# DIGITAL GUIDELINES ON SIM ENTAILING IMPLEMENTATION TOOLS TO DEVELOP & COMMERCIALISE NEW SERVICE - REVIEWED

D.T3.2.4

Version 1
03 2019

# THINGS+

# Introducing service innovation into product-based manufacturing companies

## 01.06.2017 - 31.05.2020

## Project number: CE 988

## Interreg Central Europe Programme

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| **THINGS+ website** | http://www.interreg-central.eu/Content.Node/THINGS-.html | | | | |

[1] The delivery month settled in the approved Application Form (February 2019) has been postponed upon decision of the Project Management Board to improve the quality of the deliverable. The delay did not have any negative effect on the project implementation.

# Contents

# 1. Introduction

These guidelines present the elaboration of activities that shall be conducted during the first three phases of Service Innovation Methodology implementation in manufacturing SMEs. The guidelines describe the process of servitization through implementation of coherent and robust methodology that is a combination of suggested tools and concepts applied in five phases. The first three phases are elaborated in the following chapters.

The starting point of the process are the chosen products and services already present on the market and the existing capabilities of the company. Assessment of those segments is performed during the first two phases, resulting with servitization concept and the implementation plan. Expected timeframe for these activities is two to three months.

During the process, three types of activities will be performed:

1. **Development activities:** challenge/problem framing and solution conceptualizing activities – mentoring support due to availability and needs of participants during the workshops and follow up independent work of each team
2. **Homework:** testing, learning and development activities
3. **Decisions:** identifying and choosing optimal options/solutions

Two approaches will be used for the implementation of servitization process with participating companies:

- Workshop and mentoring based
    - More productive for the BSO - enables exchange of experiences and lessons learnt among participating companies
    - Same pace for all participants (at least during development phase) - limited flexibility of the servitization process
    - Appropriate for the introduction of SIM tools and concepts and initial development
- Consulting and mentoring based
    - More focused - enables specific approach and company adapted pace of development
    - Less productive for the BSO - limited or no exchange of experience for participating companies
    - Appropriate for guidance during homework and decision-making process

Each BSO is free to choose (or combine) approach that fits their capabilities and expectation and the needs of participating companies.

The whole SIM is divided in five development phases – thematic and coherent sets of activities aiming to create key outputs during the servitization process. Phases are intentionally formulated as one day sessions (workshops/consulting meetings) combined with follow up mentoring supported homework. During the SIM implementation, each BSO can prolong phases in two or more workshop sessions as long as the development momentum is preserved.

# 2. Legend of the workflow figures

Optional activity (during workshop, 1on1 consulting or homework)

Suggested activity (during workshop, 1on1 consulting or homework)

Key activity (during workshop, 1on1 consulting or homework)

Senior management approval / decision

Servitization initiative result

# 3. Phase 1: Identification of opportunities for servitization based on existing capabilities and knowledge that reside within company – “inside-out” identification of opportunities

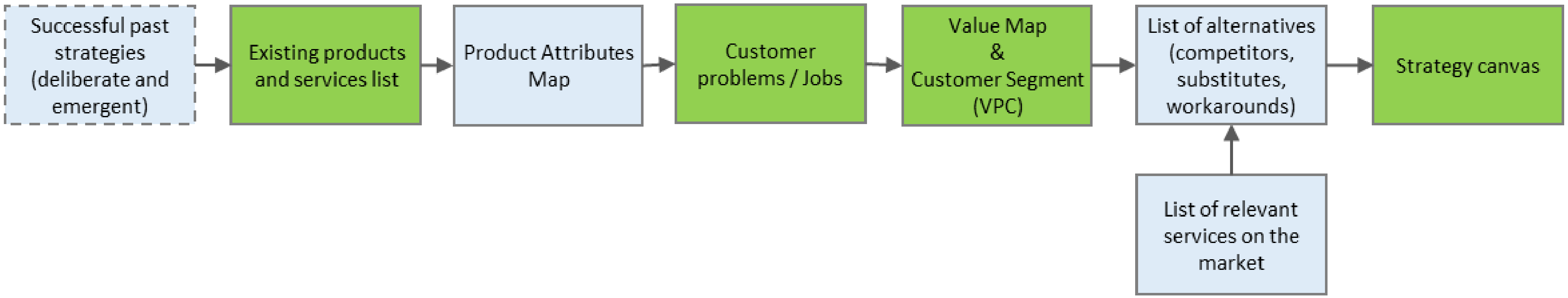


Figure 1 Workflow of the first phase of the Service Innovation Methodology

## 3.1. Workshop 1: Identification of product(s) to be servitized and "inside-out" assessment

Initial selection of the product(s) to be servitized could be a part of the application for the servitization program and SMEs selection process, but also it is convenient to be done during the initial workshop. During the application interview or first workshop, BSOs should guide participating companies during identification of their optimal product candidate. Companies should provide a description of a product(s) that is their platform for servitization.

