

From Processes to Promise:

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

Ivanka Visnjic

***Ass. Professor ESADE Business School
Business model lead, Cambridge Service Alliance***

Tweeter: [ivankavisnjic](#)
Email: ivanka.visnjic@esade.edu



Just a couple of examples of how technology revolutionizes firms

Wave 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



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

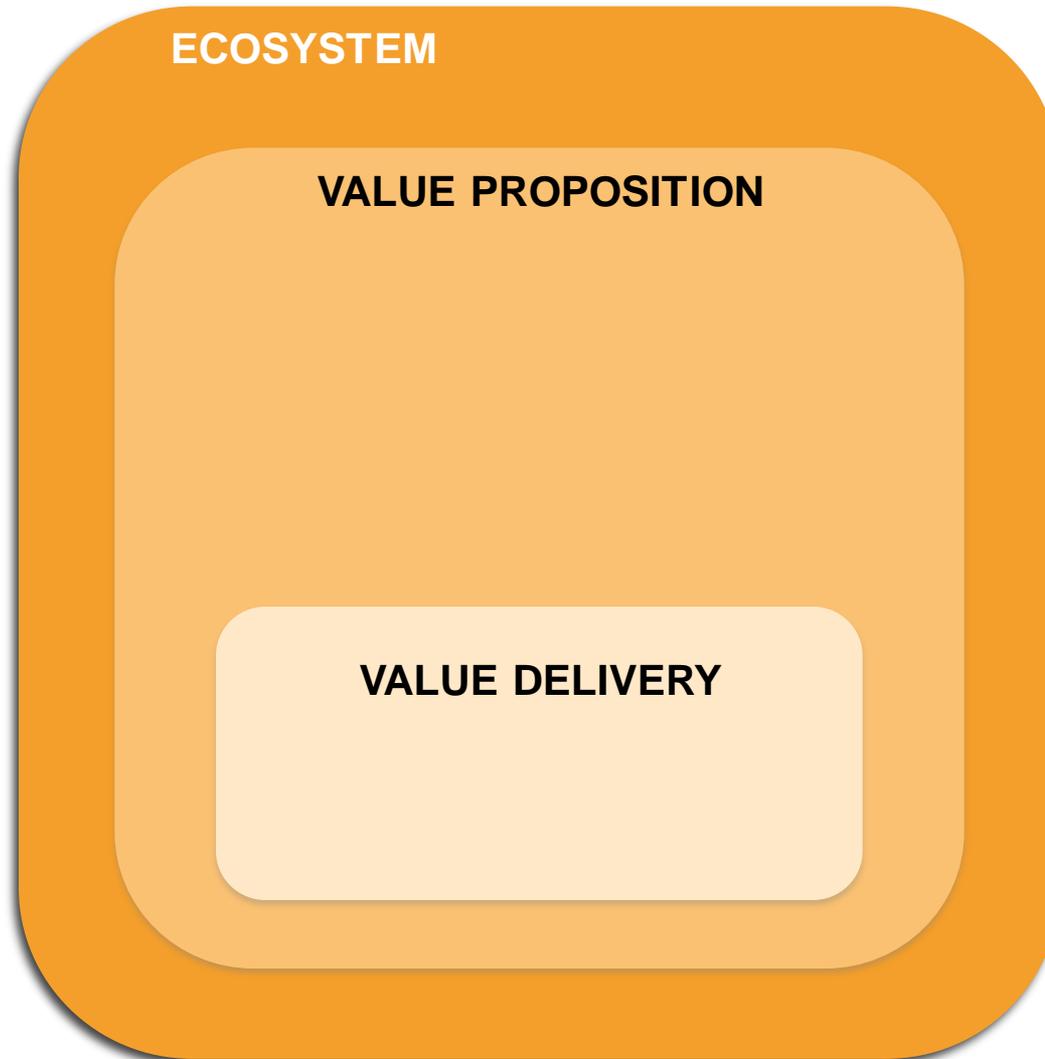
