

Hiding in plain sight

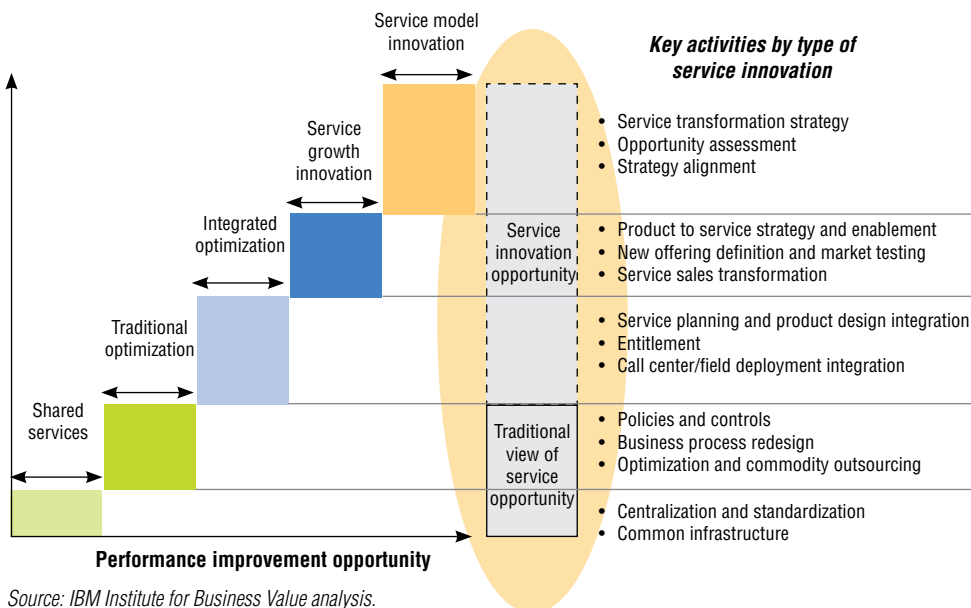
Service innovation, a new priority for chief executives

Many manufacturers are so focused on designing, manufacturing and selling products that they can overlook a surprisingly large opportunity: service. For most firms, the service function not only strengthens customer relationships, but can also provide a significant source of revenue and impact company cost structures. The time is now right for manufacturers to innovate their service function.

For many manufacturers, the service function represents a significant source of untapped value, impacting cost structure, revenue and customer experience, the three primary drivers of business value. Yet in many manufacturing companies, service has been an “after thought,”

getting little respect in the inner workings of the company. But the time is now right for innovating traditional after-market service operations and for moving the service model toward a profit center. Leading companies have shown that service innovation can be successful and that the benefits can be significant.

Analysis of service innovation opportunity.



Source: IBM Institute for Business Value analysis.

The service opportunity

Service provides two attractive business opportunities for a company: creating new services to drive new revenue, and reducing the cost of existing service operations without reducing customer satisfaction along the way. Yet, executives sometimes overlook the full potential.

The common underestimation of the service opportunity comes from a combination of:

- Focusing on warranty costs with a cost formula that neglects key service elements
- Not fully seeing service in terms of a complete value chain (similar to the company’s product supply chain)
- Ignoring the opportunity cost of not pursuing the market for new fee-based services.

As shown in the Figure, we estimate that the overall business opportunity for innovating service can be as much as three to ten times larger than chief executives realize.

The opportunity is hiding in plain sight. The business payoff from service innovation is much bigger than commonly thought. And the barriers to achieving this kind of innovation are now significantly lower.



Successful service innovation involves focusing on three areas

The companies that have been successful in developing this new opportunity have focused on three areas:

- *Service model innovation:* Establishing the service strategy and service business model for the firm
- *Service operational innovation:* Dramatically lowering the cost of existing service operations, while continuing to improve customer service levels and user experience
- *Services growth innovation:* Managing the creation, development and delivery of new service offerings using the same discipline and rigor as used with new products.

The first area (service model innovation) involves establishing a clear direction for the overall service model, by aligning it with the core enterprise strategy; this will inform choices in both the service operational model and services growth strategy. The next two areas are typically tackled concurrently. Focusing on the service operational model and growth models together allows for formation of an operational model which can support new growth strategies.

Innovating the service model

The first step for service innovation is to determine the strategic intent for service in the enterprise's overall strategy. The key question is whether to focus on: reducing the cost of existing service operations, often through improving the levels of integration and optimization of existing operations; growing new service revenue, which often means increasing the services portfolio; or both cost optimization and revenue growth.

Innovating service operations

Innovating traditional service operations serves as a foundation for improving customer satisfaction and, in many cases, for creating a successful services growth strategy. Despite the prevailing assumption to the contrary, it is possible to reduce costs and still improve customer satisfaction. Successful companies typically work through four stages: establishing a baseline, integrating the entire service chain, achieving service chain proficiency and, ultimately, optimizing the service chain through integration with other key business areas of the enterprise.

Innovating for services-led growth

The leaders in service innovation do, in fact, move their traditional service functions toward profit centers, seeking additional growth opportunities based on new services. These growth opportunities can take the form of professional services, outsourcing/alliances, information services or financial services, and each has the potential to result in significant new growth.

Conclusion

A sizable opportunity is now hiding in plain sight. By focusing on these three areas of service innovation, manufacturers can innovate their traditional after-market service operations, and optionally move the service model toward becoming a profit center.

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