Is your company a Service Oriented Enterprise?

Will YOU choose to survive or *lead* in the new Services Economy?

A **Services Transformation and Innovation Group LLC** *and* **Satmetrix** *White Paper*

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The services and support organizations of most companies today are the customer champions. How can we leverage this leadership along with a comprehensive customer feedback system to drive new value for customers and stockholders? Read on…

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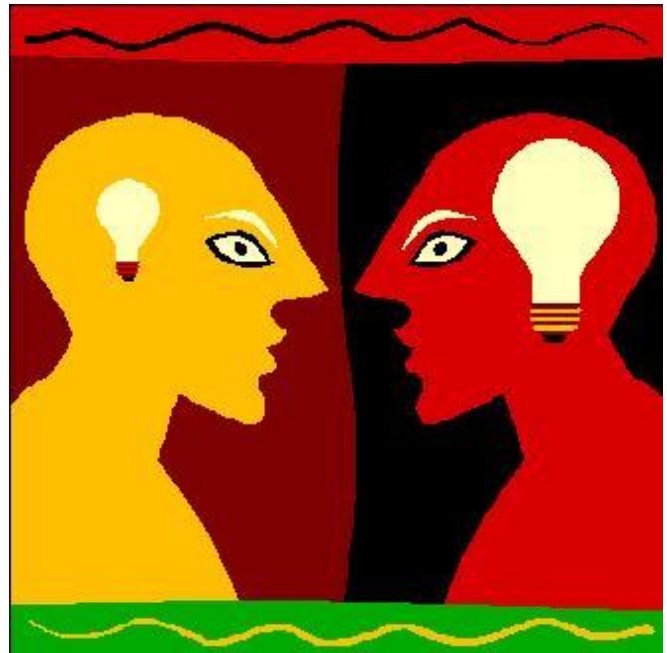
EXECUTIVE SUMMARY

The Services Oriented Enterprise™ describes a new model for companies to drive customer value by focusing on your customer's success. This paper will discuss the importance of services in the new economy, the evolution of services that takes us toward the Service Oriented Enterprise and then how this next revolution will be led by those who are the most connected to their customers.

OVERVIEW

Ask any company what they do and they will tell you about what they make or what they sell. Very few will talk about the value or outcomes that they create for their customers. Why? Because, they do not really know how they create customer value.

It is hardly a secret or even a new trend, but when companies focus on their customers, they enjoy greater overall success by all key measures. We, at the **Services Transformation and Innovation Group** along with our partners like **Satmetrix,** have been focused on helping companies become more customer centric. A key to becoming customer centric is to ensure that you have a clear strategy on how gain **actionable** customer feedback and use the feedback for competitive gain.

Designing and creating an exceptional experience for your customers now involves your entire company enterprise and not just the front office or customer facing organizations. Likewise defining "the customer" is becoming far more complex. Companies wanting to lead in the new services economy would be well advised to leverage their customer service and support leadership and the latest process and technologies to accelerate adoption of customer feedback as a part of their transformation. The service & support leadership in companies needs to step up with validated customer insights to "earn" their position as a customer advocate.

THE GLOBAL SERVICE ECONOMY

There has been an ever accelerating rate of transformation in industry over the last 100 years. The nature of companies has transformed from a focus on efficient production and distribution of goods to a new focus on delivering more complex and expert knowledge based solutions. This is evidenced by the growth of services as a percentage of the economies of most of the developed world. In the USA alone, services accounts for over 80% of the GDP[1] and more than 70% of all labor.[2] The growth is not coming from food service or hospitality but from complex knowledge based services and products. In fact few people know that the

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[1] Organization for Economic Co-operation and Development (OECD) *Science, Technology and Industry Outlook 2004*
[2] U.S. Bureau of Labor Statistics

U.S. actually maintains a significant global service trade surplus even with countries like China. Today, leading technology companies like IBM, Oracle and HP see more than 50% of their revenues coming from services and the majority of the overall profit for those companies coming from those services. The industry leaders of tomorrow will have to become more services oriented and far more customer focused.

The service transformation that we are seeing today is being driven by our customers that are demanding even greater value from their vendors. The service systems supporting the transformation are growing increasingly complex and the services supply chains involved are expanding globally. The question here is, has your ability to measure customer success transformed at the same pace? Are you able to effectively translate customer data into information and then into positive action that will drive profitable growth?

