

From Processes to Promise:

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

Ivanka Visnjic and Andy Neely



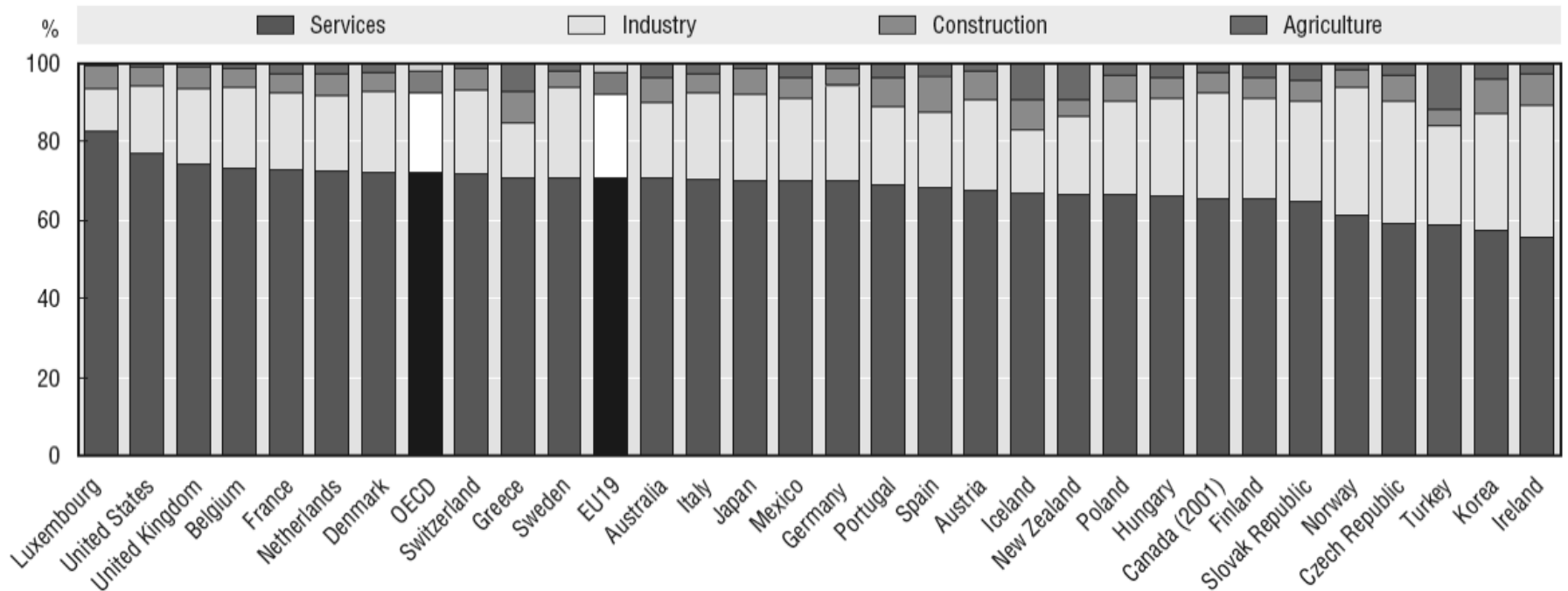
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The Shift to services on a global scale

Services now account for the majority of GDP and employment in the west...