**The list of key products and existing services form** could be annexed to the application, provided shortly after approved application or used at the initial workshop. Companies should assess, from the perspective of their current business, the financial relevance (impact on income) and perceived importance (perception of how important for the company image they are) of their products and services.

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| **The starting point of Service Innovation Methodology implementation is to document all the company's products and services already present on the market in order to evaluate their importance for the company and potential for enhancement through servitization. In the context of THINGS+ project, this form might be filled out and submitted after the particular application for Pilot Actions was accepted.**<br>**Otherwise, it can be conducted as initial "orientation" activity at the beginning of the very first joint event of the pilot group as a part of their introduction to other participants.** | |
| **Key tools portfolio:** | **Phase 1 - 1.1. Product and service list** |

| Product/service | Description | Financial relevance (1 min - 5 max) | Perceived importance (1 min - 5 max) | Impact (financial x perceived) |
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The initial analysis during the application interview or first workshop could be the analysis of **previous strategies** – successful or not, deliberate or emergent. The logic behind it is to identify "what worked" or "what went wrong" in the past – past behavior, successes and failures are good examples of company capabilities and competences.

In short, strategies give answers to two questions:

- How are we going to win? Or be better that competitors? (e.g. best product, low price/operations efficiency, tailor-made to individual customers)
- Where are we going to win? On which markets are we focused? (niche markets, segments, price range…)

The tool is proposed as optional, since it is not always applicable.

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| **An analysis that evaluates the capabilities of the company is the analysis of past successful and unsuccessful strategies that the company adopted. Formal or informal successful strategies are a significant indicator of company's competences and possibilities to develop, especially if previous strategies included elements of service innovation.**<br>**Underlying idea is to, if possible, during servitization development and implementation mostly use strategies that worked well in the past.** | |
| **Key tools portfolio:** | **Phase 1 - 1.2. Past strategies list** |

| Past strategies list | | |
|---|---|---|
| Successful deliberate | Successful emergent | Unsuccessful |
| | | |

The process of identification of the opportunities is some kind of a process of discovering "the other side" – side of users and buyers, their reasons and motivations. It can be very difficult to switch perspective from product side to customer side, therefore gradual approach is needed.

Companies already know a lot about buyers/users of their products but due to productivity, efficiency or just every day operational pressure they choose to ignore that knowledge – in order to make things simpler and less complicated for the companies. Main task of this first step is to unveil hidden knowledge and start the shift of the perspective – from "product centricity" into "customer centricity".

This step main task is to clarify offer (product and service bundle) – define the boundaries of the starting content of the servitization project and identify opportunities based on existing knowledge about customers, markets and relevant and influential factors that can shape competitive position of the company.

Perspective transformation can start with "**product attributes map**" and identification of its key features and their allocation by categories of "how customers perceive features" (positive, neutral, negative) followed by allocation "uniqueness and intensity of emotions customers feel about those features": is it something that every similar solution has or is it something that makes a difference or even provoke/encourage a reaction from customers (both positive and negative)?

**The initial identification of opportunities for servitization starts with unveiling the hidden knowledge within the organisation and the shift of the perspective - from "product centricity" into "customer centricity". In order to clarify the offer (product and service bundle) and start the transformation of perspective, the Product attributes map should be used to identify key features of the offer that could be categorized based on how customers perceive them.**

**Although Product attributes map has quite "product centric" feeling it is a good starting point for the gradual shift of the perspective from product to customer related issues.**

| **Key tools portfolio:** | **Phase 1 - 1.3. Product attributes map** |
|---|---|

| | Basic | Discriminator | Energizer |
|---|---|---|---|
| Positive | | | |
| Negative | | | |
| Neutral | | | |

**Suggested timeframe: 30-60 minutes**

Next step – definition of **the main customer problem(s)** shifts the perspective to the customers, targeted segment for which company aim to develop service. Those customers are not necessarily final users for chosen product – intended services might be targeted to intermediaries in the distribution chain – wholesalers or retail segments.

Various but clearly targeted and well-defined customers have to be in mind when doing this step (later, during the process and in case of iteration, this step can become initial).

Suggested technique is to choose particular real person that "represents" particular customer segment. Using real person as a starting point here is important since it won't cause statistical or generic misinterpretation. It is less critical challenge to use a small number of real persons or even just one of them (but real person), than using "imaginary" profile (based on the mass market segment, demographics, product category…) that exists only in statistical reports and market studies.

During this step, companies need to be focused on the discussion about real person (preferably existing known individual), identification of the problem that real person is trying to solve (see the Job To Be Done concept) and occurrence of the circumstances in which that particular problem will appear in the life of the chosen individual.

This concept is applicable in B2B or B2C situations and can unveil real motivations and describe the reasons and logic of choosing one product over the other.