THE SERVICES JOURNEY BEGINS

The Services journey has followed the industrial revolution but has continued on into the Internet age. The industrial age was all about the products that we produced, and how to produce them better, faster cheaper, but we failed to recognize the complex burden that we were putting on the consumers of those goods. When those burdens became an inhibitor in the marketplace, smart producers started to relieve some of the customer burden by increasing the after sale services for those products. Building bigger, better or faster products had no benefit if they could not be easily used or consumed to create value.

Product Services started as simple warranty break fix type services. Before faster transportation started to shrink the world, the producers lived within the community that they served. Therefore, ensuring that the product worked as promised was important to the local reputation of that producer. It was all local and all about reputation and personal integrity.

Technical Services Evolution

Services evolved slowly and the business models around services evolved even slower. It was an evolution and not a revolution. The steps of evolution happened as a result of the changing customer. The technical services evolution started to change dramatically in the 1970's. Following technology gains, suddenly it was no longer good enough to back up what you sold from a warranty view. Price pressures were being put on technology products as they matured. Since post sale warranty and other services were built into the costs of the product, companies started sell products and post warranty maintenance services separately. Service departments evolved from a cost center in manufacturing to a profit center, often under sales or other front office operations. Since maintenance services were now a separate line item on an invoice, customers could place differing values on the product and post sales support. Service now had to stand alone in terms of sales, contract renewals, revenue and profits. Shorter and limited warranties led to new

> **Service of tomorrow is about unlocking the value of products and services. At the Services Transformation and Innovation Group LLC., we are unlocking the value of services organizations and helping to create new economic value for their companies and their customers.**

kinds of contract services, focused on products but limited to those sold by the manufacturer.

Delighting the customers to engender loyalty and sales referrals while delivering perceived value became an important issue and we needed ways to actively measure these outcomes. Contract or other renewal rates were one measure of customer satisfaction, but by the time that you detected a down turn, you were in DEEP trouble. We had to find ways to measure customer value in real time and in ways that would help us provide the same closed loop quality process that had revolutionized manufacturing[3]. New companies and technologies came online to help measure the quality of customer interactions. They started with business to consumer based businesses (B to C) where the value of loyal customers was first recognized. It was then was adopted in the Business to Business (B to B) space once the focus on product innovation shifted to focus on customer needs.

Homogeneous to Heterogeneous Service

Next, customers started to take disparate technology products and interconnect them to create *systems* that would help them gain a competitive edge. They moved quickly from homogenous, single vendor, technologies to more heterogeneous multi-vendor systems. The servicing of the homogenous systems sold by the manufacturer was no longer good enough. Customers wanted the technical advantage by using best of breed products in unique ways. Customers started to look for more holistic services from their prime vendors. Product vendors found that they could differentiate themselves by better leveraging their existing infrastructure and capital investments and started servicing the heterogeneous systems that their customers had purchased. While the customers had created the heterogeneous environment, they still wanted a trusted vendor and single point of contact for their service needs. Thus was born the multi-vendor service offerings and adjacent product 'value added' services like installation, integration, tuning and others that optimized the product or technology.

Leveraging infrastructure to expand service revenues was not limited to just product and technology companies. We started to see a rise in companies that produced nothing in terms of hard goods suddenly become highly profitable service delivery companies by leveraging things like their supply chain infrastructure. Examples include companies like FED EX or UPS.

Changing Values

The business financial and value models were shifting and soon we found an ideal intersection between our customer's need for more complete solutions to their business issues and the producers' need for extended profits over the lifecycle of products. Instead of producing services in sole support of a product, we started to see services that created "added value" to the customer's business. Companies like IBM were generally the pioneers for these services in the technology sector. IBM

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[3] For more on this subject read W. Edward Deming of Total Quality Management

was a manufacturer that was in deep financial trouble before shifting to the new services model and delivering value differently. They still manufacture capital equipment but they profit by helping companies compete by leveraging use of technology, services and knowledge.

The next stage in the journey saw companies who had leveraged their infrastructure and services business organizations start to also leverage unique knowledge to create value. As organization began to participate with their customer to create value with the new product value add services, they learned more about their customer's operations and success factors. The unique knowledge that they had gained through their greater customer intimacy led to bundled products and services specifically tailored for various types of industries. Retail, financial services, logistics and distribution industries benefited from service systems and best practices focused on helping them win in their unique market place. The value of the services shifted to making the customers more competitive, not just in making the products more competitive. This change of focus was key.

