



From Processes to Promise:

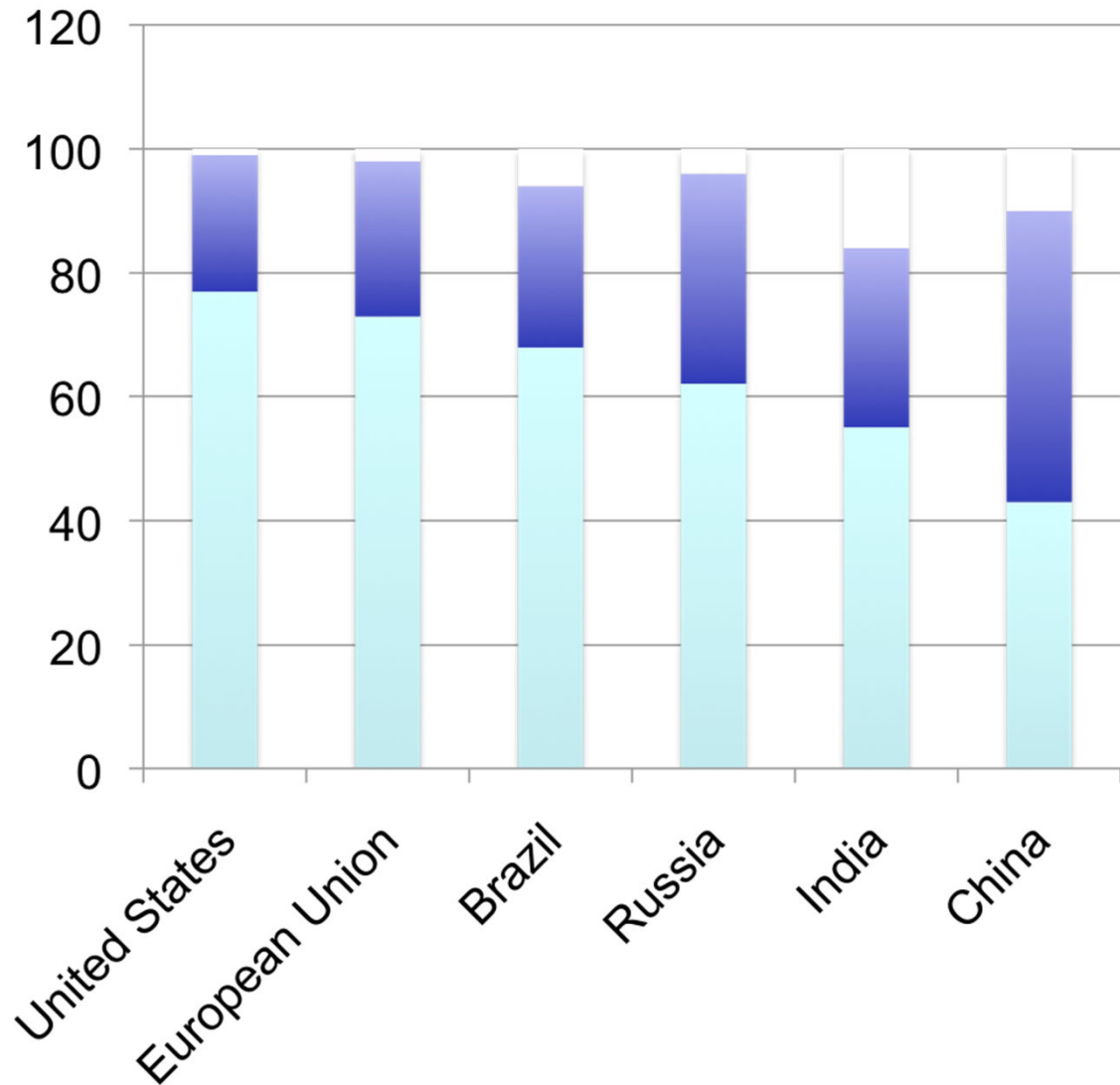
**How complex service providers use
business model innovation to deliver
sustainable growth**