**Definition of the main customer problem(s) shifts perspective to targeted customer segment for which the company aims to develop service. Those customers are not necessarily final users for chosen product - intended services might be targeted to intermediaries in the distribution chain - wholesalers or retail segments. Various but clearly targeted and well-defined customers have to be in mind when doing this step. Suggested technique is to choose particular real person that "represent" particular customer segment.**

**The company needs to be focused on the problem that this person is trying to solve (the Job to Be Done concept).**

**Customer problems/Jobs and buying/using circumstances are of paramount importance for future SIM activities, therefore this activity is of critical importance!**

| | |
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| **Key tools portfolio:** | **Phase 1 - 1.4. Main customer problem "as is" - main customer jobs (JTBD - job to be done)** |

Product:____________________

| Customer segment (buyer or user) Who is our customer? | Problem or "job to be done" Why customers buy/use? | Buying/using circumstances When customers buy/use? |
|---|---|---|
| | | |
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**Suggested timeframe: 30-60 min**

Identified product attributes and main customer problem are useful inputs for the next step – identification of the elements of the **value proposition** by using the **Value Proposition Canvas.**

If the product attributes map was skipped for some reason, more time should be devoted to this tool.

The main aim is to again better formulate product/service (use it to get more focused description of integrated single offering) and distinct features from the perspective how they influence the customer:

- do features create gains (e.g. heating is increasing the temperature in the room) or help customers to achieve something they want to
- do features relieve pains (e.g. insulation reduces temperature drop in heated spaces) or help customers to avoid something they do not want to.

Every product has features. From the company view those features are usually technical and technological challenges (or not), and the aim here is to shift perspective from technical perspective into utilitarian perspective.

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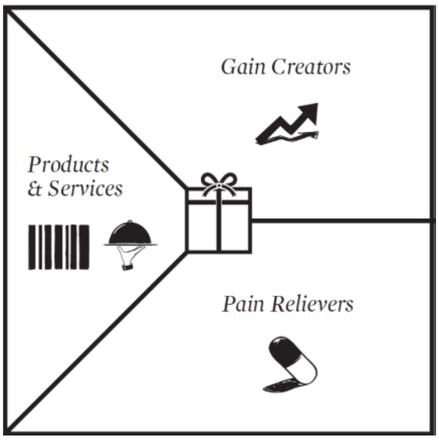
| **Product attributes identified in previous tool are useful inputs for the elaboration of the first part of the Value Proposition Canvas. The aim of using this tool is to further formulate product/service (use it to get more focused description of integrated single offering) and distinct features from the perspective how they influence customer.**<br>**Within the company, features of the product are often perceived as technical or technological challenges, while this tool helps to shift that perspective into the functional and utilitarian customer-centric perspective.**<br>**Main purpose of Value Proposition Canvas is to transform previously defined product features into customer perceived benefits - through created "gains" or avoided or reduced "pains". Secondly, it allows start of learning that product features that are not transformed to customer perceived benefits might be useless and not needed anymore.** | |
| **Key tools portfolio:** | **Phase 1 - 1.5. Value Proposition Canvas - part 1** |
|  | |
| **Suggested timeframe: 30-60 minutes** | |

Next step – formulation of preferences of the particular customer segment is based on the **customer profile** – other side of the **Value Proposition Canvas**.

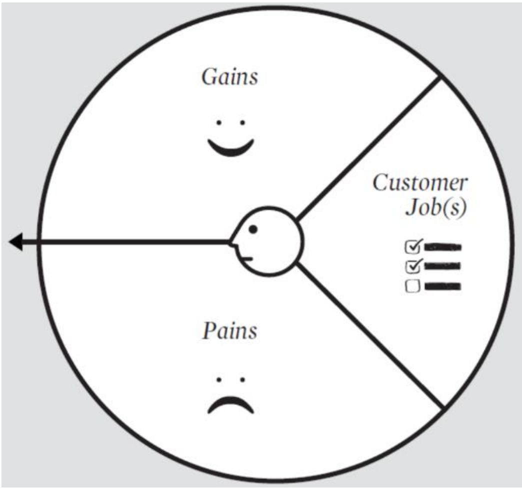
Key aim is to, for particular customer (segment), define customer definition of the problems (Customer Job(s)) that cause that particular customer to look for available solution and which "gains" (benefits) will be result of the process. Since there is no ideal solution, there are always present some "pains" (negative consequences) that are integral part of the customer situation. Therefore, companies should define, for particular customer problem/job:

- gains that are created (e.g. for window thermal insulation: warm room, lower energy bill…)
- pains as inevitable consequence (e.g. cost, condensed moist, stuffy atmosphere…)

**Customer Profile is the other side of the value Proposition Canvas. The aim of this tool is to assist with formulation of preferences of the particular customer segment and the problem for which this customer segment is looking for solution. Gains that customers obtain for particular "job to be done" should be described along with the pains that come with it.**

**This is pure customer perspective, so it is crucial to be careful not to mirror "Value Map" - one should look for the differences and what doesn't fit after the customer perspective is described with the Customer Profile.**

| **Key tools portfolio:** | **Phase 1 - 1.6. Value Proposition Canvas - part 2** |
|---|---|




**Suggested timeframe: 30-60 min**

Next step – identification of competing solutions - **alternatives (competitors, substitutes, workarounds).**

Once participants from the companies accept the idea that the customer problem (and not the product itself) is the reason for established relationships and transactions between them and customers, customer problem can be introduced as the key defining element of the market.