The Services Transformation

Up to this point services evolved to meet internal demands for growth and profit while responding to customer pressure to reduce cost and increase value. Today we are seeing the next transformation of services based mostly on customer value. From a producers view, the top performers in most industries have a successful and strategic services focus and are leading their peers in both top line revenue growth and bottom line profits. The Service and Support Professionals Association (the SSPA), the largest technology services trade association, studied the public financial reporting of the top 50 Technology companies. They showed that the *Service Top 50*[4] reported more than 45% of their 2007 revenues for those well known product companies (including, IBM, Dell, Dell, Oracle, HP, Cisco, Xerox etc.), were from services. These reported earnings from the SSPA/ TPSA report are even somewhat conservative because of the way that public reports are calculated.

The recognition of this new financial model is changing everything. Those on the leading edge of this transformation are starting to see that the value consumers see is not in the product produced but rather is in the value of the product in their intended use. At The *Services Transformation and Innovation Group* we have seen these models transforming into something that we call *The Service Oriented Enterprise*.**™** The essential characteristics of this type of business is that it derives value from positive customer outcomes and participates deeply in the customer supply chain and value chain. This new business model works by helping the customers achieve success that they were otherwise unable to deliver on their own. One familiar example of a new service company might be Google, who essentially gets paid for increasing the web presence of their customers based on ad clicks etc. If they are

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[4] See http://www.tpsaonline.com/the_service_50.asp The Professional Services Association (TPSA) is connected with the SSPA.

successful in driving positive web presence, they get paid, if not, there is no value created and therefore no cost to the customer. Google is an example of a service company that does not produce hard goods and has grown into the value model that they are today. What about traditional product companies?

We have studied companies that have survived more than 50 years that had started as manufactures of products. The companies that have survived are those that transformed themselves to deliver value through new and innovative services. Even more interesting to us were companies that have transformed their entire enterprises to deliver products and services aimed at the value of those products in "their intended use"[5]. Today, for example, we see jet engine manufactures selling "power by the hour" that basically takes over full operational and ownership responsibility of the jet engine equipment maximizing an airlines plane availability and safety while minimizing the airline's capital expenditure. This is not about a different kind financing, or a marketing program, this involves the design of engine, data and information systems, operations, financial services and in essence is the whole company. We have seen a large manufacturer of farm tractors become a source of information, expertise and equipment that drives increased crop yields for farmers and then shares in that increased yield as a potential revenue model.

What makes this work is that these transformations are not just about the services or support organizations trying to increase revenue and profit in one line of business. The service and support organizations may play a major role but this is really about the whole company or enterprise working from the design and engineering departments, the back office business operations, sales, marketing etc. choosing to ignore the typical industrial model and division of labor[6] to concentrate on the customer's value chain. In other words, the entire enterprise is focused delivering a complex service system to, and with, the customer in order to drive positive customer outcomes. These new business models required for companies to succeed in the new global services economy.

CUSTOMER ORIENTED CONTINUUM

For a company to transform to a Services Orient Enterprise, they will need to do more than just react to customer demand. As we have observed companies, we know that there is a customer orientation continuum that most product based companies follow. The beginning of the continuum is where the company's customer focus is really about bringing new or unique product or technology to the market. The assumption here is that the customer gains value by having early access to bleeding edge technology. As companies and products mature they grow through the stages of product value add services, then to the added value services.

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[5] For more on this concept see the book Vargo and Lusch -*2004 The Service-Dominant Logic*
[6] *See Adam Smith's* "_The Wealth of Nations_" *for more description on the division of labor in an industrial context*

"Value Add" services are services that enhance the core product value like support and implementation. "Added Value" services are those that relate to adding value to the customer enterprise by accelerating time to value or reducing TCO (total cost of ownership). As companies deliver these services and gain more detailed understanding of their customers, they develop the next stage of more customized and tailored solutions. Eventually they may become an industry leader with a more service oriented enterprise approach that is truly focused on the customer outcomes, but not by evolution alone.

This continuum may also be thought of in terms of "customer centricity" or how customer centric the organization may be along some defined scale. While we feel that measuring customer centricity alone over simplifies what we talk about in "The Services Oriented Enterprise" (SOE) model, it is a key component of company longevity and success. The key take away here is that the most successful companies in the world have at least one key thing in common. They listen to their customers. More importantly, they ACT. Top companies have a customer focus either through formal and structured feedback mechanisms or through a culture of customer centricity. They are able to leverage the feedback to react faster to market changes and work up higher in the customer value chain.

