Innovation and Differentiation for Outsourced Service Providers

By Brett Norgaard

Improve your strategic planning processes by incorporating service innovations that create differentiation in the marketplace. Use a new framework concept that integrates service innovation radars, strategy canvases and service blueprints.

Introduction

Innovation and differentiation are driving the outsourced services industry today. This is a major shift from the early days of outsourcing, when clients primarily sought to drive out as much cost as possible. That meant they were willing to turn over IT, business processes, finance and accounting, human resources, or other functions to an outsourcer in exchange for a uniform set of services that reduced costs but varied little from client to client. Applications were the same, reports were standardized and organizations with unique service needs generally avoided outsourcing. Like Henry Ford, outsourcers offered customers "any color they wanted as long as it was black."

Today, outsourced service providers live in a customer-centric, multi-client world. Customers expect more than a standard set of services. Instead of "one model and color," clients want outsourced services that can be customized to their needs, uniquely branded and themed, integrated with their other business processes and applications, and, increasingly, available on a self-service basis that reduces the need for phone calls, emails, and other manual delivery methods. In addition to these differentiated services, customers are also coming to expect innovations from their outsourced service providers—innovations that are increasingly included in service level agreements.

Meeting this challenge is difficult for many outsourced service providers, particularly those who still have legacy back-end technology or manual processes—remnants that continue to force uniformity and a one-size-fits-all approach to service delivery. The only way to respond to unique customer demands under this scenario is by engaging in application development and custom programming. But a change for one client often results in disruptive changes for the other clients. And, even when legacy applications are operating in a stable manner, upgrades wreak havoc on any implemented customizations.

As challenging as this can be for any single organization, it can be untenable to an outsourced service provider responsible for multiple clients. Legacy architecture makes innovation and differentiation an expensive, risky and time-consuming process. Managed services clients are demanding unique and differentiated services that can be created and delivered quickly, inexpensively, and without disruption to underlying platforms—services that require little more than having a business analyst flip a switch, change a parameter, or tweak a process. In today's managed services world, it's imperative that providers develop or acquire the capability to offer this level of flexibility.

The following pages sketch out a useful framework for thinking about innovation and differentiation strategies. This framework is not a replacement for a provider's strategic planning, but rather the adaptation of some well-established techniques for quickly and efficiently visualizing strategic planning in ways that are easy to understand and communicate. It also suggests alternatives to achieving service innovation and differentiation that existing applications and service delivery mechanisms seemingly wouldn't allow... until now.

What's on your service innovation radar?

Services represent approximately 80 percent of the U.S. GDP and a growing percentage of GDPs of countries around the world. Yet innovation in services receives less attention than in product-related manufacturing and technology sectors. There is also little coverage of research on service innovation in academic literature. This dearth results from a traditional focus on tangible products and technologies as a source of product innovation, and the fact that services are experience-based and often dependent on human, interpersonal delivery systems, where the value is co-created by the interactions and experiences of the client with the service itself.

These characteristics can be difficult to measure and quantify, and they fall outside the realm of traditional product innovation tools that emphasize the design of tangible, static products with physical properties. While some of these tools can be useful, they require significant adaptation to address service innovation challenges.

One such tool that has been widely adopted in the product innovation world is the "innovation radar," which argues that most businesses take a far-too-narrow view of innovation.[1] The innovation radar can broaden the innovation focus in companies and show that innovation is about creating new *value*, not always about creating new *products*. In services, new value can be created from a combination of existing services and even from involving the client in co-created service such as proactive, collaborative crisis resolution. The product innovation framework can easily be adapted to foster innovation in managed services companies with something we call the "service innovation radar."

