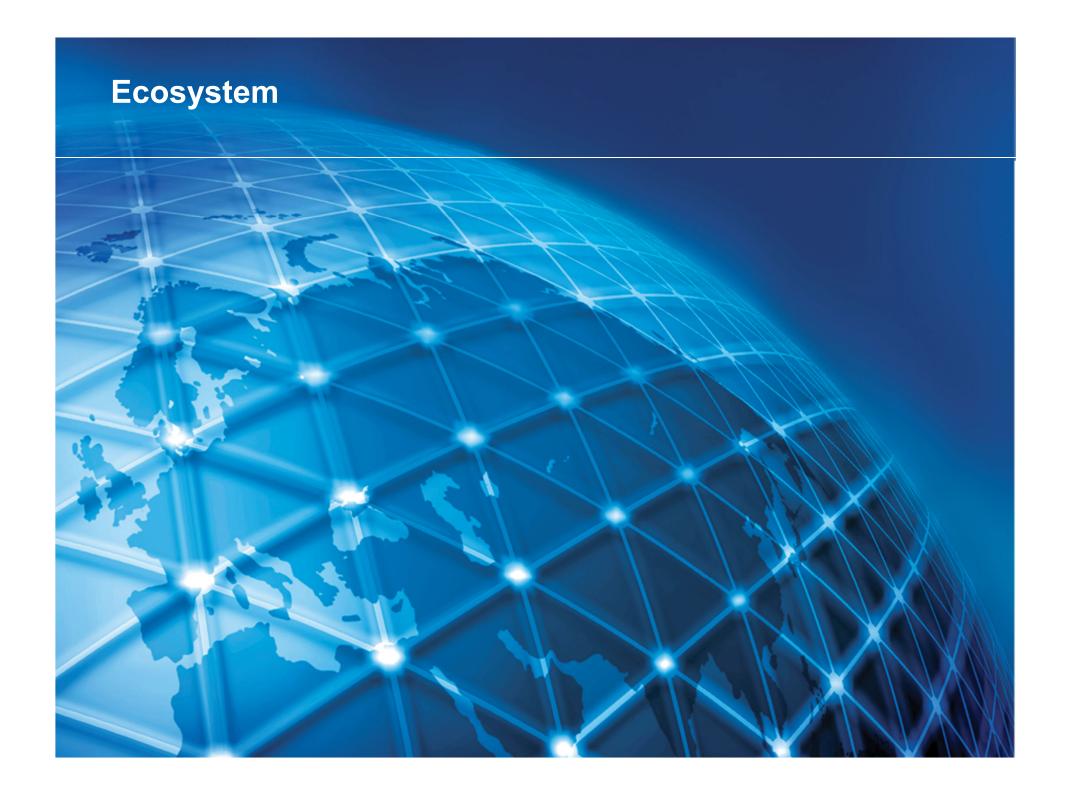
VALUE PROPOSITION

ACCOUNTABILITY SPREAD

VALUE DELIVERY

PARTNERS





ECOSYSTEM

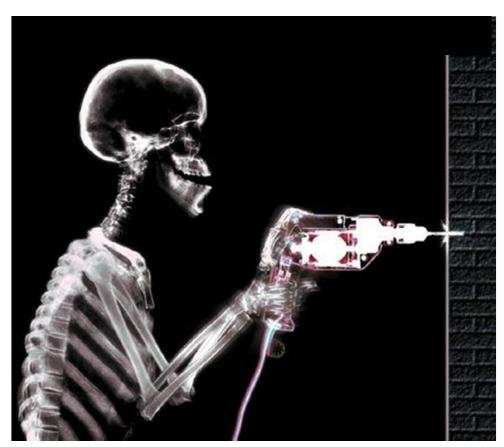
STAKEHOLDERS/ SYSTEM OF CLIENT(S)

FINDING 1:

Ecosystems (especially on the client side) increasingly determine innovation potential



Service providers don't want only to make a ¼ inch hole anymore.....



Theodore Levitt, Harvard Business School

...their business is more about understanding underlying customer need and finding the best solution



ECOSYSTEM

STAKEHOLDERS/ SYSTEM OF CLIENT(S)

VALUE PROPOSITION

FINDING 2:

Service providers innovate by reconfiguring & extending their value proposition

- A) Client-oriented services
- **B1) More services**
- **B2) Longer services**
- **B3) Service outcomes not processes**







ECOSYSTEM

STAKEHOLDERS/ SYSTEM OF CLIENT(S)