Understanding and embracing the changing customer

The concept that you should listen to your customers is certainly not new. In fact, if you do not listen to them, they WILL find ways to get your attention. If you do listen to customers but then fail to *ACT* on their input, it is a double insult. We have observed some companies that actually resist formal customer input programs because they do not want to expose themselves to the possibility that they cannot or will not act on the input. On the other, hand customers do not ask for innovation as much as they ask you to solve their apparent problems. Henry Ford is quoted as having said that if he had listened to his customers, he would only have built faster horses. We have often used the analogy that if Edison had used market research, he would never have invented the light bulb. While customers may want to tell you how they want problems solved, taking direct action on that input may result in a faster horse and brighter candles and the end of your company as you know it. Innovation comes from understanding customers, not just listening.

Customer program or customer focus?

There are books written on this subject far more detailed than anything that we can write here.[7] The purpose here is to give you a direction on the processes and best practices that will allow your company to compete in the new global services economy and to beat your competition by being more focused on value of customer outcomes. Ask yourself a few key questions:

> *Studies have shown that most companies do not effectively use or benefit from customer feedback.*
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> - *More than 90% have some sort of customer feedback program*
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> - *Less than 50% effectively communicate the results*
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> - *Less than 10% use the data to create specific improvement programs*
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> - *Only 5% measure the impact of their process improvements*

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[7] See example books like: Chief Customer Officer by Jeanne Bliss, David Davidow and Bro Uttal, Total Customer Service, Fred Reicheld's, The Ultimate Question

1. Do you have a Chief Customer Officer? While this is largely a conceptual title or role, the key point is that someone in, or close to, the C suite needs to drive the customer strategy for your company. Many argue that this is the role of today's CEO, but given the world of public company governance can they alone put enough strategic focus on it?

2. Do you know how you customers measure success? Are you able to actively and accurately monitor it?

3. Who "owns" the customer in your company? (Watch out, trick question here.) Who is accountable for the customer success? Is there anyone working on customer or service innovation in your company?

4. Do you know how many ways that your company interacts with your customers? Have you ever mapped out your customer touch points within your company and who the key players are in each touch point?

5. Do you know your Net Promoter Score ®[8]? Do you know what your customers really think about your products and services? Are you sure? If you do measure customer feedback scores, do you know what actions it will take to improve the score? Relative to your competition, are you leading with these scores in your space or lagging?

Don't feel bad even if you said "no" or "I don't know" to all of the questions above. You might be a member of a very large club. However, those that have an answer or at least have thought about these subjects will most certainly be celebrating more success with their company because they are focused in the right direction.

There is an old expression that says: "If you are not the LEAD dog, the scenery never changes." In helping to guide our customers in their services transformation, to become the "lead dog", we use a much more extensive assessment tool that helps us define the current state or position along the SOE or customer centric continuum. We are not so delusional as to think that there is any one right answer for all companies. Companies decide on their own key strategic initiatives and there is a continuum that everyone operates under. The goal is to continually improve the customer focus. If you are not meeting minimum standards of customer centric behavior, then chances are you are losing to your competition. Reaching the nirvana of being a truly service oriented enterprise focused on customer value and outcomes, remains a long and complicated journey.

Without going into a great amount of detail here, we have listed some of the attributes we would expect to see at both ends of the continuum. The minimum state assumes that you are not in the Stone Age and are concerned at some level about the loyalty and satisfaction of your customers. To achieve certain industry certifications, the minimum standards listed below, would be required. Some

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[8] Net Promoter® is a ground-breaking customer loyalty approach created by Satmetrix and Fred Reichheld, noted loyalty expert and Bain & Company Fellow.

attributes at the other end of the Service Oriented Enterprise continuum are shown in the right hand column. The objective here is not so much specific achievement of a single goal or attribute, but rather a program of continuous improvement with more and more strategic focus, corporate wide, on serving your customers.

