

WITH A FOREWORD BY
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AUTHOR OF *WHAT CUSTOMERS WANT*

SERVICE INNOVATION

HOW TO GO FROM
CUSTOMER NEEDS TO

BREAKTHROUGH

SERVICES

LANCE A. BETTENCOURT

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ISBN: 978-0-07-171786-1

MHID: 0-07-171786-2

The material in this eBook also appears in the print version of this title: ISBN: 978-0-07-171300-9, MHID: 0-07-171300-X.

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*To my loving wife, Jolene,
and my four wonderful children,
Megan, Jake, Kate, and Julia.*

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INTRODUCTION

SERVICE INNOVATION: FROM CONFUSION TO CLARITY

Services dominate our economy and everyday life.¹ Though I have been studying services for two decades now, I am still a bit amazed when I look through a list of business sectors and see just how many are services and how important these industries are to the overall U.S. and global economy. According to economic census figures from 2007, more than 80 percent of the U.S. gross domestic product derives from service industries.² Well over 80 percent of employees in the United States work in service industries. And similar statistics can be found in other developed countries as well.

These service industries include education, construction, health care, utilities, retail and wholesale trade, finance and insurance, real estate, hospitality, transportation, entertainment, and a whole host of other personal and professional services. In addition, most companies that offer products for sale also offer services. IBM, for example, offers consulting services, and Hewlett-Packard offers financial services.

Given the dominance of service industries in the economy, it makes sense that people are interested in how to manage them properly. Over the past three decades, many excellent

books have been written about services strategy, management, marketing, and operations. Several universities have developed curricula devoted to services. And research centers such as the Center for Services Leadership at Arizona State University and professional associations such as the Information Technology Services Marketing Association have grown in significance.

Yet, there is still one nagging area of confusion that demands attention—service innovation. Innovation is a top priority for service executives, but they lack the guidance required to innovate in a meaningful way. As noted innovation expert Henry Chesbrough lamented just a few years ago, there is a “problem of innovation in services.” Chesbrough pondered, “Without tangible products to prototype and focus on, how can we determine whether we’re designing what customers want?”³

Most service executives ask themselves the same question. In 2007, IBM and Oracle formed a nonprofit consortium focused on service research and innovation—the Service Research & Innovation Institute. One of its key objectives is to bring together industry, academic, and government partners to advance understanding of the innovation of services. Describing the impetus for founding the nonprofit consortium, Jim Spohrer, a director of service research at IBM, noted, “People have a good idea of what technological innovation is. But service innovation is more hidden.”⁴ The absence of guidance on service innovation means that for more than 80 percent of U.S. companies, there is a hole in management understanding of one of the most critical functions of a business.

The dearth of insight into meaningful service innovation is remarkable when one considers the potential of service innovation to drive revenues and shape entire industries. Consider the success of MinuteClinic, a minimal-wait, walk-in health clinic service. Founded in 2000, MinuteClinic now has more than 500 locations in 25 states. What accounts for its success?

MinuteClinics treat a limited number of common ailments, are conveniently located near where their customers live, are open seven days a week, and never require an appointment. This makes them ideal for anyone seeking fast and affordable access to medical diagnoses and care for everyday ailments that might otherwise go untreated due to lack of insurance, high costs, need for an appointment, and other related concerns. In other words, MinuteClinic offers a highly differentiated service that satisfies some very distinct unmet customer needs.

The absence of a clear model to guide service innovation success can also be quite costly. More than 4 out of 10 new services fail, and this statistic must be interpreted in light of the fact that the development of truly new services is rare.⁵ Among the many negatives of new service failures are lost investments, lost customer goodwill, and potential damage to the corporate brand image. Without exception, studies of new service success versus failure point to the vital importance of having a well-differentiated service concept built on a solid understanding of customer needs. And there's the rub: how can you gain that understanding and craft a well-differentiated concept?

Confusion Reigns

Unfortunately, most attempts to offer guidance only add to the confusion. For one thing, most management teams fail to distinguish between service innovation and service development.⁶ *Service innovation* is the process of devising a new or improved service concept that satisfies the customer's unmet needs. Service development, in contrast, occurs once a service concept has been devised. *Service development* refers to all the activities involved in bringing that concept to market.⁷ Innovation experts may disagree on where innovation—creation of a new

concept—ends and development begins, but they agree that innovation entails the generation and detailed description of valuable concepts based on an understanding of customer needs. They also agree that companies often lack processes for these critical front-end activities, and this leads to the high failure rate for new services.