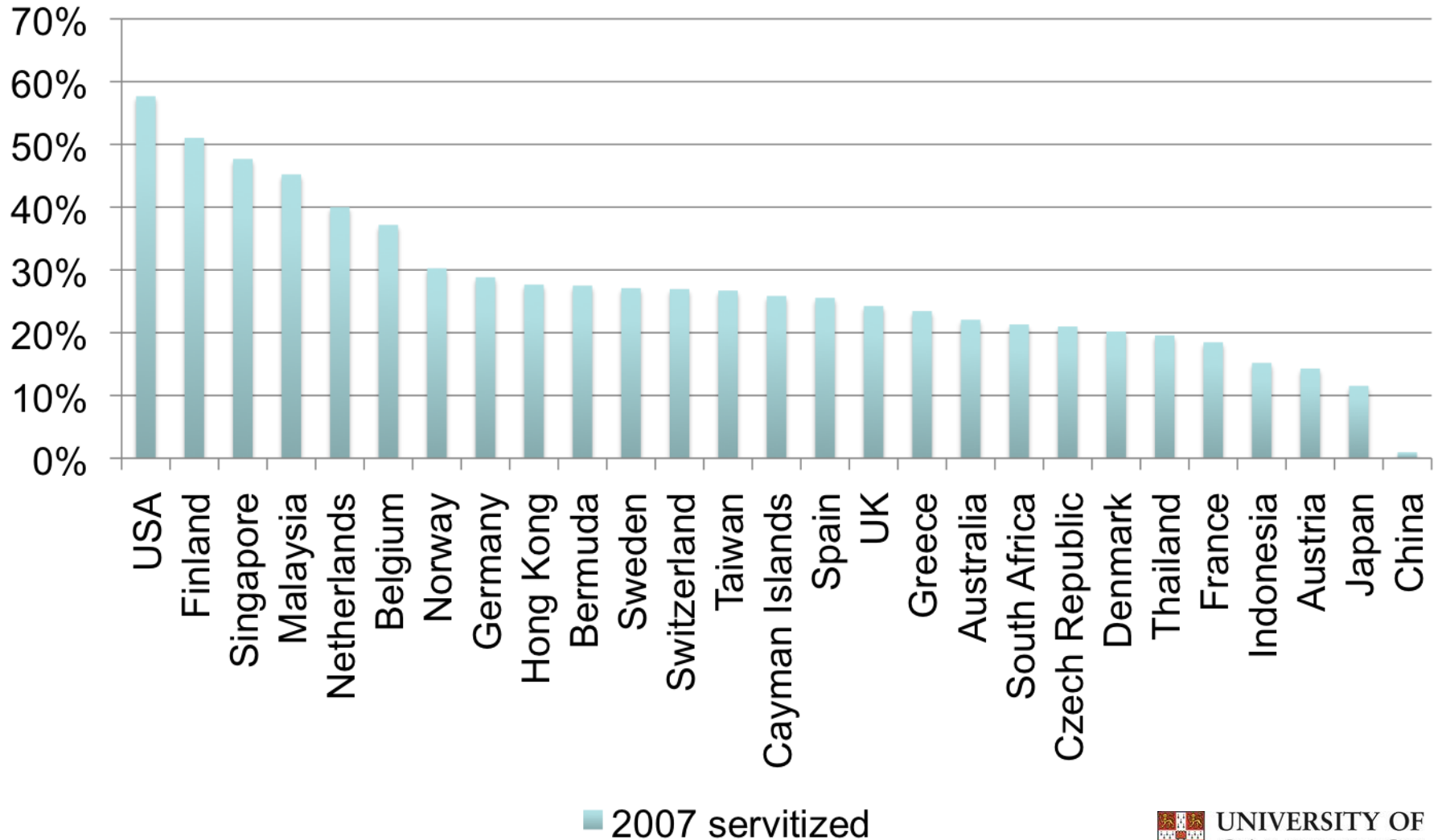
- Service sector accounts for over 70% of EU's economic activity
- Nearly 70% of EU's workforce are employed in service sectors



