The Service Oriented Enterprise™

...powered by customers

UCSC Oct 2014

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Founder / Chief Inspiration Officer
A Story in 3 Parts

- Why Service is important to the economy and your job future
  - Need for new skills and education
- Definition of Service – Thinking differently
- Understanding the power of relationships
  - How did this research journey begin
- Servitization and the evolution of Services
- Smart Services and the “Services Oriented Enterprise”
Service-providing industries are projected to account for the most job growth between 2008 and 2018.

In goods-producing industries, employment is projected to stay about the same over the decade.

This is due, in part, to increased demand for services and the difficulty of automating service tasks.

How many jobs were created or changed by new Services?
The largest labor force migration in human history is underway, driven by global communications, business and technology growth, urbanization and regional variations in labor and infrastructure costs and capabilities.

<table>
<thead>
<tr>
<th>Nation</th>
<th>Labor %</th>
<th>A %</th>
<th>G %</th>
<th>S %</th>
<th>Service Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>25.7</td>
<td>49</td>
<td>22</td>
<td>27</td>
<td>50%</td>
</tr>
<tr>
<td>India</td>
<td>14.4</td>
<td>60</td>
<td>17</td>
<td>23</td>
<td>28%</td>
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<tr>
<td>U.S.</td>
<td>5.1</td>
<td>1</td>
<td>23</td>
<td>76</td>
<td>25%</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.5</td>
<td>45</td>
<td>16</td>
<td>39</td>
<td>35%</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.0</td>
<td>20</td>
<td>14</td>
<td>66</td>
<td>21%</td>
</tr>
<tr>
<td>Russia</td>
<td>2.4</td>
<td>10</td>
<td>21</td>
<td>69</td>
<td>39%</td>
</tr>
<tr>
<td>Japan</td>
<td>2.2</td>
<td>5</td>
<td>28</td>
<td>67</td>
<td>38%</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1.6</td>
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<td>10</td>
<td>20</td>
<td>30%</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2.1</td>
<td>63</td>
<td>11</td>
<td>26</td>
<td>30%</td>
</tr>
<tr>
<td>Germany</td>
<td>1.4</td>
<td>3</td>
<td>33</td>
<td>64</td>
<td>44%</td>
</tr>
</tbody>
</table>

(A) Agriculture: Value from harvesting nature
(G) Goods: Value from making products
(S) Service: Value from enhancing the capabilities of things and their ability to interconnect and create value

CIA Handbook, International Labor Organization
Note: Pakistan, Vietnam, and Mexico now greater than Germany (since 2005)
Agricultural sector

*Agriculture* (a term which encompasses farming) is the process of producing food, feed, fiber and other goods by the systematic raising of plants and animals. Agricultural output is a component of the GDP of a nation.

Industrial sector

*Industry* is the segment of economy concerned with production of goods (including fuels and fertilizers). Industrial output is a component of the GDP of a nation. It includes mining and extraction sectors.

Service sector

A *service* is the non-material equivalent of a good. Service provision is defined as an economic activity that *does not result in ownership*, and this is what differentiates it from providing physical goods. It is claimed to be a process that creates benefits by facilitating either a change in customers, a change in their physical possessions, or a change in their intangible assets. Service output is a component of the GDP of a nation. The service sector includes farm and factory related activities.

The figures are based on nominal GDP and GDP (PPP) estimates and sector composition ratios provided by the CIA World Fact Book at market or government official exchange rates with figures in trillions of United States dollars.
Service (s)

The **application of skills and knowledge** (operant resources) for the benefit of another party. (Vargo and Lusch 2004a; 2006), *Service Dominant Logic*

*Or*

Service is any transaction of economic value that can not be dropped on your foot. “*The Economist*” -2006

**Service System**

Service has a greater focus on the management of knowledge as an asset and the channels through which knowledge, information and signals flow. Therefore, a **Service System** is a dynamic configuration of value co-creating resources that includes people, organizations, shared information, and technology connected holistically and organized to create new value outcomes by optimizing the creation and use of skills and knowledge for the benefit of others

**Service Value Network**

A (service) value network is a web of **relationships** that generates economic value and other benefits through complex dynamic exchanges between two or more individuals, groups, or organizations. Any organization or group of organizations engaged in both tangible and intangible exchanges can be viewed as a (service) value network, whether private industry, government, or public sector.

*Interpreted from: Verna Allee from ValueNetworks.com™*
How did this journey begin?

Curiosity: How do companies survive for 100 years, and why??
What if you were a Sparkplug Company?