Market shouldn't be defined by the product category or customer "demographics" or geographical characteristics. Market segment should be defined by the problem particular product is solving (under particular circumstances).

This shift redefines the market perception and introduce a wide array of unconventional “competitors”:

- existing, “traditionally viewed” competitors from the same industry (product or technology perspective)
- substitutes – competing solutions that are solving the targeted problem with different products or technologies
- workarounds – customer created solutions that aim to reduce or avoid the problem through “creative, self-made or handy” options
- non-consumption situations – situations in which customers decide not to pursue problem solution due to lack of funds or inability to use & implement or any other barrier. Instead, customers “decide” to live with the problem and its consequences.

**After the customer problem, and not the product itself, is defined as the reason for establishing relationship with the customer, it can become the key defining element of the market. Market segment should be defined by the problem that particular products and services are solving. This concept redefines the market perception and introduces new and unconventional competitors that should be identified and documented in the provided form.**

**Main goal is to expand perspective of the companies about their potential target markets. Very often, servitization initiatives aim to unlock previously ignored or underserved markets which were not manufacturing companies core markets.**

| | |
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| **Key tools portfolio:** | **Phase 1 - 1.7. List of alternatives (competitors, substitutes, workarounds)** |

**Product:** ______________________ **Customer problem/JTBD:** ________________________

| **Competitors**, substitutes, workarounds | Key elements of its value proposition – why customers choose it. |
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**Suggested timeframe: 30-60 min**

In addition, participants can identify services that are offered by their direct competitors or substitutes to the particular customer segments, (tool “**List of relevant services**”). Those services can become inspiration for latter development of their own servitization initiative.

| Based on the information about the competition’s offerings, companies should identify services offered by competitors and substitutes, and document them in the provided form so the information about them could be used while developing their own services. Aim is twofold – one is to understand (and document) competing offerings on the market, and the second is to identify possible role models that might be used during servitization efforts. | |
|---|---|
| **Key tools portfolio:** | **Phase 1 - 1.8. List of relevant services on the market** |

| **Name of the service** (and competing company if relevant) | **Brief description of the service** (When and how is the service delivered? By whom? Which are key resources and activities needed for the service?) | **Objective of the service** (Answer to which need? Solution to which problem?) | Offered as standard or additional |
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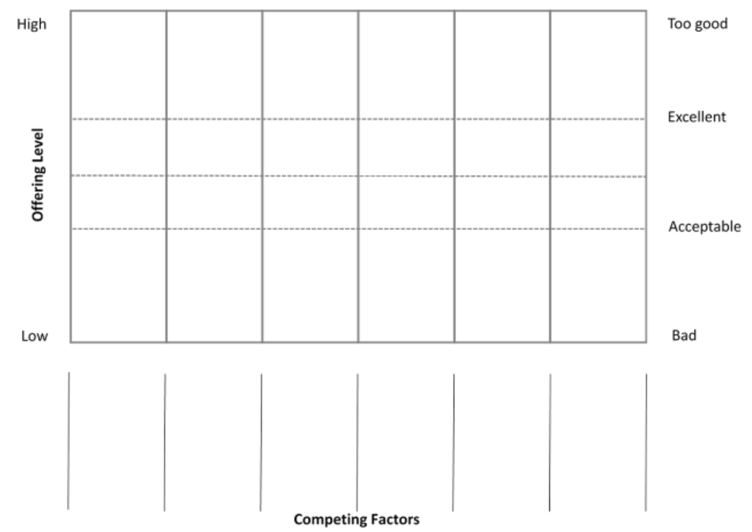
Next step – visualization of the value proposition (**Strategy canvas/Value curve - for the problem).**

Once identified, competitors and substitutes (other industries, workarounds and non-consumptions - any “solution” relevant from the customer’s point of view) need to be compared with the existing company offering for particular customer problem/job.

For that purpose, the strategy canvas and value curve are used. Firstly, for company offering and then for selected competing solutions by identification of factors of competition, appropriate scores and connecting “the dots” to get a graphic representation in form of a curve.