Because people confuse service innovation with service development, guidance is offered that fails to provide insight into the fundamentals of service innovation: uncovering customer needs and devising innovative service concepts. It's only by knowing what customers need that companies can engage in meaningful new service creation, but this is where so many companies falter.

For example, in an article entitled "R&D Comes to Services," Stefan Thomke offers some valuable advice pertaining to service development and testing.⁸ However, he also offers a five-step model for service innovation that raises more questions than it answers. The first step calls for the "evaluation of ideas." But where did these ideas come from? How were the customer needs that presumably led to the development of these ideas captured? More generally, executives are left wondering: How could customer needs have been captured that could have led to service innovations such as MinuteClinic, PayPal, and Facebook? What types of customer needs should a company capture to guide the development of next-generation health care services, consulting services, and financial services? Once customer needs are known, how can innovative service concepts be formulated?

A second problem with much of the advice available on service innovation is its undue focus on the service itself and the unique characteristics of services. This may seem like an odd statement in a book about service innovation, but it is true nonetheless. Let me explain.

Service innovation must begin with the recognition that services are solutions to customer needs. They are a means to an end, not an end in themselves. I don't need a doctor, a physical exam, or a prescription. What I need is diagnosis and treatment for an illness. The emergence of WebMD and self-diagnostics such as home pregnancy tests is witness to this fact. And here is a key truth: as long as service innovation remains fixated on particular services, innovation will be constrained because the focus will be on the means instead of the end. What is the point of improving a current service when you are still not sure what customers are trying to achieve? How likely are you to come up with entirely new service offerings when the anchor point is a current service?

A focus on the service itself has led to considerable emphasis on developing tools such as service experience design—as if these tools were synonymous with service innovation. These tools are designed to improve customers' experiences with a company's existing services. I cannot deny the importance of good service experiences. Personally, I love them. But the focus is all wrong if one is seeking to create new services. Let's be perfectly clear: nobody goes to a bank in order to have a good experience with the bank. They may select Bank A over Bank B because Bank A delivers a better experience, but let's not confuse that with why a person uses a bank in the first place. What someone seeking service innovation in the banking sector should be asking is, why does anyone use the services of a bank or financial service provider? Why might they? What are the challenges and struggles that customers encounter while trying to accomplish these goals?

Ironically, an overemphasis on the unique characteristics of services has caused service innovation to fall into the trap that has plagued product innovation for decades: capturing requirements on the solution rather than customer needs. Mystery shoppers, transaction satisfaction surveys, and annual quality

surveys are all means of uncovering customers' perceptions of service quality, which, once obtained, are then used as a key input into service innovation initiatives. But these tools are focused on current services, not on customers' underlying needs. Thus, they offer limited insight for the innovation of new services.

It is true that there are important differences between goods and services: services are more intangible than goods; services are often produced and consumed at the same time; quality control is more difficult because many services involve employees and customers as part of the product; services cannot be inventoried. But these differences are more relevant when it comes to the management of services than to the innovation of services, though they do play an important role in service concept design that will be described in this book. Unfortunately, undue attention to the unique nature of services has actually constrained past thinking about how to approach service innovation. With the substantial role that services play in our economy, it is time to take service innovation to a new level.

From Confusion to Clarity

Services that provide distinctive value to customers have more than three times the success rate of me-too services. And services that clearly align with customer needs achieve more than five times the success rate of services that have a poor fit with customer needs.⁹ In other words, successful service innovation begins with a proper understanding of customer needs.

Most companies, unfortunately, do not understand what customer needs they should capture to guide service innovation or how to uncover them. Without proper customer inputs, companies are likely to end up with incremental me-too service improvements, high service failure rates, general confusion about what new services to offer, and poor execution due

to cross-functional misalignment. But it doesn't have to be this way.

For the past seven years, I have helped clients in a variety of industries to apply an approach to innovation that is as relevant to service innovation as it is to the innovation of tangible goods. This approach is *outcome-driven innovation*, an innovation philosophy and process built around the understanding that people "hire" goods and services to get jobs done.¹⁰ We hire a nutrition plan to prepare healthy meals. We hire a search engine to locate information. We hire a real estate agent to buy or sell a home. We hire a storage facility to store goods. We hire a financial planner to develop a financial plan. And I could give many more examples.