And how do you survive for 100 years with drastically changing markets
The electrifying history of Champion Spark Plugs

- 1907 Champion is established in Boston
- 1909 Launch of Champion X spark plug
- 1910 Champion moves to Toledo Ohio
- 1922 Champion established in Britain and France
- 1924 Champion enters the aviation market
- 1939 Introduction of revolutionary five rib insulator
- 1958 Builds most modern research and testing facility
- 1959 Introduction of zinc-plated finish
- 1984 Launch of copper-cored spark plug
- Today – largest designer and builder of ignition systems

Turns out, customer relationship is key for success and SERVICE is key to the relationship
Relationship Creates Value

Transaction 

Interaction 

Experience

Browse 

Search 

Serve 

Relationship

Commodity 

Packaged 

Service 

Experience

Source: BusinessWeek 2005

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The Service Oriented Enterprise

The Enterprise becomes a Service Value Network

Powered by Customers
Global Economic Shifts

Ag Economy

Industrial Economy

Service Economy

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Economic Drivers of Business

- Powered by Labor
- Powered by Machines
- Powered by Technology
- Powered by Information
- Powered by Customers
Business Innovation Shift

Product Centric
- Outputs
- Products
- Transactions
- Suppliers
- Elements

Customer Centric
- Outcomes
- Solutions
- Relationships
- Partner Networks
- Eco-systems

Become
Evolve into
Develop into
Link up into
Interconnect to become
Servitization
Goods to Services Evolution

Warranty
- Cost of Manufacturing
- Quality Focus

Value Add
- Product Centric
- Homogeneous
- Product P&L

Added Value
- Heterogeneous and customer oriented
- Reduce Total Cost of Ownership
- Speed up productive use
- Services P&L

Solutions
- Current State for most product companies
- “Professional Services”
- Solves for business problems and technology issues
- Services P&L

Powered by Customers
- Customer centered business strategy
- Outcome Driven model
- Focus on customer success and value creation
- Technology enabled Business Innovation
- New economic models
- Enterprise P&L

Relationship Intensity

Market Expansion

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What do these have in common?
Tractors as a Service... increasing farmer success
Managing urban complexities as a service
Recognize these?
Over 50 million riders per day are processed by Cubic systems
Intelligent Travel Made Real
Intelligent Travel Data Made Real
Over $10 billion dollars in fares per year are accounted for

- Data on passenger traffic
- Better Urban Planning
- Advertising space
- New Funding Sources non-government
Thrust as a Service – Data driven outcomes
Reducing health care cost as a service

CVS/Pharmacy®
for all the ways you care™
Telematics for the customer and environment
Health management systems
New Service Opportunities are Everywhere

3 Ways CIOs Can Address Crimeware-as-a-Service

For $13, hacktivists can use an online service to attack a company’s website. Spammers can rent botnets for as little as $25, and $100 can get a cyber criminal 1,000 malware-infected host computers stationed in Belarus. Welcome to the world of crimeware-as-a-service. With prices like those, is it any wonder cyber crime poses an increasing threat to organizations?

Wall Street Journal – CIO Section Oct 13 2014
Simple Business Equation: Value = Value of Outcomes - Costs

**Powered by Customers - The Service Oriented Enterprise**

- Works to optimize the customer success, not internal processes
- Aligns the business to interests of customer success
- Becomes a focus based on outcomes that create value and enabled by:
  - Internet of things enables more symmetrical exchange of knowledge
  - Products are designed and engineered to be delivered as a service system
  - SaaS, IaaS, PaaS, ZipCar, Google Glass (service systems)
- We live in a connected world – real time smart sensors = DATA
  - Leads to smarter systems
  - Leads to unexpected outcomes not imagined by the customer
Business Evolution to Business Innovation

The Enterprise becomes a Service System

- Product Innovation is not enough – Outcome innovation is the new thing
- Financial success based on co-creating customer value creation and sharing in customers success and outcomes
- Removes division of labor in organizations
- Economic metrics & valuations change
- New Skills and T-shaped people with cross domain skill sets are critical
T-Shape Skills Required in Complex Operating Environments

How T-Shaped are you?

T- Stem

T- Span

- Project Management
- Finance
- Legal
- IT
- Customer Service
- Risk and Compliance
- Procurement
- Human Resources
- Global Understanding

Operational Expertise

- Memberships / Authorships and Recognition
- Education, Degrees and Certification
- Tools and Systems Proficiency
- Methods, Skills, Process Proficiency

T- Influence

- h-Index
- Sum Journal Impacts
- Likes for your Blogs
- Twitter followers
- LinkedIn connections
- LinkedIn Profile Views
- LinkedIn Endorsements
- Klout score

Courtesy of Dr. Lou Freund
Why is change so hard?

**Evolution, Revolution or INNOVATION**

“it is not the strongest of the species that survives, nor the most intelligent, but rather the one most adaptable to change”  
Clarence Darrow on Darwin’s theory of survival of the fittest

“A revolution is not a bed of roses. A revolution is a struggle between the future and the past.”  
Fidel Castro

“If I had asked my customers what they wanted they would have said a faster horse.”  
Henry Ford
One last note… Social Innovation

Light-the-world.org
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