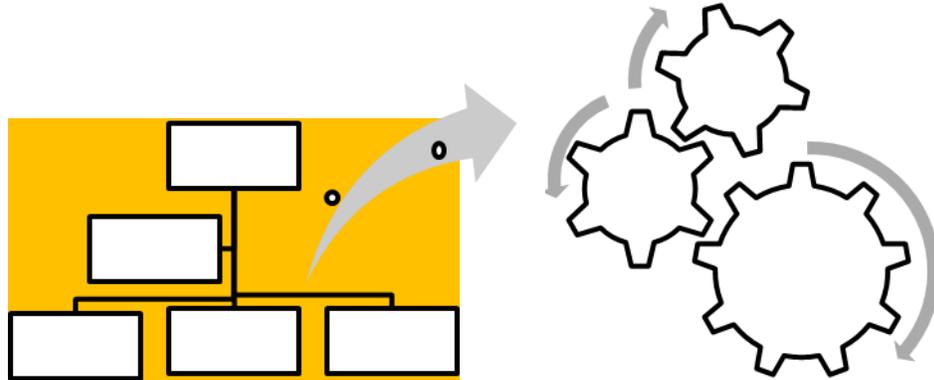


Services Innovation ... Services culture rapidly gains traction in product driven firms



... A Perspective on the Opportunity and the Challenges ...

Business Models for Growth and Expansion based on Evolving Product-based Organizations into Services-oriented Enterprises ...

Author:

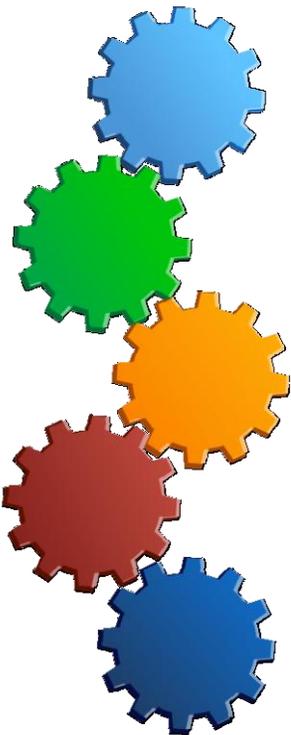
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Why It's So Hard to Evolve Product-Based Organizations into Service-Oriented Enterprises ...

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Business Models for Growth and Expansion based on Evolving Product-Based Organizations into Services-oriented Enterprises *By Tom Esposito*

...It's the little things that make the biggest impact... Two seemingly SMALL business strategy changes have had a significant impact in enabling the service culture to rapidly gain traction in product driven firms. The 1st was adding a small "s" to the word "Service". This small change to "Services" helped energize an entire industry to create a vast array of innovative fee-based services offerings aimed at helping customers accelerate the adoption of their products and business solutions. The 2nd was changing the focus from service in support of a firm's products...to services in support of a firm's customers.

These two changes have impacted many of the elements of a firm's business model and culture. Although many senior leaders recognized the need to adopt a services strategy and create a services business model to complement their product model, the execution of the strategy in many firms failed or did not achieve durable success. Sustainable success experienced by firms like IBM and GE can be attributed to the recognition that each business needs to be managed by its own business model. The ability to manage two business models effectively (the product business & the services business) with their uniquely different cultures at the operational level is essential to success.

Having worked with many product firms over the past ten years and for IBM Global Services before that, I've discovered that there are a set of principles that are not "subject to change" if you want to achieve success in services. A few of the most important are:

- Changing the firm's value proposition and measure of success to... *"Did we improve our customer's competitive position"*
- The acquisition and/or development of "thought leaders" with deep knowledge and understanding of your customer's business.
- Common services operational business processes that provide the ability to rapidly commit enterprise resources across organizations and geographies to solve unique customer problems / issues
- Approaching customers / "buyer" as a market of one vs. a mass marketing approach in managing key opportunities and developing customizable services offerings
- Implementing a services business model P&L with appropriate services accounting practices
- Durable senior leadership support who are committed to run the services business as a business vs. sub-optimizing it to the product business model

The services business model is not complicated... it is just different than the product business model. Gaining knowledge of the services business model and culture is a continuing journey and a critical success factor for senior leaders.

Why It's So Hard to Evolve Product-Based Organizations into Service-Oriented Enterprises *By Peter Lyons*

THE HURDLES

There are two major hurdles that must be overcome to make the shift to a services / solutions business model for product focused organizations. One is the need to recognize the notion of capabilities and how they create value for customers. Two is the go-to-market approach and its focus on individual buyers as a market of one. Why are these so hard for executives in successful product companies to accept? And how do they prevent companies from adding a successful services business the way that IBM and GE have done?

For one thing, both IBM and GE were fortunate to have leaders who understood that product and service businesses must be managed differently. IBM's Gerstner said: In services you don't make a product and then sell it. You sell a capability. You sell knowledge. You create it at the same time that you deliver it. GE's Welch pointed out: A services focus changes how you go to market and what you do in the market. You're selling ideas and solutions to a whole world that hungers for them. So what's so hard to grasp?