Customer Centric Continuum

Concerned about Customers - Minimum	Service Oriented Enterprise - Nirvana
You have an executive sponsor for customer satisfaction surveys, user groups etc.	You have a Chief Customer Officer or other strategic corporate leader focused on positively impacting your customer's overall success by aligning people, process and technology in the enterprise to drive customer success
You have Customer Programs ongoing and a person or team accountable	You have a Customer strategy integrated across the enterprise, including R&D and the whole company is accountable.
You execute transactional surveys for each post sale customer contact	You have a fully integrated customer feedback process that ties into every organization, the data is analyzed, actions are created and results are continuously measured
You discuss internally customer satisfaction numbers and some teams are accountable	Customer feedback results go into some customer measure that is a part of the balanced scorecard used at all levels of your company to measure success
Decisions are made and presented to customers for feedback	Customer value is a consideration in all decisions. Input is actively sought, customer communication is an interactive process and results are shared with your customers
You survey customers after transactions or triggering events, you have user groups and forums for customers to provide feedback.	You maintain interactive dialogues with your customers. You have a continuous improvement programs that improve people process and technology in order to maximize customer outcomes
You react swiftly to customer complaints	You actively monitor customer formal and informal customer feedback, user groups, social media, web sites, blogs etc. and take positive action
You train people about customer satisfaction	You have integrated the skills and attributes around customer success and have integrated these throughout your hiring, skills development, compensation and other human capital or human resource systems
The service and support organization or customer facing groups drive customer satisfaction.	Service and Support or other customer facing groups are strategic and are viewed as customer advocates. Front office systems and staff are deeply integrated with back office systems and development and engineering teams. Service Engineering, Service Product Management, Customer Quality system are core competencies.

"No company can produce outstanding customer service unless its top management are visibly, constantly, and sometimes irrationally committed to the idea."

David Davidow and Bro Uttal, Total Customer Service

WHAT'S NEXT?

Here are the key summary points that we want you to take away from this introduction to very a complex topic:

- **We are living in a growing services based economy with over 80% of U.S. GDP and over 50% global GDP (Gross Domestic Product) derived from services.**

- **Product and technology companies have enjoyed top line revenue and bottom line profit growth as services evolved. Future services success depends on holistic processes with additional focus on customer outcomes**

- **The successful transformation of companies to move from product focus to customer oriented focus requires mature customer feedback strategies and informed customer focused leadership.**

It is clear that by any core measure that services plays a large and increasing role in the global economy. The old ways of delivering corporate value, largely defined in the industrial age, have slowly evolved. The transformation that drove companies to change from production optimization to customer optimization was driven by pioneering companies with a strong sense of their customers. The companies that have led in customer intimacy and embraced the customer's input have also led their competitors in shareholder value. How will you optimize customer and shareholder value?

For most companies, the next step should be a careful assessment of your customer feedback strategy. While you may consider outside experts like us to help guide your customer strategy and programs you likely have hidden assets in your company today. The service and support and other customer facing organizations that exist today in your company are rich sources of customer feedback. The leadership teams of those organizations are likely sources to help drive customer intimacy programs across the company. If you did nothing else tomorrow but to tap into this rich source of customer feedback and source of customer leadership, you would be moving in the right direction. The key to becoming a Service Oriented Enterprise ™ is making the commitment to customer success and then honestly evaluating your enterprise. Everyone in your company should have an answer to these two simple questions. "How are you adding value to OUR customers?" and "How do you know?"

Even the most innovative product companies today will not survive without moving towards becoming a services and customer oriented company. Those that want to lead in their market space will be delivering value through increasingly complex service systems. In order to share value based on the customer outcomes, you will need to be strategically focused as much outside the walls of your enterprise as you are internally. The ***Services Transformation and Innovation Group*** , along with our customer focused partners like **Satmetrix** can help you transform, innovate and optimize your way to becoming a Service Orient Enterprise. How will you thrive and survive in the services economy?

> ***Everyone in your company should have an answer to these two simple questions.***
>
> ***"How are you adding value to OUR customers?"***
>
> ***and***
>
> ***"How do you know?"***

ABOUT SATMETRIX

Satmetrix is the leading global provider of on-demand software applications and consulting services to measurably improve customer loyalty and link these results to financial benefits. As the co-developer of Net Promoter® the company's solutions enable companies to gather trustworthy data on customer experience, derive actionable integrate this information into the daily work flow of employees, and establish an ongoing dialogue within the community. The company has deployed more than 700 enterprise solutions in 40 languages. For more information visit www.satmetrix.com, or call 1-650-227-8300 in the US or +44 (0) 845-371-1040 in the UK and Europe.