Ivanka Visnjic and Andy Neely



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



*Technology innovation
Product innovation
Lean manufacturing, etc.*

Agriculture
Manufacturing
Services

*Process Innovation
IT ERP technologies*

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



Sources: CIA The World Factbook, Economist, In-Stat, IBM corporation

Challenges that underpin the shift to services



- 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

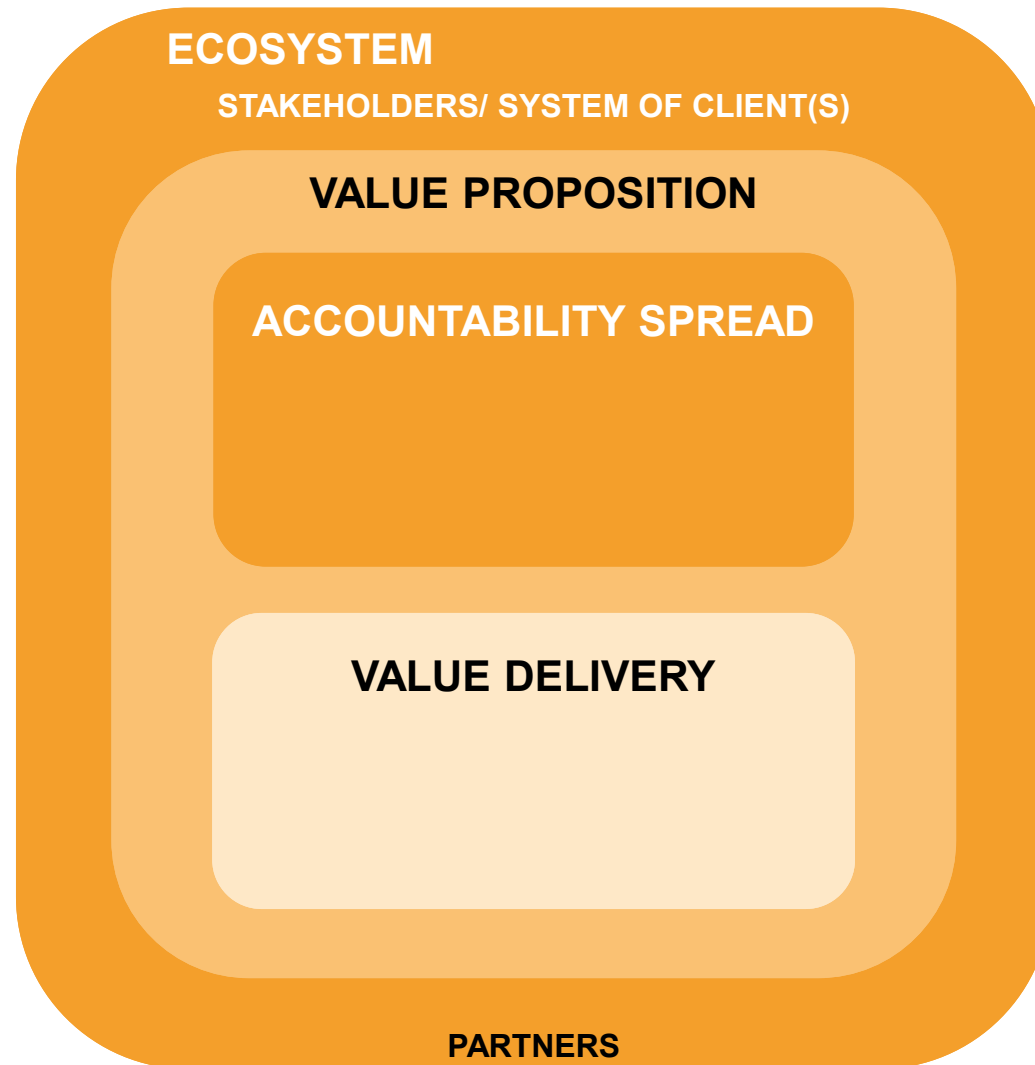
A study of targeted set of 12 service providers

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

What did we learn?



Ecosystem



What did we learn?

ECOSYSTEM

STAKEHOLDERS/ SYSTEM OF CLIENT(S)

FINDING 1:

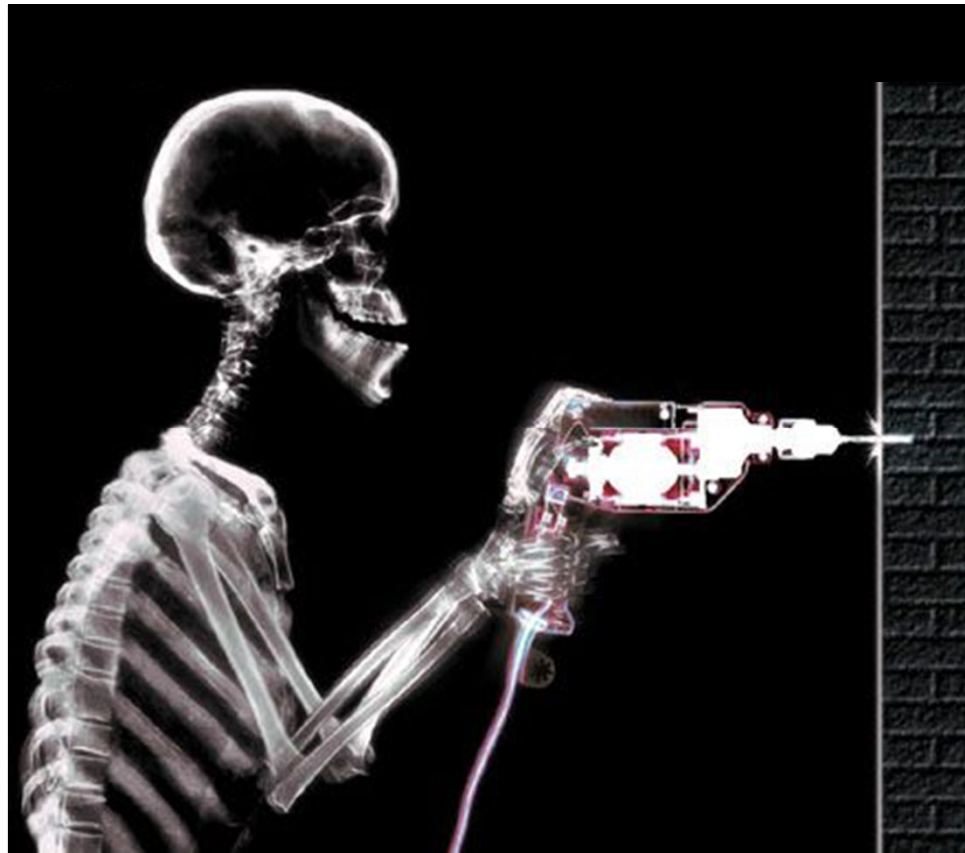
**Ecosystems (especially on the client side)
increasingly determine innovation potential**

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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**



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What did we learn?

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

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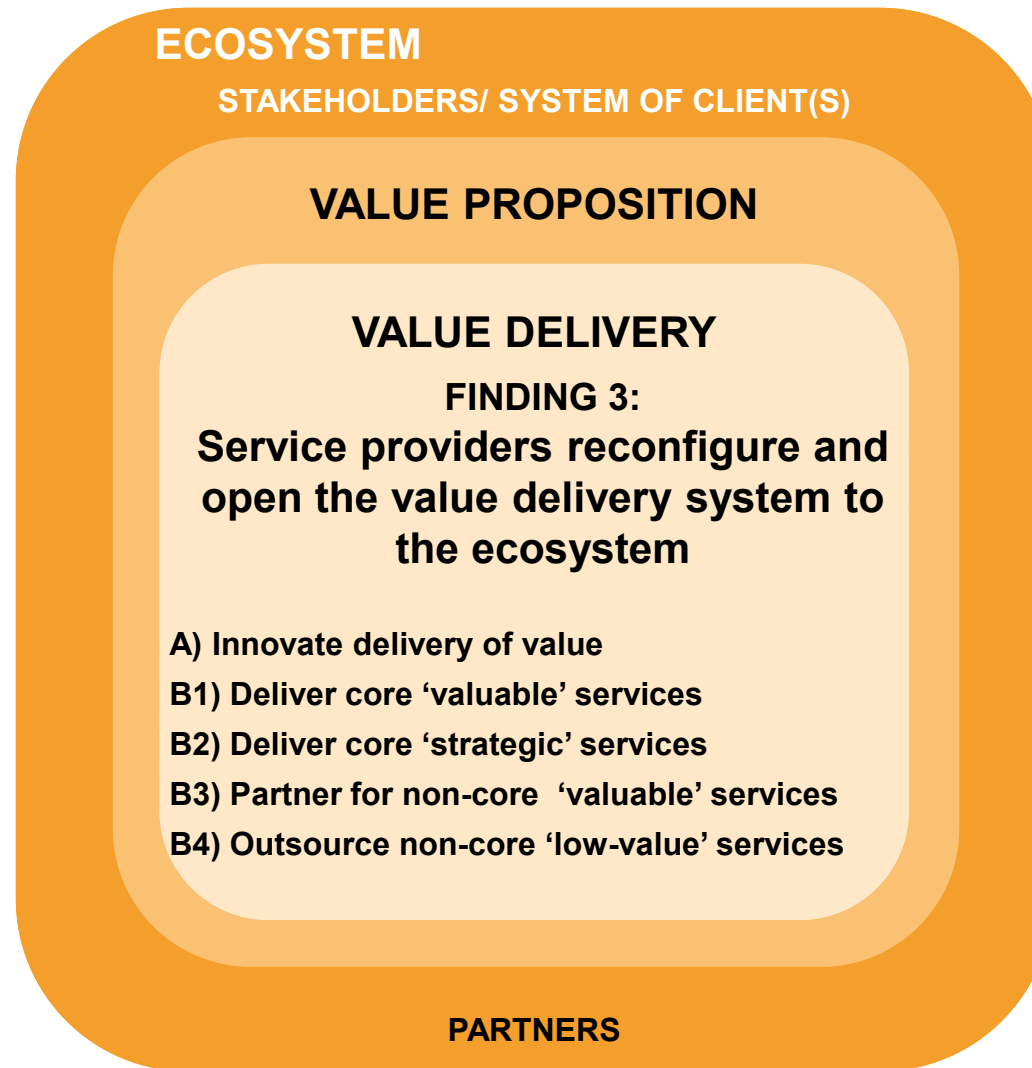