VALUE PROPOSITION

VALUE DELIVERY

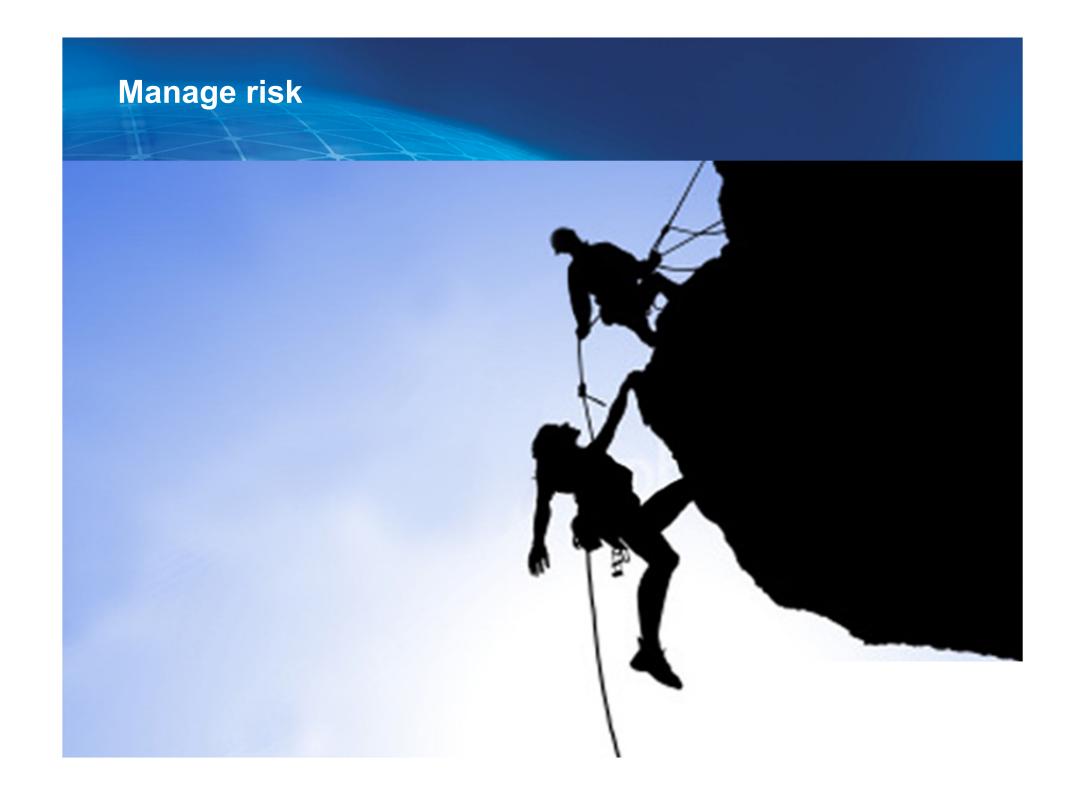
FINDING 3:

Service providers reconfigure and open the value delivery system to the ecosystem

- A) Innovate delivery of value
- B1) Deliver core 'valuable' services
- B2) Deliver core 'strategic' services
- B3) Partner for non-core 'valuable' services
- B4) Outsource non-core 'low-value' services

PARTNERS





ECOSYSTEM

STAKEHOLDERS/ SYSTEM OF CLIENT(S)

VALUE PROPOSITION

ACCOUNTABILITY SPREAD

FINDING 4:

By innovating - extending value proposition and opening up value delivery - providers face different risks (operational, performance, financial, incentive, dynamic, etc).

Sum of risks = accountability spread.

VALUE DELIVERY

PARTNERS



Example of business model innovation from rail sector

VALUE PROPOSITION: TRAIN

VALUE DELIVERY

Train design, manufacturing and delivery

ECOSYSTEM

STAKEHOLDERS/ SYSTEM OF CLIENT(S)
(Operator, leasing firm, Department for Transport)

VALUE PROPOSITION:

Train/day availability over 20 years

ACCOUNTABILITY SPREAD

Operational Partner Financial 'Performance 'Dynamic risk risk exposure risk' risk'

Risk from incentive distortion Systemic risk

VALUE DELIVERY

Train design, manufacturing and delivery

Train ownership, maintenance and testing

Train painting

Depot development

Project plan
Construction
execution

Design Building painting

PARTNERS

(Depot developers, investment banks)

... Capabilities determine performance and sustainability

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VALUE PROPOSITION

Understand client's BM

Demonstrate value

Demonstrate delivery skills

ACCOUNTABILITY SPREAD

Understand sources of risk associated with BMI

Collect data to quantify risk (data resources)

Price risk to client and manage risk with partners

VALUE DELIVERY

Design value content and structure*

Identify partners and design governance** Coordinate multiparty value delivery PERFORMANCE
SUSTAINABILITY (PROFITS &
GROWTH)



^{*} Value delivery content are the service activities provided; structure determines 'who does what'

^{**} Value delivery governance determines organizational arrangements (e.g. contracts among partners)

How to get started? 12 recommendations for leadership

For value propositions:

- **1 Understand.** What is your customer's business model? Who are their customers?
- **2 Expand.** Increase the scope of your value proposition
- **3 Convince.** Plan how to present value of the solution and foster trust for delivery
- 4 Distinguish 'what' from 'how'. Value proposition is about outcome commitment not how it's delivered

For value delivery:

- **Innovate.** Re-think the traditional approach. Is there a better way to achieve the same outcome?
- **6** Find partners. Explore how the ecosystem partners can support you in value delivery
- 7 Engage customer. Understand customers' role in delivery and ensure that they understands it
- 8 Seek complementarities. Explore how multiple services can be combined to create ever-greater value.

For accountability spread:

- **9 Disentangle risk.** Understand and model the range of risks your business model innovation creates
- 10 Factor in risk in solution. Consider and price risk as one of the core elements of the solution.
- 11 Clarify ownership of risk. Determine and manage partner-related risks by setting clear boundaries
- 12 Innovate dynamically. Business model innovation happens in changing ecosystem. Consider dynamic implications

Cambridge Service Alliance