Strategy canvas should allow visual comparison of the competing solutions and understanding of the reasons why particular solution is chosen in particular customer circumstances.

| **After assessment of competing alternatives to company’s offer, this tool should be used to visualise the value proposition by evaluating particular elements and factors that define it in relation with the offers of competing companies. Factors that solution providers compete on should be identified and evaluated based on the results of the previous tools, with aim to recognise different opportunities.**<br><br>**The result should be a comparison of competing solutions (even they seem incomparable by the traditional product or demographic based market analyses) and understanding of why a particular solution is chosen by the customers under particular customer circumstances.**<br><br>**In short, strategy canvas helps to visually understand and predict customer behaviour when particular customer circumstances and (product) offering features are confronted.** | |
|---|---|
| **Key tools portfolio:** | **Phase 1 - 1.9. Strategy canvas for „the problem”** |

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| **Suggested timeframe: 30-60 min** |

**Four actions framework** is an addition to strategy canvas/value curve and used as a guide for discussion of possible change and value proposition transformation. Aim is to discuss possible directions of transformation of particular factors of competitiveness – should they be reduced, improved, created (added) or even eliminated when creating transformed offer more adapted to particular customer segment.

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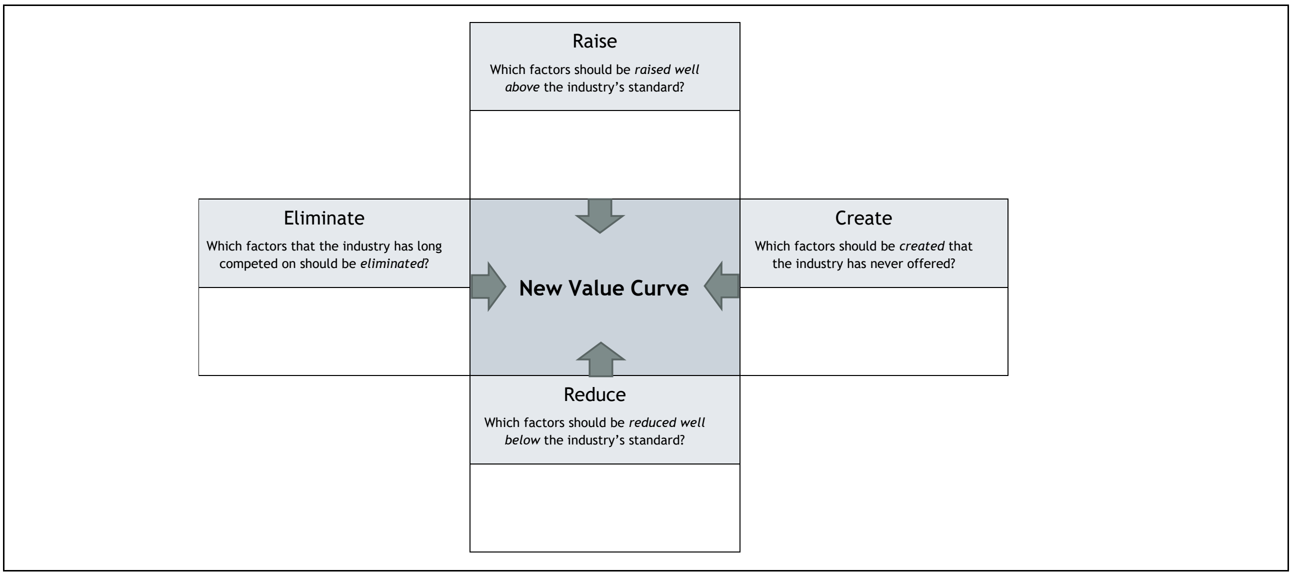
| **This tool is an addition to strategy canvas and it is to be used for further discussion on possible change and transformation of value proposition in terms of particular factors of competitiveness: should they be reduced, improved, created (added) or even eliminated when creating transformed offer more adapted to particular customer segment.**<br>**The idea is that "simple" action on particular feature can lead to dramatic change in the perceived and delivered value to the customers and creation of completely new customer groups and markets.** | |
| **Key tools portfolio:** | **Phase 1 - 1.10. Opportunities brainstormed (Four actions framework)** |




The first workshop will be supported with additional follow-up mentoring if needed.

| Phase 1 summary | | |
|---|---|---|
| **Tasks** | **Supporting tools** | **Note** |
| Workshop | Existing Product-service list<br>(option to use during application) | 30 min |
| | Past strategies list<br>(option to use during application) | Optional |
| | Product attributes map | Optional<br>30 - 60 min |
| | Main customer problem “as is” – main customer jobs (JTBD - job to be done) | 30 - 60 min |
| | Value Proposition Canvas | 60 – 120 min |
| | List of alternatives (competitors, substitutes, workarounds) + Relevant services on the market | 30 – 60 min |
| | Strategy canvas for „the problem” | 30 – 60 min |
| | Opportunities brainstormed (Four actions framework) | Optional |

# 4. **Phase 2:** Opportunities based on external developments and new insights – “outside-in” identification of opportunities