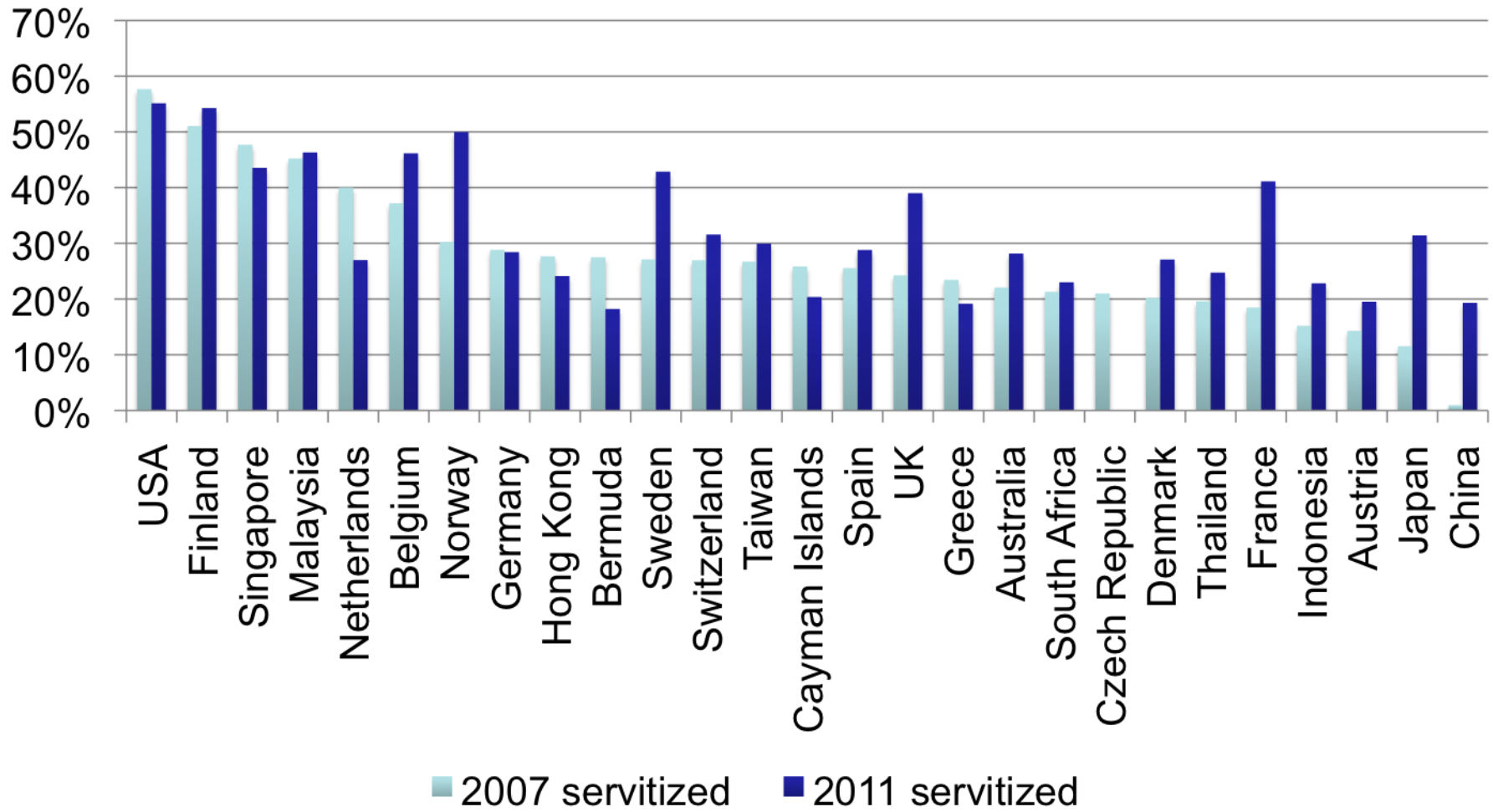
... and it doesn't involve only pure service companies



At a global level manufacturing is servitizing



And servitization is not just for the “west”



Challenges that underpin the shift to services

From a world of...

Products

Outputs

Transactions

Suppliers

Elements

Service business models are becoming more complex

How do firms innovate their business models in this world of service?

To a world including...

Solutions

Outcomes

Relationships

Network partners

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



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A study of targeted set of 12 service providers

Diversity across ecosystems/sectors	Comparable companies within ecosystems/sectors
Rail ecosystem	<ul style="list-style-type: none">• 2 train solution providers
Defense ecosystem	<ul style="list-style-type: none">• 2 defense solution providers
Utility ecosystem	<ul style="list-style-type: none">• Water service provider• Energy service provider
Local public ecosystem (councils*)	<ul style="list-style-type: none">• 2 support service providers
IT sector (multiple ecosystems**)	<ul style="list-style-type: none">• 2 IT solutions provider
Professional service (multiple ecosystems)	<ul style="list-style-type: none">• 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**

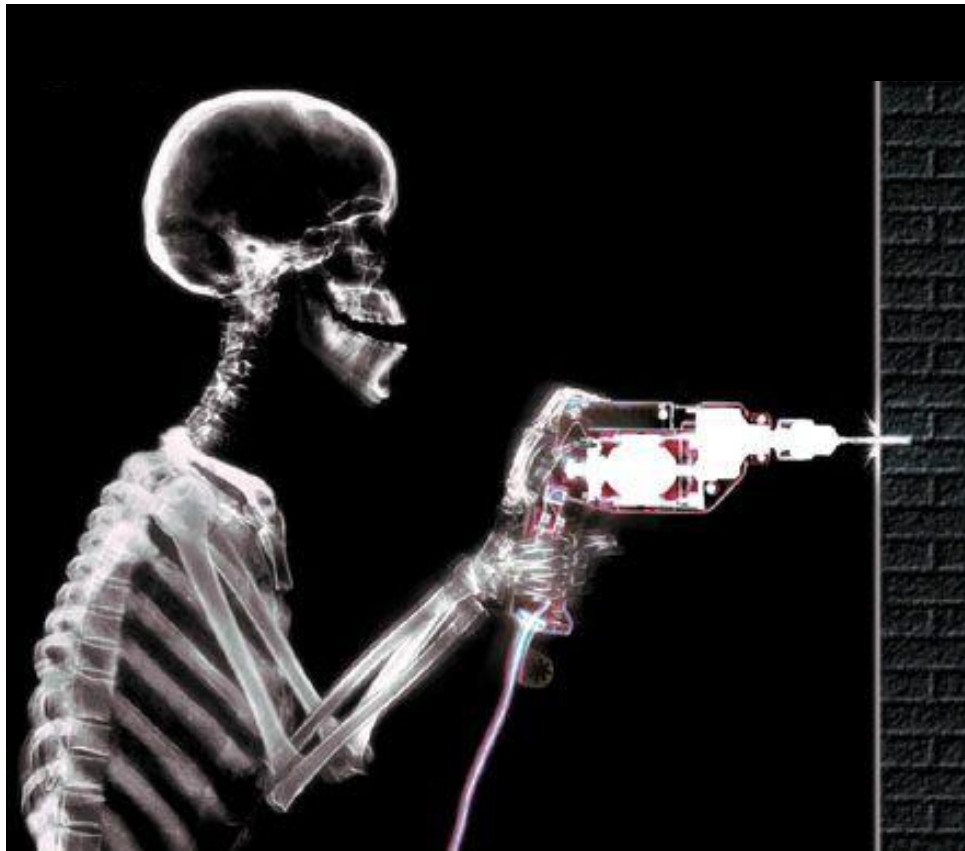
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Service providers don't want only to make a ¼ inch hole anymore.....