A focus on the customer job offers several benefits to service innovation. First, and most important, when you focus on the customer job, your understanding of customer value is no longer limited by preconceived notions about a solution because your focus is no longer on the solution. It takes the focus off the service, and places it squarely on what the customer is trying to accomplish. This means that value can be defined from a customer perspective in a manner that can guide not only improvements to current services but also the creation of entirely new services (what some refer to as *radical service innovation*).

Second, when the focus is on the customer job, you can rely on customers to inform you of their needs for service innovation. This flies in the face of what you may hear from many so-called experts, who say that customers do not know what they need and cannot articulate their needs even if they can identify them. This is simply not true once the focus is placed on the customer job rather than on service requirements: customers know very well what they are trying to get done and can explain quite clearly how they measure success in accomplishing a job.¹¹

Third, a focus on the customer job provides a broader and deeper understanding of customer needs to guide service innovation. In addition to discovering other jobs that the customer is trying to get done, a company can deconstruct a specific customer job and search for opportunities at each step. This process may reveal particular steps that have been previously overlooked. It is also sure to uncover difficulties that customers have with particular steps. Those difficulties—those places where the outcomes customers use to measure success are poorly satisfied—may present service innovation opportunities that the company would otherwise overlook.

Fourth, by focusing on the customer job, companies gain a better understanding of substitutes and competitive threats, and how to innovate against them. Services don't just compete with other services; they compete with anything the customer might use or do to get the job done better. Forewarned is forearmed: with a job focus, a company can determine how to compete with both its close (other services) and far (substitutes) competitors because the customer job transcends solutions. For example, using a single set of customer outcomes (customers' metrics of success in getting a job done), a tax prep service could identify its strengths and weaknesses in comparison with those of other retail services, a certified public accountant, tax prep software, or the combination of paper, pencil, and calculator.

Finally, a focus on the customer job enables a company to discover innovation opportunities that appeal to a broader set of potential customers. A customer job not only transcends competitive offerings; it also transcends users and nonusers of market solutions. Currently, we are speaking with a financial services client about how to discover opportunities to innovate in a way that appeals to both banking and nonbanking customers who are trying to save money. Both banking and nonbanking customers are trying to get the job of saving money

done, and the outcomes they use to measure success are useful for innovation regardless of how customers currently get the job done.

Once a company understands the type of information it needs from customers in order to innovate and how to capture that information, it is in a much better position to create services that customers really value. It will finally be able to identify opportunities for meaningful service innovation in a systematic and repeatable manner. Ultimately, it will be positioned for market leadership.

Take the case of Kroll Ontrack, a technology services division of the risk consultancy firm Kroll. In the late 1990s, it had started a small business focused on electronic document discovery for the legal industry. However, it lacked a strategy for growth built on what its clients wanted to achieve. By focusing on lawyers' jobs of managing information throughout the litigation process (including steps such as initial disclosure, discovery, trial, and post-trial activities) and discovering electronic documents related to a case (including steps such as capturing information, searching information, and modifying the information), Kroll Ontrack gained the insight it required. Lawyers were asked to prioritize the outcomes associated with each step for these jobs: that is, they were asked how important each outcome was and how satisfied they were with their ability to achieve each outcome. Using that information, Kroll Ontrack developed a product strategy road map that has guided the innovation of specific services, such as consulting guidance, and enabling technologies, such as clever search algorithms.

Kroll Ontrack's strategy and approach to innovation has certainly paid off. It has grown from \$11 million in electronic discovery revenues in 2001 to over \$200 million in 2008, and the company is the industry leader in both market share and revenues. In contrast, a myopic definition of the market ultimately cost the leading competitors their discovery business. As Ben

Allen, CEO of Kroll and former Kroll Ontrack president, explains, “If these big, well-established companies had understood the outcomes that customers really valued, they could have dominated this business. I think they saw themselves as paper document processing companies, not discovery solutions providers. The leaders today—none of them were players in the old paper discovery business.”¹²

Where Do We Go from Here?

With the customer job as its starting point, this book offers a detailed consideration of the types of customer needs that can guide service innovation, how to uncover them, and how to create innovative service concepts that provide distinctive value to customers. At every point, this book offers practical guidance for the so-called fuzzy front end of service innovation.

The book starts with discovering service innovation opportunities, and then it moves through designing unique and valuable concepts. In the first part of the book, we consider specific frameworks for discovering service innovation opportunities, based on a detailed understanding of customer needs. The first five chapters of the book explain how to discover opportunities for new service innovation (helping customers get more jobs done); core service innovation (helping customers get a core job done better); service delivery innovation (helping customers to have a better experience obtaining service benefits); and supplementary service innovation (helping customers to get the most value out of owning and using a product). The remaining chapters explain how to design breakthrough service concepts to satisfy customer needs.