RECOGNIZING CAPABILITIES

Here's the conundrum with the notion of capabilities. It may be easier to think about this from a personal perspective. What is easy for you to do you probably take for granted and you don't recognize that it might not be so easy for others. This characteristic can scale to a large business or an entire company. When you take something for granted - this is where the problem arises - *you don't think it has any value*. As a consequence executives don't ask the question of how their corporate capability can create value for customers or if they get that far, they are reluctant to price it commensurate with the impact that it has on a customers' business. This inability to see capabilities except as expressed in a product form is especially prevalent when companies have had a long, successful run with their legacy product business. Recognizing the capabilities your business or company has, being willing to map them to customers' problems, and letting the impact on the customers' business determine the value and pricing overcomes the first hurdle.

ACCEPTING GO-TO-MARKET MODEL

As for the second hurdle, the go-to-market approach, the problem seems to be the inability to focus on individual buyers as a market of one. For product executives, the first question you hear is how big is this market. For a services business, you don't know until you go and try it out. And despite the fact that trying it out should be a profitable experiment these same executives are reluctant to let you attempt it, maybe because they can't explain this seemingly counter-intuitive approach to their senior leaders. And yet, to confound things even further, you don't have to make an upfront investment to start a services business, which should be music to their ears.

DEALING WITH THE PARADOXES

One of the tests that you can use to see how your company or business stacks up in the hurdles competition is to expose them to this top ten list of paradoxes in the services business and get a discussion going about how to deal with them.

1. There is enormous synergy between a product and services business as long as you manage them separately
2. Instead of selling products and penetrating markets, you are serving individual customers and expanding market opportunities
3. Outsource the customer offerings value interview because product people can't "not sell" their current product
4. 1st-of-a kinds are like your R&D; only you make money instead
5. Your first objective is to make profit and satisfy the customer; revenue growth is a lag metric
6. The "Sell-Make-Deliver" sequence is a best practice not a misprint
7. You don't sell offerings; you build a solution in the customer environment
8. You charge for services instead of giving away product support
9. You acquire thought leaders vs. firms
10. Operating business plans are only done after you have a profitable business

In the end, a services business is not complicated. In most cases it's easier and less capital intensive to run than a product business. It's just different. And that seems to be a major hurdle for many executives to overcome. The key is to use an open mind approach to a different business model.

About the Authors:

Tom Esposito, Chairman of The INSIGHT Group has had a unique opportunity to observe and participate in the growth of the fee-based services business. He Co-Founded the INSIGHT Group in 1996 following 30 years at IBM where he was acknowledged as one of the key architects of IBM's Global Services Business.

While at IBM, Tom was responsible for developing and implementing strategies to broaden IBM's services business from traditional maintenance and software support into a rapid growth high value customer services business including outsourcing services.

He also served as chairman of IBM's North American Services Executive Council and as spokesperson for the North American services business.

His last assignment at IBM was Vice President - IBM Global Consulting & Services where he was responsible for re-engineering IBM's rapidly growing geographic services businesses to a global services business with common goals, processes and metrics worldwide.

Tom is a frequent speaker at industry conferences and events...a member of the board of advisors of the Arizona State University's Center For Services Leadership

Peter Lyons, Partner, of The INSIGHT Group - Peter has extensive experience as a business coach and practice leader. He spent 10 years in DuPont's in-house business consulting organization where he led both the Strategy Execution and Services Business Growth practices.

With 30 years of business management experience at DuPont, Peter has held management and professional positions in research, product development, sales, marketing, and business strategy. As a practicing scientist in basic research he received a number of patents.

He helped design and deliver a Six Sigma based Marketing and Innovation Process Champion training program to over 100 marketing and technology executives. This leadership certification program is designed to train the future leaders of DuPont.

Peter has been certified as a marketing black belt by DuPont - where "Generation Three Six Sigma – The Science of Value Creation" is being practiced.

About The INSIGHT Group:

A management consulting firm specializing in building and renovating fee-based consulting and services businesses and service lines ... developing operational services & solutions strategies and business plans that help clients rapidly move to a high growth services & solutions business. Designing and assisting to implement best-in-class global coverage strategies and plans targeted on optimizing services, solutions and product successspecific emphasis is on global enterprise accounts and delivering differentiated customer value. In today's high-performance business environment, where customers value the integrated solution vs. piece parts products and support, services and account management are an increasingly important part of the overall business solution mix. INSIGHT is composed of highly skilled executives who have demonstrated successful achievements as line managers in Fortune 50 environments. Our consultants have extensive experience in running large scale product & services businesses, our understanding of industry best practices and our structured, process-driven methodologies that address all the essential elements of a business strategy, operation plan and management system. By providing comprehensive coverage from strategic planning to post-implementation management and training, INSIGHT simplifies the process of entering into the business solutions arena or helps optimize existing business solutions offerings.

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