

Shift focus from customer to client

Service businesses make up about 65% of the Australian economy, up to 75% of the European and 85% of the US economies.

Shifting your mindset from shifting product to collaboratively creating value with the customer by providing a service can yield far greater results for your business.

In the 1960s Peter Drucker coined the term 'knowledge worker', which is essentially what a service business is: teaching and transfer of knowledge or a skill, where a physical item is not transacted.

The problem is, most businesses don't know they are in the service business.

For example, construction businesses often don't identify themselves this way. Often, employees are not trained how to work in a knowledge and service environment.

Overall there is precious little science about managing a service business when compared to manufacturing businesses.

The gap in knowledge is so profound that IBM has initiated a Service Science academic research program to look at the challenges of service businesses, with the goal of improving productivity, quality, learning, and innovation across the service sector.

This change in thinking is result of IBM moving from primarily being a manufacturer of computers to making the most of its revenue from IT service.

It is amazing to think that service businesses are 70% of GDP but most managers don't know the key drivers.

For example scalability in service business presents an enormous challenge, how do CEOs design strategies to tackle service design, development, marketing and delivery systems to enable growth?

Service-based business covers many disciplines, creating complexity and challenge. The disciplines that need to be included are computer science, operations research, engineering, management sciences, business strategy, social and cognitive sciences, and legal sciences.

All need to be understood and integrated in an effective service business.

Co-creation of Value

The role of a service businesses is to help 'unlock' value for the customer. Service work is collaborative; it is not something you 'do' to a customer, rather it is about the 'co-creation of value' between producer and customer where the customer is within the organisation.

To unlock the value in service businesses two variables need to be considered.



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- Doing what you do - well, and
- Service quality

Technical service quality is being able to deliver your service reliably, time after time. This is fundamental to service.

The banking sector in the past five years has taken on 'six sigma' initiatives, significantly improving service quality. Inspired by GE, Australian Banks have implemented this approach to speed up mortgage broker application approvals to provide value to the customer. Once analysed and improved, approval times to three days from 10.

Variation was all but eliminated, customer complaints almost nil.

This demonstrates the power of 'process design' as a core science of a service business with predictable, repeatable systems managed up and down the value chain.

Managing the value chain is important, as change in the chain can cause significant problems.

A great example is from a potato crisp company in the UK, which required potatoes they bought in be no more than a certain size. A purchasing officer found if he bought bigger potatoes he could cut costs. He did, the potatoes wouldn't feed into the machines, no crisps made and the firm missed its Christmas order at Tesco. The purchasing officer got a bonus for coming in under budget.

This demonstrates what happens every day in the service world where a process that flows up and down the value chain hasn't been mapped out.

Customer service

The second aspect of innovation in the service economy is the actual delivery of a service.

The cognitive science of human behaviour rules here as we don't simply hand over a product and walk away, we deliver a knowledge and help the customer use it.

How do we demonstrate and measure value? This is the point at which the true value can be unlocked for the customer.

Rolls Royce makes aircraft engines, yet more than 50% of its revenue comes from service - the service contracts they have to keep the engines operating.

Other examples include home delivery by supermarkets, a growing area of service. And the London Port Authority selling its dredging expertise to New York City.

At the heart of this is partnering with your clients and understanding how you can add value to their enterprise using your skills.

Professional services are notorious for scaling problems; scarce resources and scarce knowledge hamper their output. However they are extremely well placed to package their 'knowledge' and perhaps sell as books and manuals, and various other learning materials.

Other options can be found in pricing, or bundling - or adding insurance, such as a dry cleaner adding an insurance service in case a garment is damaged.

This gives the customer peace of mind, solves a problem, and provides a transaction at the point of contact.

Other alternatives to unlock value for customers could be to rent your product rather than sell it, transforming the product into a service. After all, do people buy a drill or a hole in the wall?

Ultimately, service businesses are about relationships. There is no transfer of product. You must get you customers very involved, listen more and tailor solutions to their specific needs to achieve their goals, unlocking value for them.

Start by really understanding what it is you do well. All of the knowledge needed in a service business already exists in your business. The data is already there. You need to mine it in a different manner, understand where you excel and exploit those areas.

You generally can't do service innovation on your own. You need an objective third party to come in help you see the acres of diamonds in your own back yard.

A great example is phone companies. They add endless features to phones which are impossible to use. However, by segmenting their market they find only a small percentage of people use, say, email. By over complicating their product they destroy value for customers who just want a straight phone.

The message is customise and co-create with your customer, thereby making them a client.