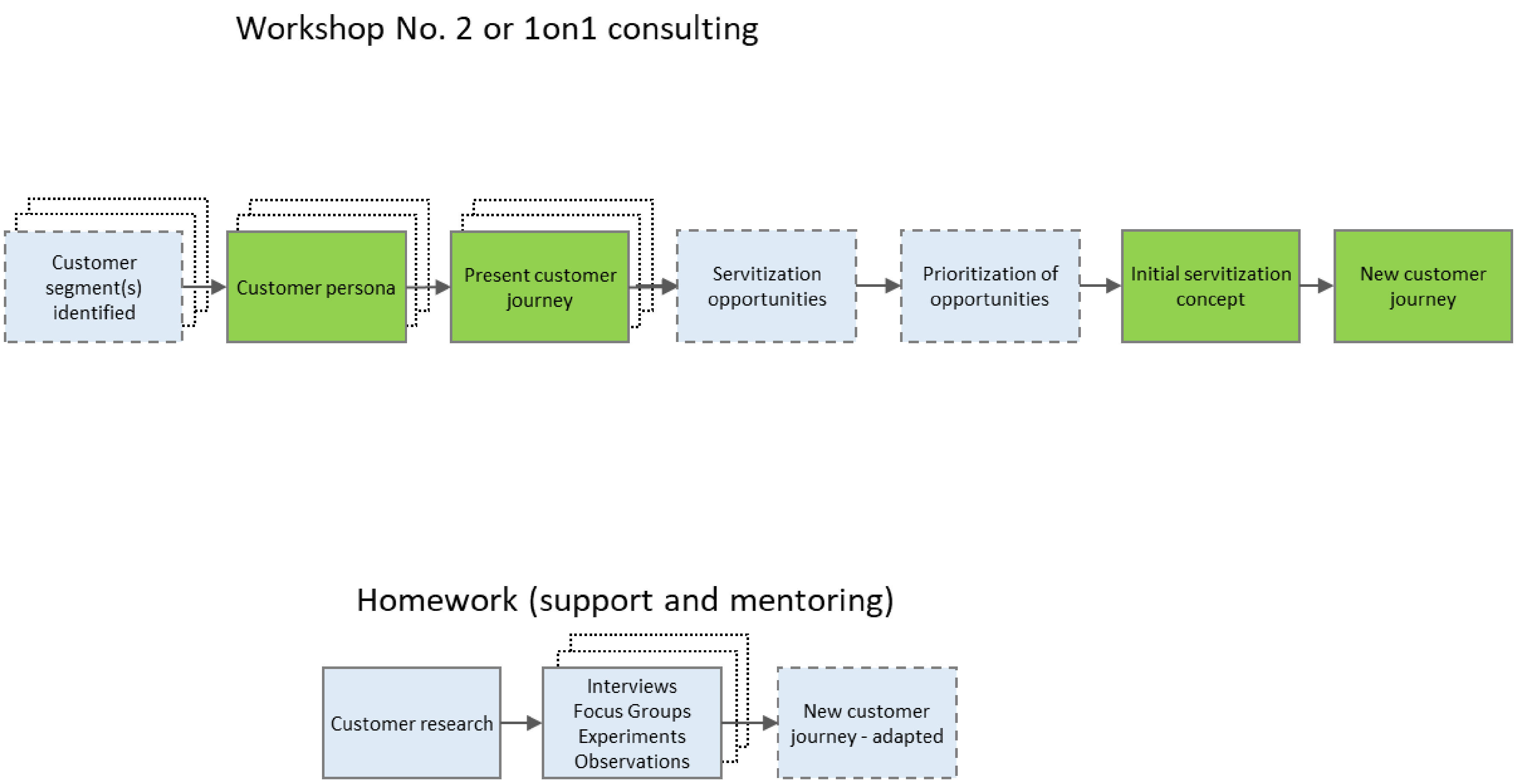



Figure 2 Workflow of the second phase of the Service Innovation Methodology

## 4.1. Workshop 2: “Outside-in” assessment

Second phase workshop can start with shared presentations (and, if needed, additional evaluation) of identified opportunities. Current findings exchange among participating companies can act as additional inspiration for identification of the servitization opportunities.

**Have in mind that SIM is an iterative process** – it is very likely that findings and decisions in latter phases can lead to re-evaluation and change/repeat of previous steps. It is very unlikely that linear implementation of SIM will happen in any case. Linear one direction approach can actually seriously limit potential impact and chances for success of servitization efforts.

Identification of “outside-in” opportunities starts with additional description and understanding of key customer segments and creation of a **customer profile: persona**. Aim is to expand perspectives beyond traditional product or demographic perspective and to initiate customer analysis based on the problems customers are trying to solve and circumstances under which those problems exist. Shift towards the customer centric approach was already started during the first phase of the methodology implementation, and at this point the customer segment and market features will be further elaborated.

Customers “hire” products and services that fit into their lives and address issues they perceive as important. That was initially described previously during WS1 with “Customer Problem/Jobs” form. At this step, we want to identify and clarify key characteristics of particular customer segment (previously defined by the “problem”) by understanding:

- Customer demographics, location, social characteristics or any other outside characteristics that will allow to understand where to find them and who to target,
- Customer preference regarding buying and using circumstances (buying/usage time and place, sales and marketing channels used, distribution…) that will allow additional insight into possibilities of servicing the targeted customer segment.

