

Managing Services
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Lecture - 47
Service Ecosystem - Service Innovation

What we have been discussing is that, in today's world while the customer sees a large hotel, a global hotel chain. So, like Hyatt or Holiday Inn or Marriott and the customer expects that a certain level of service level, a certain excellence in customer endearment, a certain level of operational efficiency value for money, a certain level of distinctiveness will be available from this global hotel chain.

But, this customers array of expectations will be met by not a monolithic entity, but what we have called a service ecosystem, that means this global hotel chain will be actually a combination of number of different types of service provider or service centres or service entities. Some of them may be owned by this hotel chain and many of them may not be owned by this hotel chain, but they will be part of this constellation. So, they will be service BPO's Business Process Outsourcing expert companies put together in a seamless combination will meet this customers array of expectation.

And this constellation formation or network formation, we discussed in the last session originally was driven by cost arbitrage, labor arbitrage reasons, it then move to the era of developing process excellence and giving value to those partners, who could bring superior expertise to the play. But, we discussed in the last session that we are now at an inflection point, where these experts using today's technologies can create a new level of service excellence and can perhaps create new types of services, which we had not seen before. So, today's session we are going to focus on how the service ecosystem and networking of services lead to service innovation.

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INTRODUCTION

- Growth in services
- Characteristics of services
Services are processes where customer is part of it
- Viewed differently to products
- Services contribute to new business models:
 - eBay new way of conducting business
 - Air Asia new way of flying
 - Flipkart new way of viewing and buying books
 - Gaana new way to buy music

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So, we have these services I have chosen four eBay, Air Asia, Flipkart, Gaana, not all of them are using a first time model, not all of them are the lead innovators. Some of them are like eBay, they created this entire online auction as a new method of payment and as a new method of a new type of commerce, which is often called C to C Customer to Customer. So, eBay provides a platform, which allows one class of customers to deal with another class of customers to do commerce, which in a very modern way has brought about a certain version of the old better economy.

So, there are many types of obscure highly specialized items, today the commerce in those items have now become global, because of this unique service platform that has been created by eBay. Similarly, Air Asia has created a new way of flying that is of course, based on not only low cost, but different other things like a spread of network to many relatively unknown places, opening up whole countries to the benefits of tourism and various other things. Flipkart in India, which is to an extent using the model created by companies like Amazon.

But, they you know did some simple innovation like cash on delivery, sensing that the many Indian customers were not participating in E-commerce. Because, either they did not have credit cards or they were not very comfortable to use credit cards, debit cards on the net. So, the cash on delivery has now become almost an industry standard, but when first introduced by some companies, one of them lead their Flipkart, created a new

paradigm opened up the market to a large number of customers and generally contributed to this big boom that we see now in the area of E-retailing in India or Gaana, kind of model same as what Apple introduced with I tune.

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OUTSOURCING AND SERVICE GROWTH

Expected gains that companies can derive from outsourcing include:

- the reduction of operational costs;
- the ability to transform fixed costs into variable costs;
- the ability to focus on core competencies;
- access to the industry-leading external competencies and expertise.

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But, this is a new way of buying or enjoying music may be even not buying, but basically consumption of music in a new way. So, what we are saying is that the service networking and outsourcing or constellation of service providers together working in front of the customer has lead to rapid reduction of operational costs. These are the expected gains that drove, but this has already happened, this is happening right in front of us.

The ability to transform fixed costs into variable costs which we discussed in the last session, the ability to focus on core competencies and access, this is the most important part; access in each case the leading competency and expertise. So, what we are now seeing is therefore, not a constellation or network or ecosystem of the lowest cost provider, but an ecosystem of the best experts at the lowest cost. So, this is creating an unbeatable combination.