The makeup of the service innovation radar is drawn from three value disciplines critical to outsourced service providers—service leadership, customer intimacy and operational excellence. These are disciplines that all outsourced service providers must address and translate directly to the value that they provide to their clients. Successful service companies carefully scrutinize how and where to focus as the key source of their competitive differentiation.[2]

Why are these disciplines so important? According to the researchers who pioneered the value discipline concepts, companies that have taken leadership positions in their industries in recent times have typically done so by narrowing their business focus, not broadening it. They have focused on delivering value in line with prioritizing operational excellence, customer intimacy or service leadership. While they may address multiple value disciplines, a dominant trait normally emerges.

---

[1] "The Innovation Radar," Mohanbir Sawhney, Robert C. Wolcott and Inigo Arroniz, *MIT Sloan Management Review*, Spring 2006.

[2] "Customer Intimacy and Other Value Disciplines," Michael Treacy and Fred Wiersema, *Harvard Business Review*, February 2003.

KINETIC DATA

How do you determine which value discipline your business is focused on—or should focus on? Review information normally collected as part of your market intelligence, such as client feedback, requests for enhancements, competitive intelligence and by monitoring key trends. Then ask a series of questions:

- Which of your services provide clients with the most value?
- Is there anything missing?
- How do you provide these services in ways that are unique to your business?
- How can you innovate within your particular value discipline to sharpen your differentiation?

Through this exercise, you can create a service innovation radar to list and prioritize service innovations that would add the greatest value in line with your value discipline differentiation. Results will be different for every outsourced service provider, but in our experience, a number of common service innovation possibilities emerge. Service innovations can appear under multiple value disciplines. It is *how* they are used that is most revealing. They include:
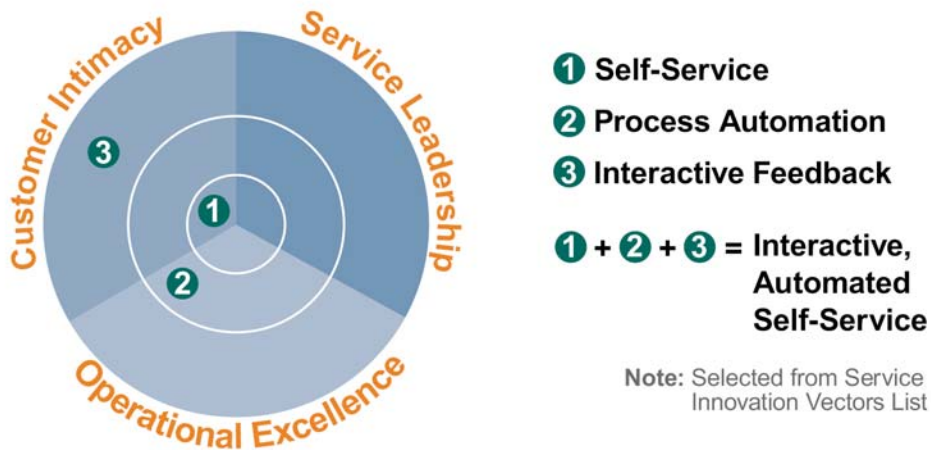
Service Innovation Vectors

Here's a likely list of possible service innovations for consideration (in no particular order):

Transformation

Collaboration

Process Automation

Integration

Theming/Branding

Visibility

Transition

Rapid Deployment

Migration

Sense and Respond

Replication

Cost Take Out

Customer Experience

On boarding
  (Employees and Customers)

Interactive Feedback

Rapid Response

Self-Service

- Innovations that emphasize *service leadership*, including tools that increase collaboration, enable the co-creation of services, allow controlled sensing and responding, can be integrated with other client applications, migrate value to new areas, and transform their client's business model.

- Innovations that emphasize *operational excellence*, including tools that can deploy rapidly, automate processes, replicate efficiencies, drive out costs, allow rapid response to client issues, and provide self-service features.

- Innovations that emphasize *customer intimacy*, including tools that provide greater visibility, allow a greater degree of self-service, enhance the customer experience, provide interactive feedback, and allow for co-created experiences.