Previous customer analysis should allow focus on one or few most promising customer segments. Each company can have its own logic of which customer segment to choose and focus on – criteria can be size, profitability, growth rate, perceived problem and value created, willingness to pay, availability, ease of acquiring /“low hanging fruits”, technology development, portfolio expanding, etc. Optionally, **Customer segments list & description(s)** form can be used to define the most promising customer segments.

In any case, it is suggested to focus on one to max three segments in the next steps (of course, this step can be repeated – if chosen customer segment turns out to be unattractive during latter activities) and create a **customer persona for each segment**.

**Companies should identify customer segments and then gradually shift the perception of them beyond the existing assumptions. Demographic, social and other features of customer segments should be documented in order to understand where to find them and who to target, and also how to adapt servitized offering. Since customer segments are already identified in the first phase (JTBD) this tool is optional and can be used for further assessment.**

| Key tools portfolio: | Phase 2 - 1.1. Customer segments list & description(s) |
|---|---|

**Suggested timeframe: 30-60 min**

Product:____________________

| Customer segment (buyer or user)<br>Who is our customer? | Demographics, social, geographical… characteristics<br>Where? Who? | Time, place, sales, ma distribution channels<br>How to buy an |
|---|---|---|
| | | |
| | | |
| | | |

Further insights on customers will be gained by using two tools – “Customer Persona” and “Customer Journey”.

**“Customer Persona”** is based on the particular, specific individual – if possible existing person that is part of the chosen segment – already buying/using or is expected to. Description of Customer Persona includes its name, personal detail, social status, preferences and values, quotes or requests… every information available that will enable understanding of that particular segment beyond usual moments of interaction with company (buy/use/complaint).

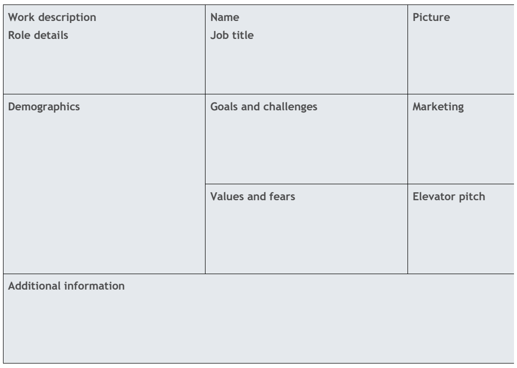
Key elements of “Customer Persona” are:

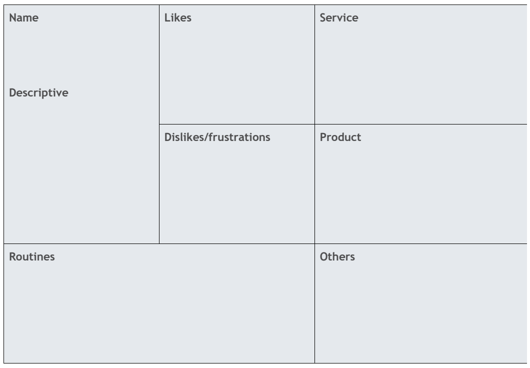
- Personal identification – name and description of the “real” person; descriptive photo if available
- Personal preferences – likes and dislikes which may not always be related to their business function (e.g. head of the production) but also to private life, goals and challenges, values and fears, routines
- Demographics
- Marketing and sales messages and approach
- Any additional information that will enable better understanding of the targeted person

Please note that two forms of “Customer persona” are given – just to emphasize flexibility of this stage of the SIM (it is suggested to use one form during the workshop).

**After previous customer segment analysis, the focus should be directed to the most promising customer segment(s). It is suggested to proceed with no more than three customer segments. The aim is to describe the customer based on a specific individual - a real person representing the customer segment. Description includes every information available that will enable understanding of that particular segment beyond usual moments of interaction with company (buy/use/complaint), like: personal detail, demographics, social status, preferences and values, quotes or requests, etc. This information should enable to identify even more precisely who to target, when and how.**

| Key tools portfolio: | Phase 2 - 1.2. Customer Persona (per segment) |
|---|---|




**<u>Suggested timeframe: 30-60 min</u>**

**“Customer Journey”** is a visual description of relevant customer process that includes causes and genesis of “the problem”, the problem itself and its solution, followed up within the appropriate time frame.
Customer journey in case of financial institution can be person’s lifecycle – from teenage to retirement (or company investment cycle), while for the airport restaurant it can be few hours between entering the airport building until the start of boarding the plane.
Stages can be generic (preparation, purchase, delivery, use, supplements, maintenance, disposal) or reflect real and specific activities/stages of the targeted customer journey (e.g. education, first work, marriage, settling, kids, situated, retired, hospitalized).
Once the stages are defined, customer journey aims to define three perspectives of the customer:

- What is she/he doing?
- What is she/he thinking?
- How does she/he feels during that stage?