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ANOTHER CLASSIFICATION OF SERVICES						
	Business-to-business services (traditional)	Business-to-business services (KIBS)	Consumer services	Internal firm services	Public services	Not-for-profit services
Description	Services provided for businesses	Specialist services provided to businesses	Services provided to individuals	Services provided by internal functions	Services provided by local and national government	Services provided by charities
Examples	Accountancy Legal advice Training	Management consultancy IT consultancy	Shops Hotels Banking Health and beauty	Finance Personnel IT	Health Education Leisure Prisons	Hospices Counselling Aid agencies
Customers	Frequently purchased by professionals, who may not be end users	Frequently purchased by professionals, who may not be end users	Purchased by consumer of the service	Consumers of the service have no choice of provider	Funded through taxation and little choice for consumer	Funded through charities maybe government grants consumers choose their choice
Challenges	Providing high-quality tailored and personal service	Providing high quality services to businesses who have high purchasing power	Providing a consistent service to a wide variety of customers	Delivering customer personal service. And demonstrating value for money	Delivering acceptable public services against a backdrop of political pressures	Balancing needs of volunteers, donors and overwhelming needs of customers.

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It is in conformity with this broader classification of services, where we see business to business services traditional, knowledge intensive business services business to business services, these are like management consultancy, IT consultancy, etcetera. Business to business, traditional domain, accountancy, legal advice, training, etcetera, consumer services, shops, hotels, banking, personal care, beauty care, some of them are internal, some are public services, some are not for profit services. These are all the different types of services that we have been discussing in this course right from the beginning.

But, the purpose of putting this again in front of you is to highlight that all these domains are now open to service networks and service ecosystems. So, even very high end knowledge intensive business services, while for management consultancy may retain certain centres of expertise within the organization, but quite likely may actually set up a separate knowledge centre which will provide fundamentally the IT part of that organization. So, the concept of networking, service ecosystem development based on best expertise at lowest cost will generate complete new generations of services.

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TECHNOLOGY AND NEW SERVICE DEVELOPMENT


- Technology has become the most significant enabler of innovation in services.
- Transforming the roles of both employees and customers.
- Easing the connectivity between service developers and customers.
- E.g. ebay . . . policybazar.com

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So, technology will become the most significant enabler of this new generation of service. So, we will see services like eBay or policybazaar dot com. You know this is a unique comparative service of insurance. So, a people can buy insurance today, not under the influence of yester years, insurance agents who would have actually put you under a high pressure selling tactics. But, today the customer will make his or her own decision based on an extensive comparative value research presented to you, presented to him or her at the click of a button.

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TECHNOLOGY AND NEW SERVICE DEVELOPMENT (CONTINUED)

 Founded in September 1995
eBay, Inc. is possibly the most successful web-based enterprise in existence.

Four service dimensions	Illustration
New service concept	On-line auction community of traders
New client interface	Introduction of payment system that helps eBayers trade more easily - Paypal
New service delivery system	Huge investment in technology infrastructure to improve reliability and performance
Technological options	Introduction of voice over internet protocol service - SKYPE

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Or we will have services like eBay which is as I was just now discussing created a new class of commerce, which is consumer to consumer or customer to customer commerce and they themselves are not actually a monolithic service, there also a network of services including PayPal, Skype which are providing very important part of their overall service package, but they are different service excellence centres. They might have been acquired or part of the same ownership structure, but the key point is operationally they are actually coming together of different expertise centres.

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A RANGE OF NEW SERVICES THAT ALSO CREATE NEW BUSINESS MODELS, WHERE TECHNOLOGY PLAYS A KEY ROLE

Company	Industry sector	New service/new business model
eBay	On-line auction	A new way of buying and selling through a community of individual users <i>C2C</i>
Air Asia	Airline	A new way of consuming air-travel with no frills service and emphasis on economy
Flip kart	Retailer	New way to buy goods – on-line retailer
iTunes	Music retailer	New way to buy and download music
Google	Internet search engine	A fast way to search for information on the internet
foodpanda	?	?
Facebook	Social networking	A community of users on-line who can chat and share music, images, news from their own home
You-Tube	On-line video and film archive	A community of users sharing home made video clips plus recorded favourite clips from movies

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So, this is the chart in front of you. So, eBay industry sector is online auction, new service new business model is a new way of buying and selling through a community of individual users or what we just now called C to C. Air Asia, a new way of consuming air travel with no fuel service and emphasis on economy. Flip kart is an E-retailer or E-tailer as they called, new way to buy goods or different other kinds of all kinds of goods today or I tune a music retailer, new way of buying and downloading music or Google, the internet search engine.