Service Innovation Radar—New Service

① Self-Service

② Process Automation

③ Interactive Feedback

① + ② + ③ = Interactive, Automated Self-Service

Note: Selected from Service Innovation Vectors List

As an example, this diagram shows three items from the suggested list plotted in order of importance—Self-Service, Process Automation and Interactive Feedback. This suggests a focus on service innovation and differentiation that combines all three attributes.

The next steps following the development of your service innovation radar are fairly conventional components of the strategic planning process. You need to identify your current ability to deliver any of these innovations and flag any gaps in your capabilities. The most important factor is the amount of value a particular service or innovation will provide to your clients. Identifying opportunities to create or increase value in your predominant value discipline is a primary benefit of this exercise.

Whatever your focus, the most successful managed services innovations need to meet certain minimum qualifications. For example, they need to be easily configurable for different clients requiring a unique experience, flexible to meet a wide variety of ever-changing needs, easily branded or themed, rapidly and cost-effectively deployable, and include robust self-service and co-created services capabilities.

Sketching out your Strategy Canvas

Developing a service innovation radar is a useful tool, but it often doesn't fully answer a critical question in developing a useful services innovation strategy: How does a potential service offering or innovation differentiate your business from competitors?

One useful method for answering this question is to plot your strategy canvas, a technique advanced by W. Chan Kim and Renee Mauborgne in a series of articles and books.[3] A strategy canvas is easy to create and highly revealing. The horizontal axis captures the range of factors your industry competes on and invests in, and the vertical axis captures the offering level that clients receive across all these key competing factors.

Though simple, this single picture illuminates three critical elements:

- The factors that affect competition among industry players—your competition.

- The strategic profile of current and potential competitors, identifying what factors they invest in strategically.

- Your own profile—or what the authors call your *value curve*. This shows how you invest in factors of competition. If your value curve is similar to the competition's, you lack what the authors view as the three complementary qualities that characterize an effective strategy: focus; divergence or differentiation; and a compelling tag line, or a simple and clear message that communicates your differentiation.

---

[3] "Charting Your Company's Future," W. Chan Kin and Renee Mauborgne, *Harvard Business Review*, June 2002.

Strategy Canvas–New Service
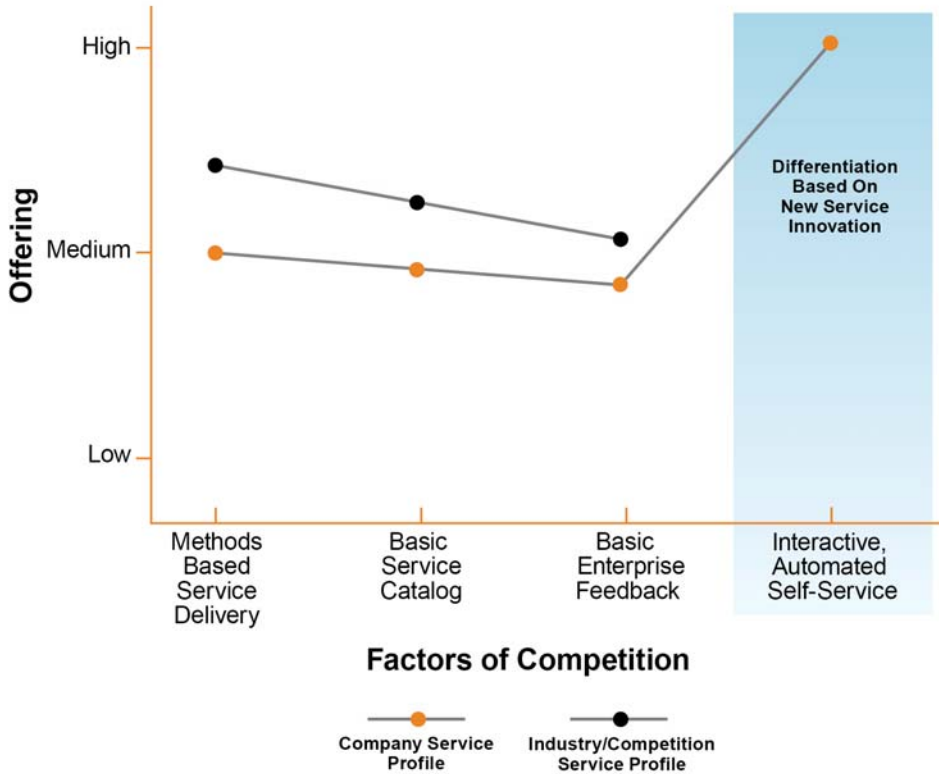
In this simplified example, an outsourced service provider faces competition from an industry set that offers similar services (the first three factors left to right on the X axis). By combining its high-priority service innovations from the service innovation radar, the firm can offer a unique and highly differentiated service that is easy to communicate—Interactive, Automated Self-Service.