Chapter 1, “Customer Needs That Drive Service Innovation,” discusses several fundamental truths about customer needs.

These truths lay the foundation for uncovering different types of service innovation opportunities. Specifically, we focus on the two types of customer needs that guide service innovation: the need to get a job done and the need to obtain a satisfactory outcome for each step in the execution of the job. Finally, a framework is presented to help companies go from a desire to innovate to unique and valuable service concepts.

Chapter 2, “Discover Opportunities for New Service Innovation,” explains how a company can uncover more jobs that might be satisfied by its services. This chapter offers a powerful perspective on uncovering new service opportunities, a key area of struggle for so many companies. Distinct types of jobs that may provide the foundation for new service innovation are introduced, along with guidance on how to uncover these jobs.

Chapter 3, “Discover Opportunities for Core Service Innovation,” introduces a universal job map for uncovering opportunities to help customers get a specific core job done better—often the primary reason for which current services are hired. This framework helps companies both to understand the outcomes that customers use to evaluate current services and to identify innovation opportunities related to those outcomes. The opportunities may lead to improvements in a current service, but they are not limited to this. The job map also reveals natural adjacencies for new products and services to complement current services.

Chapter 4, “Discover Opportunities for Service Delivery Innovation,” introduces a universal job map of the steps that a customer goes through when obtaining service from a company. Unlike the job map presented in Chapter 3, the job map presented here explicitly acknowledges that the solution the customer is using is a service. The job map for obtaining service provides clear guidance that a company can act on to improve the design of a current service. Even in this chapter,

however, a specific form of service is not assumed (for example, Internet, in person); a company can still gain rich insight into opportunities to create value through innovative new ways to deliver a given service.

Chapter 5, “Discover Opportunities for Supplementary Service Innovation,” shows companies how to discover opportunities for new and improved services that support core product offerings. The insights of this chapter are essential not only for companies wanting to understand the design opportunities associated with support services but also for companies wanting to develop new revenue-generating services to support current product offerings.

Chapter 6, “Discover Opportunities for Service Delivery Innovation: The Provider Perspective,” complements the perspective offered in Chapter 4 by introducing a universal job map for providing service. The universal job map introduced in this chapter charts each of the steps a company must take for any service to be successful. It can help a company design innovative services and discover opportunities from the perspective of the company’s internal customers (its employees) by prompting the company to think through all of the elements necessary for providing a successful service.

Chapter 7, “Discover Ways to Differentiate Service Delivery,” presents a comprehensive model of strategic design options available when designing or redesigning a service. The model introduces the key elements of differentiation in service delivery innovation, providing a framework for executives who are seeking to create truly breakthrough service concepts—those that deliver value to customers and the company. The chapter also shows how, by superimposing the model onto the job map for providing service, managers can create a detailed design for a service concept.

Chapter 8, “Define Innovative Service Concepts,” describes the structure and elements a company must consider when

defining a new or improved service concept. Services are different, and this is the point in the innovation process when the unique characteristics of services come front and center. Specific guidance is offered in this chapter for how to define innovative service concepts that will deliver the value customers are seeking.

In addition to the chapters focused on service innovation, I have included a brief conclusion that considers the relevance of the approach presented in this book to innovation more broadly.

Many companies operate under the unfortunate and misguided belief that innovation is inherently disorganized and cannot be structured. This misconception is especially prevalent among service company executives. After all, they reason, we are dealing with intangibles. But that's a red herring: service innovation, like product innovation, can be organized and predictable. The chapters that follow outline a systematic and repeatable approach to service innovation that I hope will dispel that misconception once and for all.

Over the past decade, my colleagues and I have helped numerous service companies apply outcome-driven innovation to their businesses. We have worked with clients across a variety of service industries, including insurance (for example, State Farm, Anthem); financial services (for example, Toronto Dominion Bank, H&R Block); information services (for example, Elsevier, Trend Micro); B2B professional services (for example, Ceridian, Cintas); and many others. In addition, we have helped clients best known for the goods they offer to identify service innovation opportunities (for example, Abbott Medical Optics, Ingersoll-Rand). The approach we have developed through those experiences is the one outlined in this book. I am confident that it can take service innovation in your business to a new level.