I have now included here a name with two question marks, the name is food panda and your assignment is to understand the working of this company. You might be already familiar with this company, because they are now heavily advertising on all kinds of electronic media. But, what I would like you to do is to identify that how do you put, where did you put food panda on the industry sector map. What will be their industry

sector? In that itself perhaps you will discover that in the service industry, new sectors are emerging, because of this technology and service interplay.

And I would also like you to describe that just like in case of eBay under this description, this new service new business model we have put a new way of buying and selling through a community of individual users. How do you describe the new service new business model of food panda? So, these are two gaps in this chart that you have to fill and that is your assignment.

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NEW SERVICE INNOVATION

As with products service, innovations can be classified in many ways:

- eBay was new to the market; Google's on-line auction is new to Google;
- Internal process innovations, e.g. Amazon: delivering books to consumer is not new, but using internet;
- Line extensions to services, e.g. banks offering insurance;
- Service modifications, e.g. web check-in for airline passengers.

The slide includes handwritten red annotations: a 2x2 grid with 'FC' and 'NC' in the top-left and top-right cells, 'NS' written vertically, and a large circular scribble on the right side.

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So, you remember that we had used earlier Ansoff matrix which is existing product or existing service and new service and existing customers and new customers. So, that same classification now applies, but we are now recognizing that many times this innovation can be internal process driven and mostly these are the ones which are very amenable to network advantages.

So, Amazon if you study is a company which is a company, but it is actually mastering a huge network across the globe of suppliers with a huge network of customers. So, their business model is in this ability to connect many to many, this is the business model and that business model is today adding new dimensions to this way of classifying innovation or new service.

So, services today therefore, are getting molecularized which I mentioned in the previous session and they are getting all inter connected to the consumer in front they may be a lovely neat package, but internally it is just like a watch internally has many mechanisms all working together. Similarly, a service may be externally one entity in front of you, but internally a plethora of services which are networked together.

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CUSTOMER ROLES IN NPD (NAMBISAN, 2002)	
Customer role	NPS phase
Customer as resource	Ideation
Customer as co-creator	Design and development
Customer as user	Product testing Product support

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Customer had a role in new product development as a co creator as user.

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THE SERVICE INNOVATION PROCESS

Different from NPD: customer is part of the process

- **Blueprinting the service Identify every activity and every possible outcome in the process**
- **Real time MR-Walk the path Direct contact facilitates dialogue**
- **E.g. a home rental for critical care equipment a wedding organizer---Band Baaja**

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But, in service customer is part of the process, this we have discussed earlier, but I have just bringing it again in front of you that right from the blue printing, which is in understanding the service delivery process to real time market research, walk the path direct contact facilitates dialogue. So, right from the idea stage or planning stage to the final delivery and sensing the quality of delivery along with the customer, we can create many interesting new services.

For example, this wedding I would like you to study Indian wedding, traditional Indian wedding and how earlier it used to be number of small service providers coming and supplying different types of services, whether it is catering service, whether it is flower arrangement service, whether it is a music service, whether it is the religious service different service providers providing different elements of the service.

But, today there are number of even movies I think on the subject, like that Band Baaja, Baraat or whatever was the name of that movie, you will see how they are not actually operating today. A good Indian wedding today not does not happen as a number of individual service providers working together, but it happens more like a service eco system.

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NEW SERVICE INNOVATION

For many years the literature overlooked this concept!
Innovation deemed to require a new physical “thing”
But, the world of business suggested new services could deliver even more significant changes (new business models):

eBay
Apple's iTunes

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I think what we have been discussing as service eco system can be of course, understood by studying eBay or apple I tune. But, I think it can also be understood very well by studying today's big fat Indian wedding and how they bring different service providers

together who synchronize and deliver a quite intangible. But, quite enjoyable package of service and it will be nice if you share your opinion on this the statement that I am making that we can study a traditional Indian wedding and understand the emergence of service eco system which will create new dimensions of service excellence in today's world.

Thank you.