The point of this exercise is to help determine the true value of any potential service innovation in terms of how it differentiates your business and how effectively you'll be able to sell it. The next step is to map out this service offering with a service blueprint, another relatively simple and highly visual approach that identifies ways to design and deliver a service in a manner that clearly depicts how the customer interacts with the service.

Service Blueprinting

The service innovation radar is useful in prioritizing and focusing service innovations. A strategy canvas allows you to determine if services provide customer value in a unique and differentiated way. Service blueprinting maps out all the customer touch points for any particular service and provides a way to visualize a service design that ensures meaningful and memorable results when customers and the service interact.

A rudimentary version of this concept was proposed more than 20 years ago by a bank executive writing in the *Harvard Business Review*.[4] In the intervening years, the technique has evolved considerably. A most useful iteration of the technique was developed in 2007 by professors at the Center for Service Leadership at Arizona State University.[5]

In brief, the technique maps out five components:

- Physical evidence, or all of the tangibles that customers are exposed to or collect during their contact with a company.

- Customer actions, or all of the steps that customers take as part of the service delivery process.

- Onstage/visible contact employee actions, or the actions of frontline contact employees that occur as part of a face-to-face encounter with customers. These can also be interactions with employee- or client-facing technology, like service portals, e-mail surveys or web calendars.

- Backstage/visible contact employee actions, or invisible interactions with customers, such as telephone calls, as well as other activities employees undertake in order to prepare to serve customers or that are part of their role responsibilities.

- Support processes, applications, infrastructure or activities carried out by individuals in a company who are not contact employees, but whose functions are crucial to carrying out services processes.
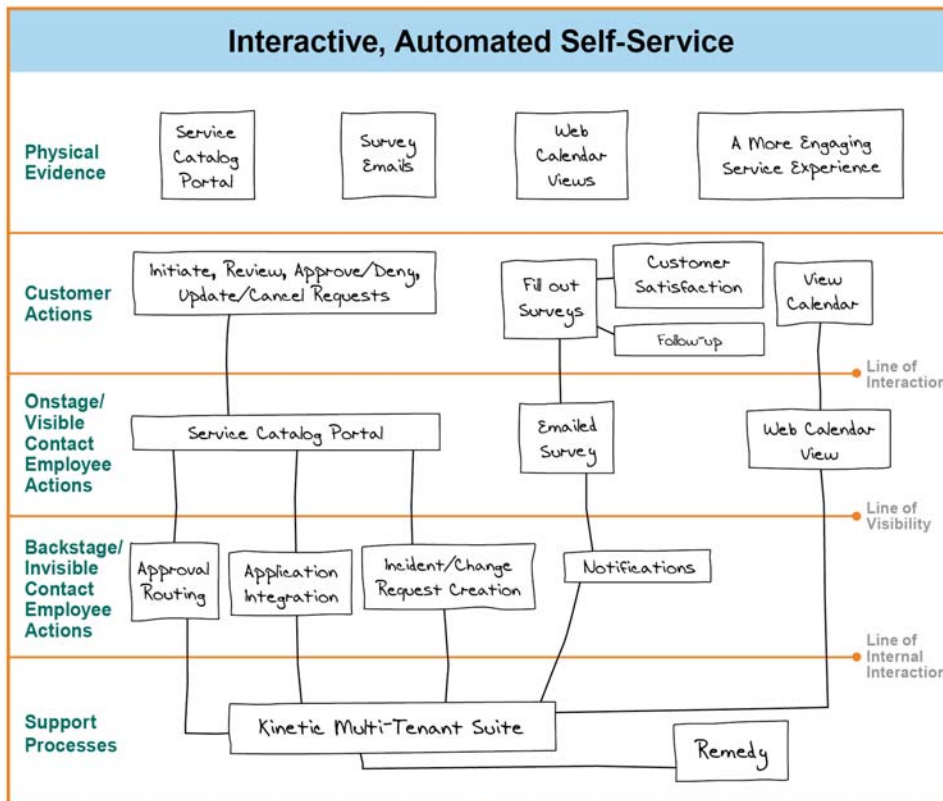
---