Relationships

Network partners

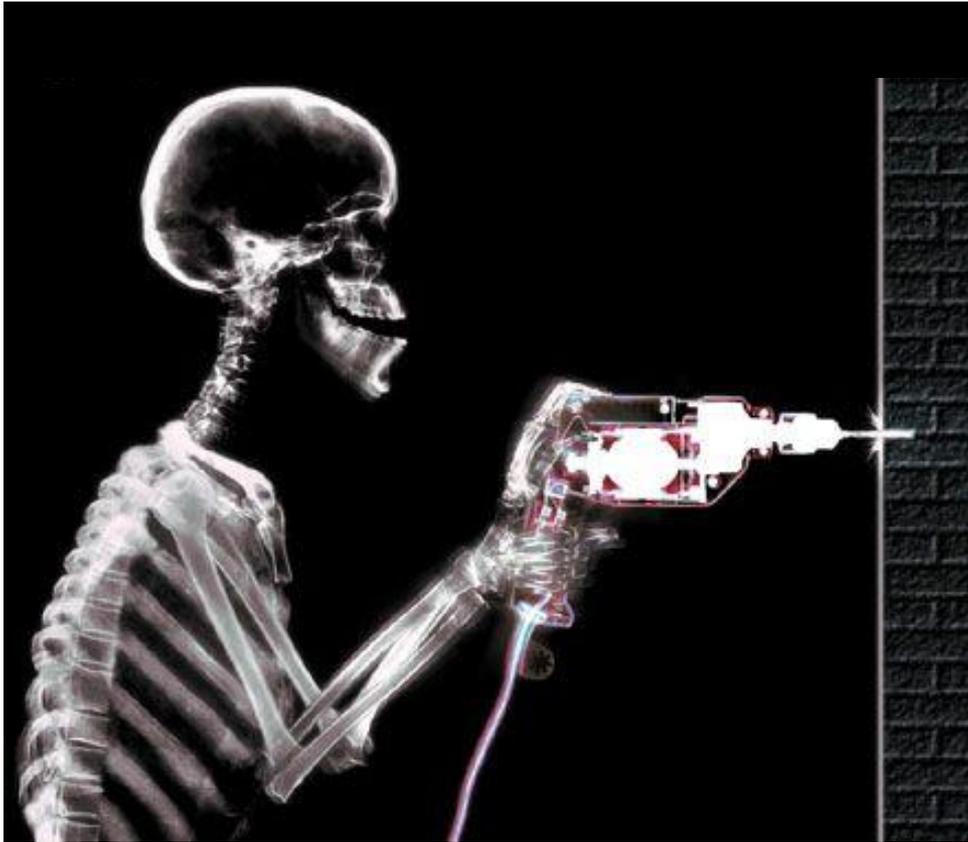
Ecosystems

- 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

WHAT DID WE LEARN?



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

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**

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

PARTNERS

Manage risk



What did we learn?

ECOSYSTEM

VALUE PROPOSITION

ACCOUNTABILITY SPREAD

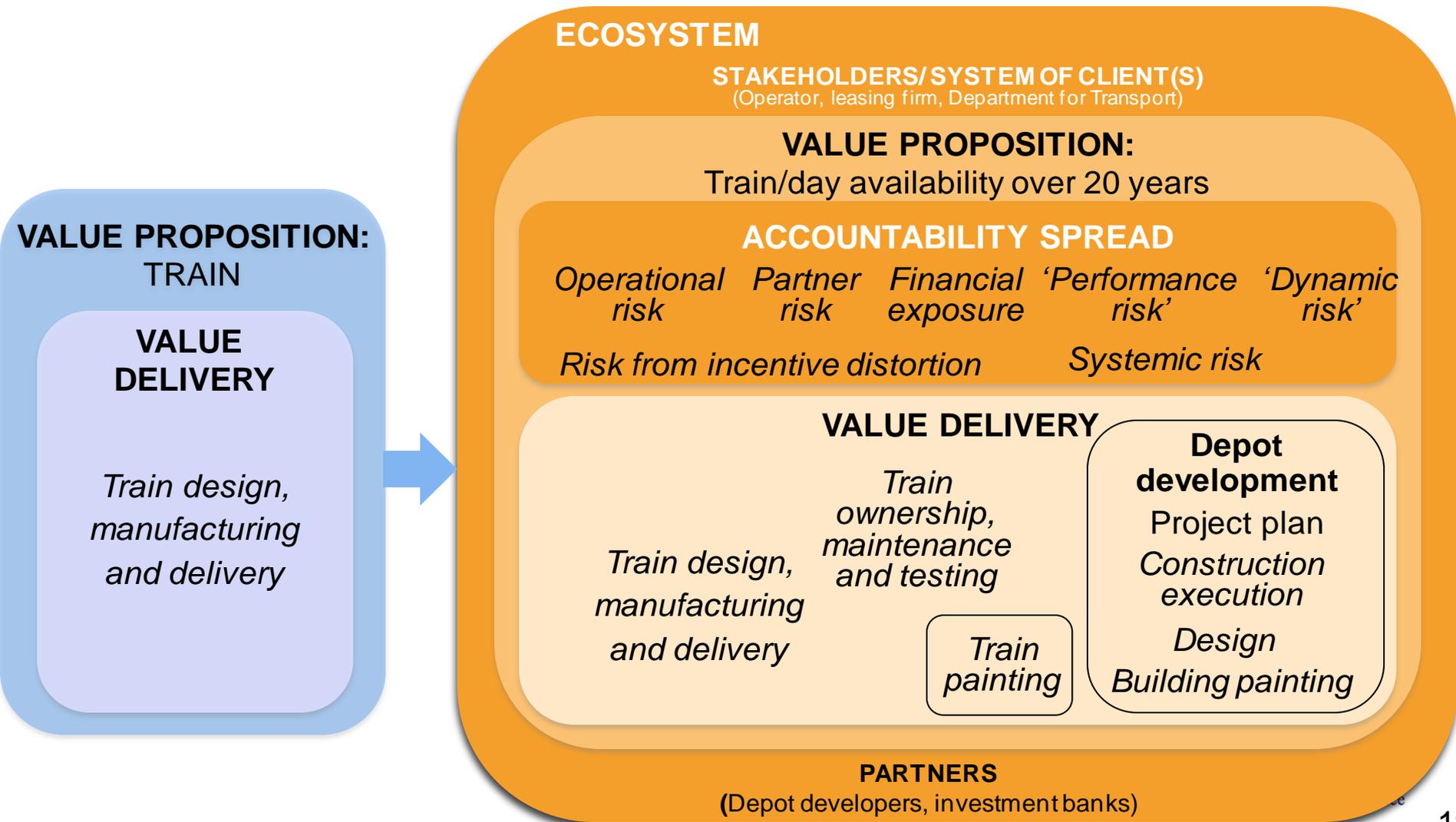
FINDING 4:

Extending value proposition and opening up value delivery leads to several risks: operational, performance, partner, financial, incentive, dynamic and systemic.

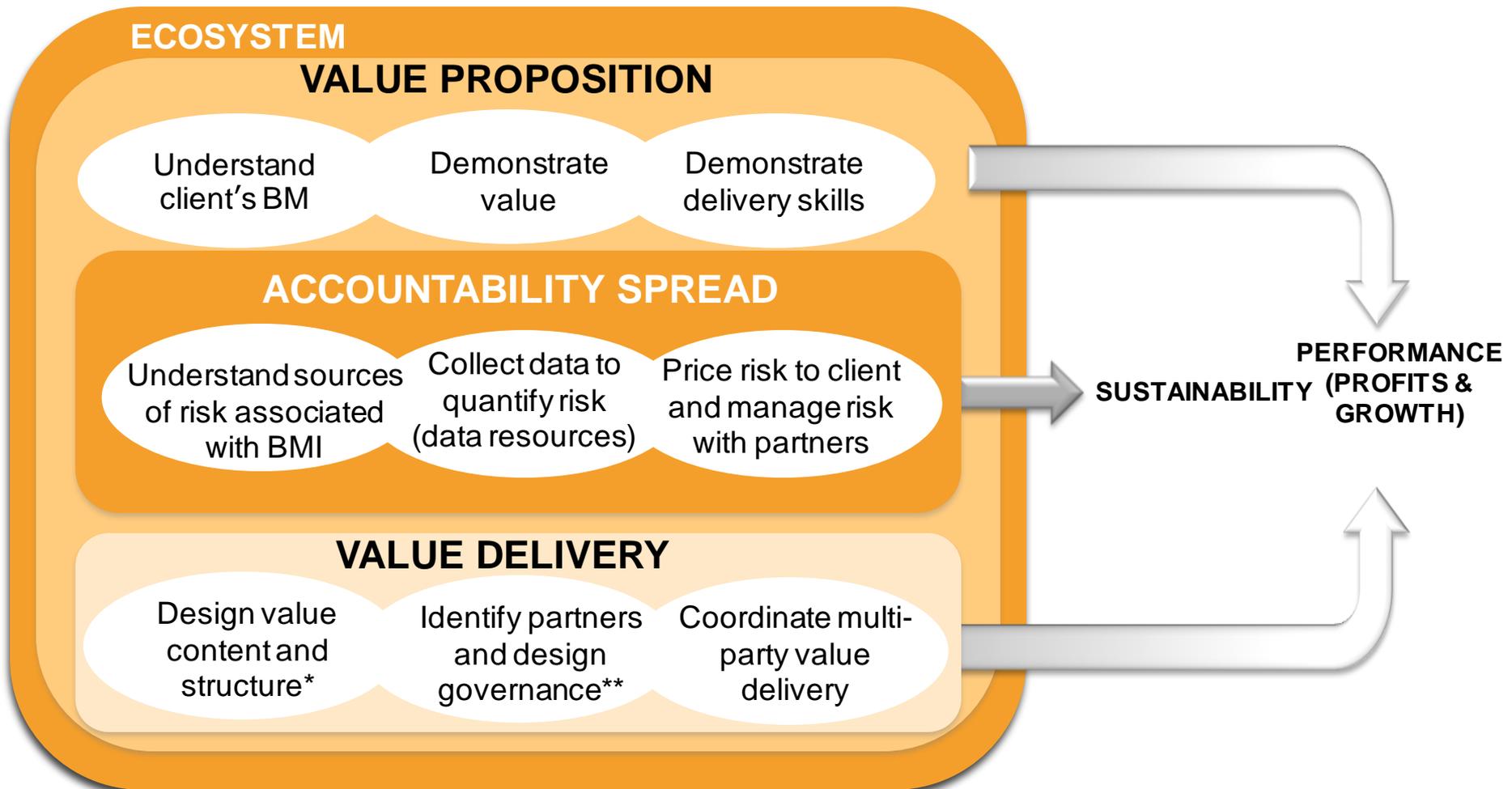
Sum of risks = accountability spread.

VALUE DELIVERY

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