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Value delivery



What did we learn?



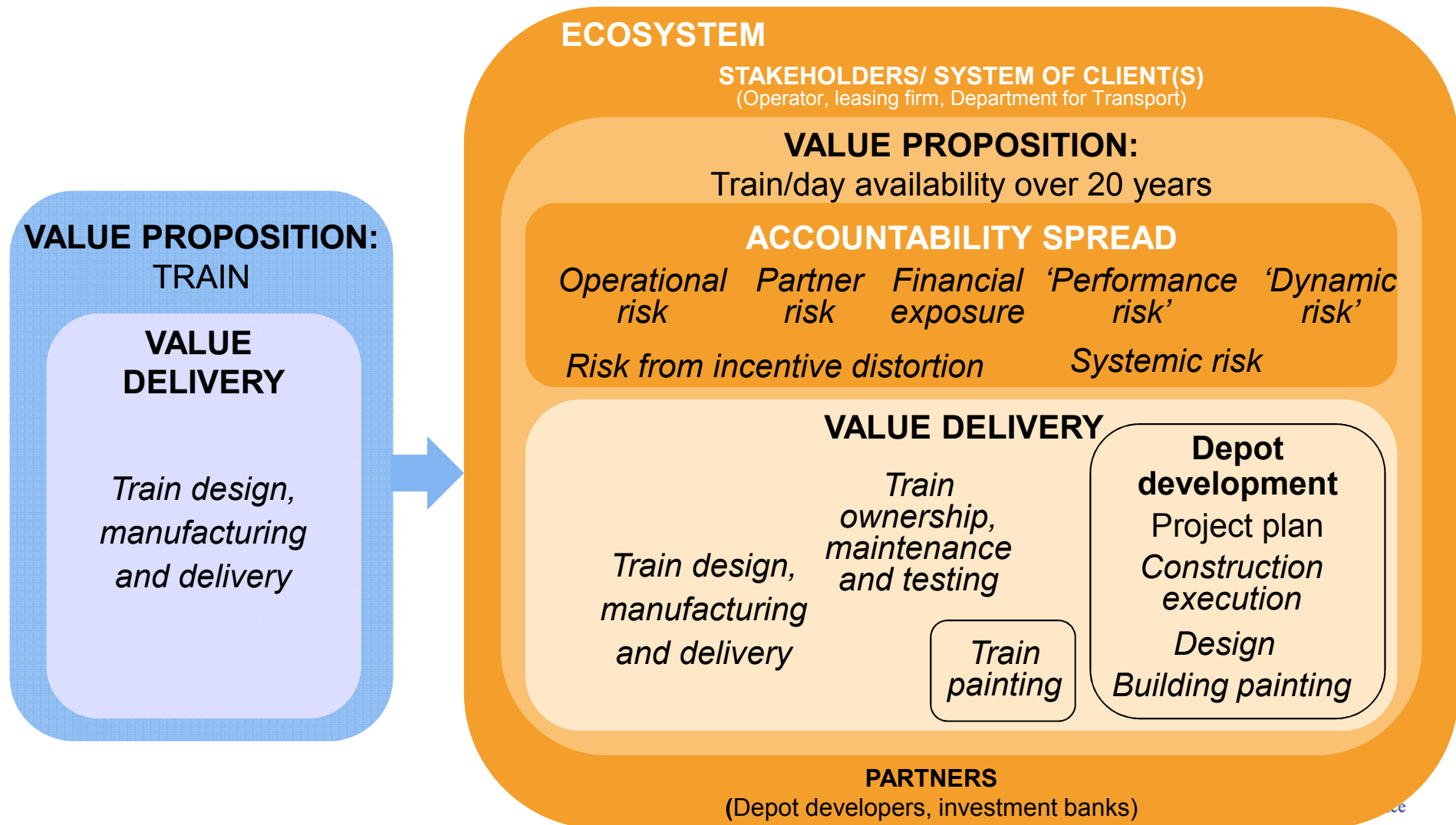
Manage risk



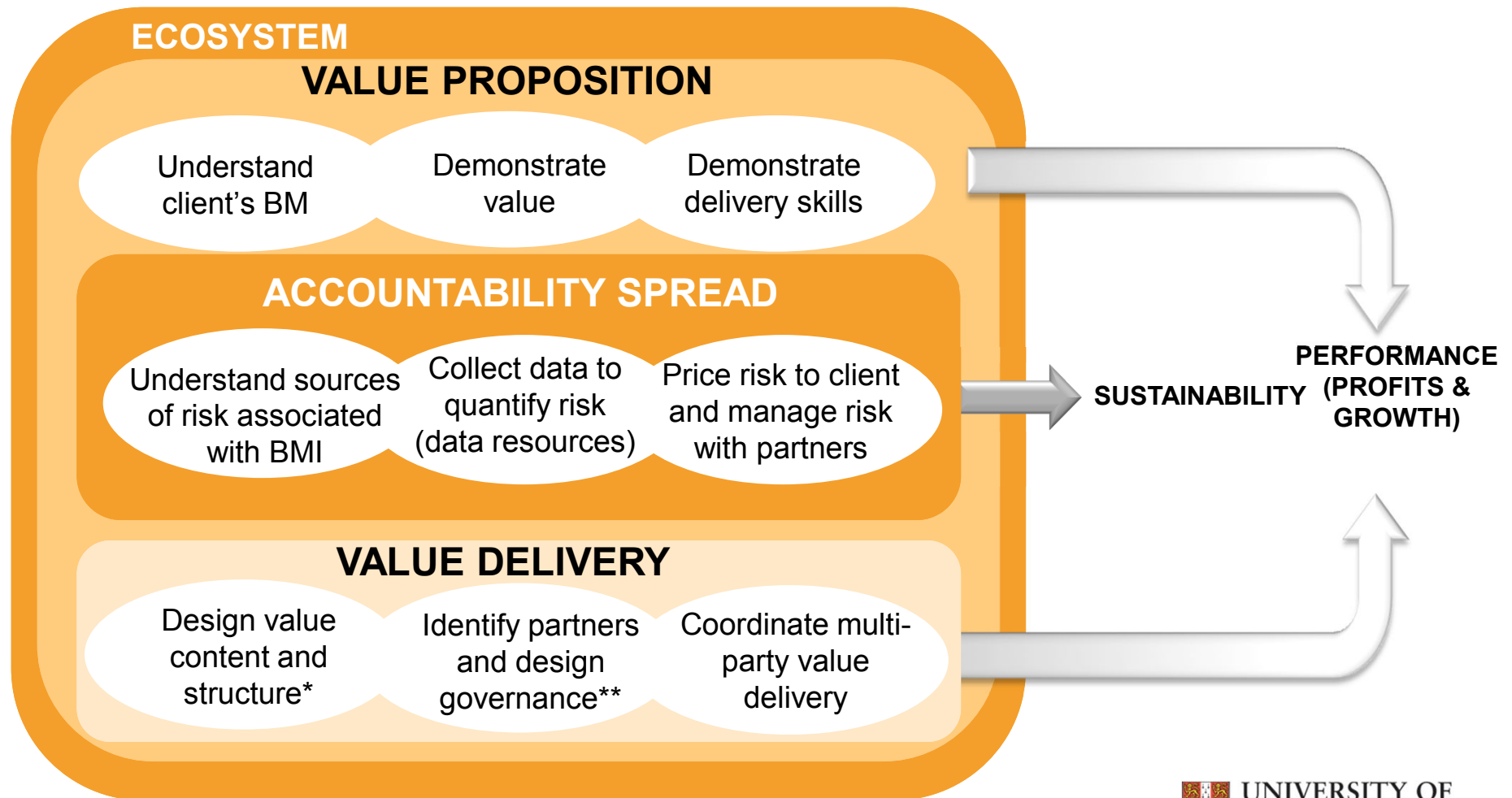
What did we learn?



Example of business model innovation from rail sector



... Capabilities determine performance and sustainability



* 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:

- 5 **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