[4] Lynn Shostack, "Designing Services that Deliver," *Harvard Business Review*, January 1984.

[5] Mary Jo Bitner, Amy L. Ostrom, Felicia N. Morgan, "Service Blueprinting: A Practical Technique for Service Innovation," Center for Services Leadership, Arizona State University, 2007.

Service Blueprint—New Service

Interactive, Automated Self-Service

Physical Evidence	Service Catalog Portal	Survey Emails	Web Calendar Views	A More Engaging Service Experience

Customer Actions: Initiate, Review, Approve/Deny, Update/Cancel Requests — Fill out Surveys — Customer Satisfaction — Follow-up — View Calendar

Line of Interaction

Onstage/ Visible Contact Employee Actions: Service Catalog Portal — Emailed Survey — Web Calendar View

Line of Visibility

Backstage/ Invisible Contact Employee Actions: Approval Routing — Application Integration — Incident/Change Request Creation — Notifications

Line of Internal Interaction

Support Processes: Kinetic Multi-Tenant Suite — Remedy

What kind of impact might this new service have on actual clients? This exercise maps out the fundamental elements of the offering—self-service, process automation, and interactive feedback as the customer would experience them. By doing so, the magic moments of valuable interaction can be highlighted and focused upon, while potential problem areas can be spotted and addressed ahead of time.

While there are more complex methods for envisioning and designing a service or innovation, no other method so clearly focuses on the customer experience and their perception of value, which ultimately dictates the success or failure of a service offering.

For all companies, the authors conclude that service blueprinting:

- Provides a platform for innovation by creating a common basis of discussion for new service development or service improvement.

- Generates insights into various role and relational interdependencies throughout the entire organization, and by highlighting customer actions and interactions, reveals the points at which customers experience value.

- Helps design the ideal service experience by clearly revealing what works and what may not work in your design.

KINETIC DATA

Service Innovation and Differentiation with the Kinetic Multi-Tenant Suite

Since virtually any business process can now be delivered as a managed service, the challenges of innovation and differentiation are common to providers of all types of managed services, including IT, business processes, finance and accounting, human resources, procurement and supply chain management, knowledge processing, legal services, engineering, or any other type of managed services.

Implementing the strategic planning process outlined here will provide your business with:

- A short list of innovations along with a means to prioritize service innovation efforts.

- A service innovation radar that graphically displays potential service innovations mapped by value discipline and priority. It also allows you to evaluate combining individual service innovations as part of a larger offering.

- A way to determine if your services strategy provides focus and differentiation vs. that of competitors in the marketplace.

- A method to map out service delivery design from the client's perspective.

The challenge facing outsourced service providers is to achieve differentiation via service innovation. As we've seen, this can come in many forms. The Kinetic Multi-Tenant Suite meets this challenge in one of the most crucial areas of service innovation—the service delivery process itself in a multi-tenant environment where each client requires service in forms unique to them.