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

Theodore Levitt, Harvard Business School

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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Value delivery



What did we learn?

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

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Manage risk



What did we learn?

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

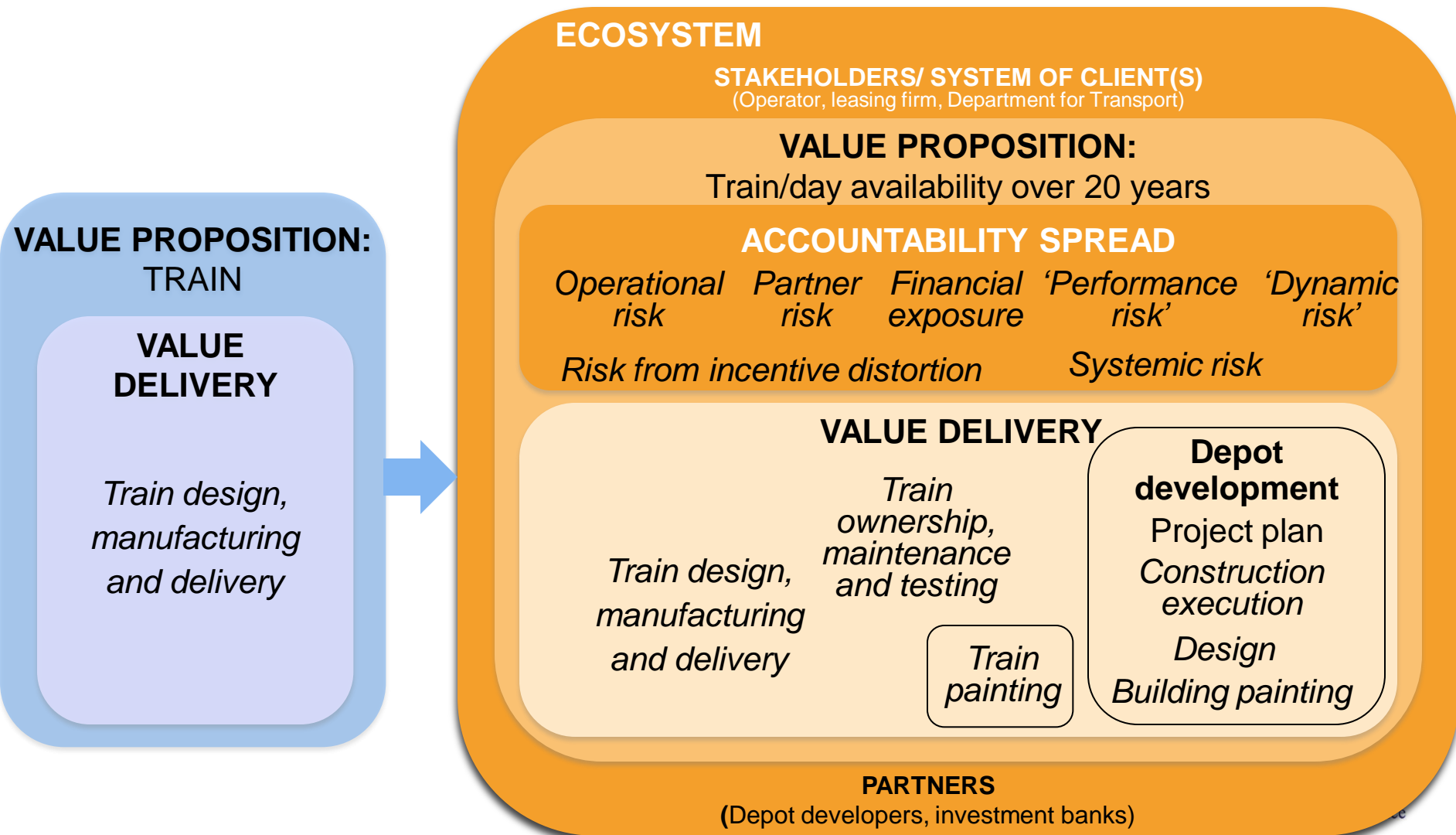
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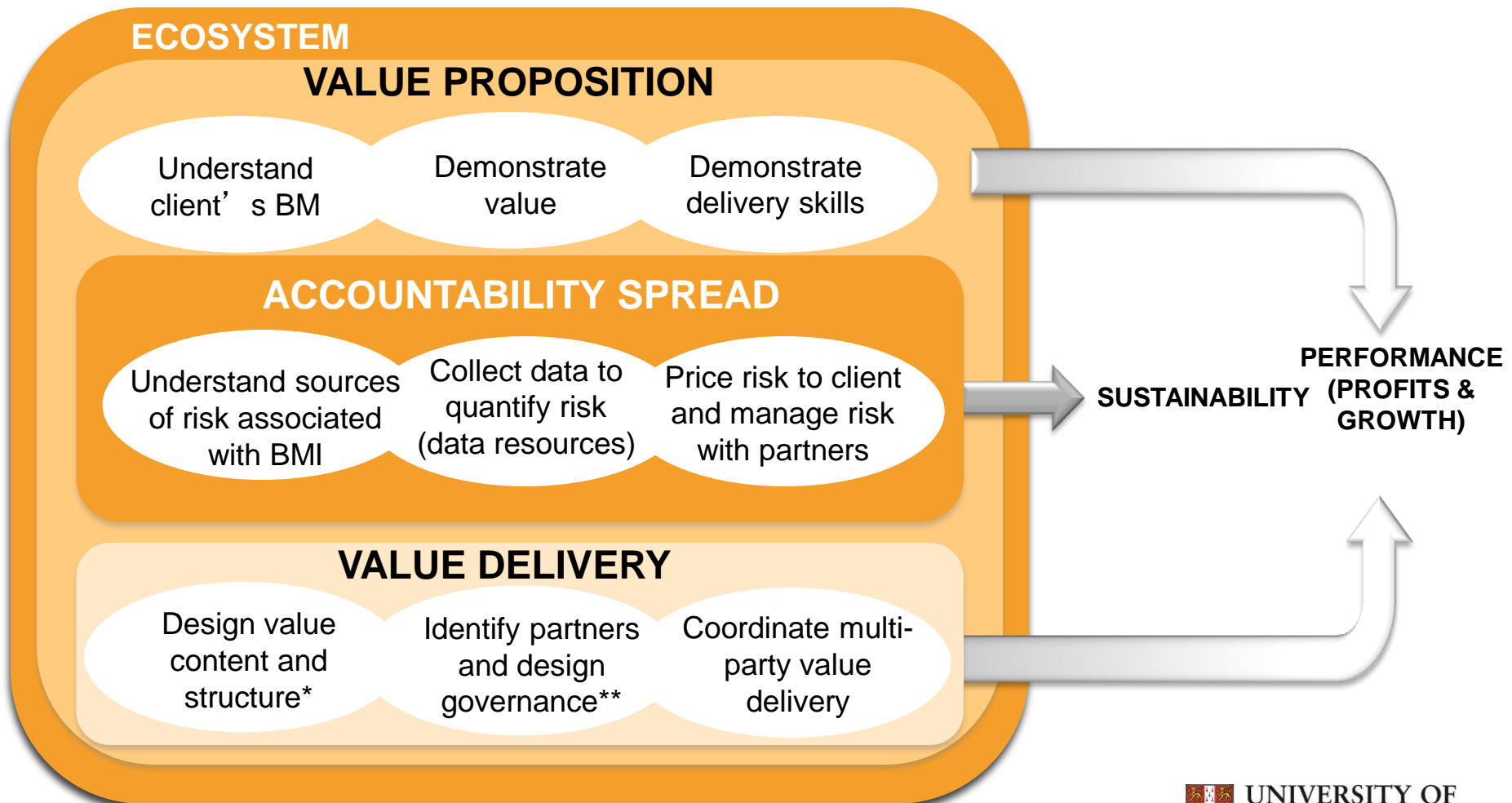
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Example of business model innovation from rail sector



... 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