Briefly, the Kinetic Multi-Tenant Suite is comprised of four modular applications that allow you to configure the service experience and deliver innovative, value-added, customer-centric service options to any number of managed services clients in a multi-tenant environment. You can customize services for individual clients simply by switching features on or off, with no programming required in the underlying service desk or IT management platform.

KINETIC DATA

The Kinetic Multi-Tenant Suite consists of:

Kinetic Request—a request management portal application that lets nontechnical personnel design and automatically manage their own processes and approvals for internal service and equipment requests, without relying on IT;

Kinetic Survey—a process-driven, interactive survey management application;

Kinetic Calendar—an actionable web calendar tool; and

Kinetic Response—a problem collaboration tool that accelerates and automatically documents the problem-resolution process.

In brief, the Kinetic Multi-Tenant Suite extends the capabilities of outsourced service provision in three key areas:

- Through flexible configurability, with services that can be co-created, are customer-centric and service-level driven, and which can easily be integrated with other enterprise applications and services. These secure and stable services can be themed and branded for individual customers, configured to meet their workflow requirements, and created and delivered without programming code changes to the underlying service support platforms.

- Through self-service capabilities, with services that are transparent and visible to customers, managed and configured via a management console without modifying the underlying IT service support platform, and available to customers 24/7.

- Through scalability, by enabling services that are cost-effective and rapidly deployable, require no end-user licenses, and allow outsourcers to sense and respond to customer needs rapidly. As customer requirements change, additional capabilities can be activated and configured without risk.

Conclusion

In today's hyper-competitive and customer-centric environment, innovation and differentiation are the keys to success for outsourced service providers. Customers expect unique services specifically configured to their needs. At the same time, outsourced service providers must balance the need to innovate and deliver new and uniquely differentiated services with the need for stable, economical and efficient operations. This greatly complicates the task of strategic planning.

This white paper outlined methods for identifying innovative, differentiated new services that are flexible, compelling, scalable, cost-effective, and rapidly deployable. The simple-to-use and highly graphical tools presented, some adopted from the product development world, can greatly assist in strategic planning. These tools can help you develop a service innovation radar, prioritize your service development efforts, determine if you have the focus and differentiation you need to succeed, map out services, and then configure them in a way that's client-specific and rapidly deployable in a customer-centric and multi-tenant environment.

Finally, this white paper briefly described how the Kinetic Multi-Tenant Suite enables outsourced service providers to rollout configurable, differentiated services in today's demanding market.

About Brett Norgaard

Brett Norgaard directs Kinetic Data's Outsourced Service Provider Initiative. In this role, he developed and is executing on the strategy that enables firms to maximize the business value they receive from their investments in software to create and deliver service innovations for their clients. Prior to joining Kinetic Data, Norgaard worked with dozens of high-technology sales and marketing executives to improve their revenue and market share. He also designed a managed service offering that received market leadership status by Gartner, Inc. Norgaard is also a frequent guest lecturer on service innovation at St. Olaf College and sponsors entrepreneurial student internships as part of the school's Estenson Program.

About Kinetic Data, Inc.

Kinetic Data is one of the largest and most experienced third-party BMC Remedy software companies in the world, offering the most extensive portfolio of third-party, "built on BMC Remedy", packaged applications available. A BMC Remedy Technology Alliance Partner since 1999, Kinetic Data has helped over 200 Fortune 500 and government customers—including General Mills, Avon, Intel, 3M, and the U.S. Department of Transportation—implement BSM and service delivery management (SDM) applications aligned with ITIL best practices. In 2009, at the Worldwide Remedy User Group (WWRUG09), Kinetic Data was named "Innovator of the Year" by an independent group of BMC Remedy users. The company serves customers out of its headquarters in St. Paul, Minn., offices in Sydney, Australia, and through a network of leading BMC Remedy reseller partners. For more information, go to **www.kineticdata.com**.