To describe each perspective (“row”) of the customer journey, a big flipchart papers or wall posters should be used in combination with any visual tool available – drawings, photos, post-it notes, symbols. Aim is to have “linear” description of relevant timeline that describes customer “life” and product related activities.
After customer side of the journey canvas is defined, company activities and perspective should be reflected through:

- (Front end) Touch points – situations in which company interacts with the particular customer,

- (Back end) Infrastructure that enables company to interact and guide customer through/during observed lifecycle.

Usually, customer side of the journey is much more “populated” with activities, events, challenges and decisions. The company side of the journey rarely follows and mirrors customer side – exactly that misfit is starting point for identification of the opportunities for additional value creation and new services.
As a result, identified unsatisfactory or inappropriate coverage of customer stages, conflicts and dropouts (customer “pain points”) can lead to opportunities to improve the customer experience with the company’s offering.

**This tool is used to visually capture the entire cycle of customer’s experience from the moment the customer’s problem emerges until after the solution is applied. Stages of the journey can be generic (preparation, purchase, delivery, use, supplements, maintenance, disposal) or more precisely defined. After all stages are defined, customers behaviour at every stage should be analysed (define what is the customer doing-thinking-feeling) so any unsatisfactory experience (pain points) can be identified and recognized as possible opportunity.**

| **Key tools portfolio:** | **Phase 2 - 1.3. Customer Journey(s) (per segment)** |
|---|---|

| Stages: | Getting information Preparing | Buy Purchase | Deliver | Use Consume | Add-ons Supplements | Maintenance | Disposal |
|---|---|---|---|---|---|---|---|
| Doing | | | | | | | |
| Thinking | | | | | | | |
| Feeling Experience | | | | | | | |
| Front end Touchpoints | | | | | | | |
| Back end Infrastructure | | | | | | | |
| Customer Pains Opportunities | | | | | | | |

**Suggested timeframe: 60-120 min**

Although seemingly taking into account customer perspective, previous steps are based on existing knowledge and understanding of customers and markets that exist mostly within the company. Therefore, identified pain points, customer journey and profile should be verified and upgraded through real interactions with customers that will follow up as homework (post-workshop activities). It is suggested that at this point participants formulate key questions or identify assumptions as starting points for tests and experiments during direct customer interactions between the second and third workshop.

Based on the steps so far, companies should assess their opportunities and formulate their initial **servitization concept**. If there is more than one opportunity, they can create their lists of servitization opportunities and evaluate them so they can maintain focus on those that are most significant for the customer while at the same time valuable for the company. These opportunities arise from the identification of problems customer experienced during the customer journey, and they can be documented by using the form provided in the tools portfolio: **“Servitization Opportunities”**. This tool is optional and companies can start to fill it out during the second workshop, and revise it after the additional insight gained through interaction with the customers.

**The second phase ends with the formulation of the servitization concept. If there are more opportunities, they should be defined and assessed. The assessment is based on the insights gained from more detailed analysis of the customer segment, pain points identified during customers journey and eventually feedback gained from direct interactions with the customers.**

**The framework used is: customer related advantages (importance and relevance) and general attractiveness for the company (possibility and profitability).**

| **Key tools portfolio:** | **Phase 2 - 1.4. Servitization opportunities** |
|---|---|

**High value opportunities**

| **Opportunity**<br>What customer want?<br>Or think that is important?<br>(description of a problem or challenge customer face while buying and using our product) | Customer perspective | | Commercial – business perspective | | Opportunity |
|---|---|---|---|---|---|
| | **Important for customers** Creation of substantial customer benefits which are considered to be relevant and important. | **Unsatisfied customer problem** Appropriate solution to unsolved problems, risks or damages; Superior to available solutions or previously underserved or excluded customers. | **Doable and scalable** Possible to implement with acceptable level of effort and investment; Having a substantial growth potential. | **Valuable and lucrative** Great number of customers with purchasing power and willingness to pay; Customers identified in different and unrelated markets. | |
| | A<br>1min-5max | B<br>1min-5max | C<br>1min-5max | D<br>1min-5max | A+B+C+ |
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After the pilot companies identify the most valuable and perspective opportunities (both for the customer and the industry-commercial-business perspective), those should be evaluated from the perspective of the company itself and its capabilities. The form **Prioritized Opportunities (Company Perspective)** can be used for this activity. The task is to assess their applicability, feasibility and sustainability – simply to find the answer to the question “Can we do it?”.

Company’s capabilities, organizational performance and available resources impose limits – not every identified opportunity is feasible to implement within limited timeframe and available funds and other resources. It is important to identify those opportunities that will bring the greatest return for the company.

Ambitious projects are most welcome, but pragmatic approach and focus on the “low hanging fruits” might bring tangible benefits and enable future implementation of more ambitious projects.

**At the end of the second phase, if there is more than one, key opportunities should be compared and evaluated in terms of their applicability, feasibility and sustainability. Most promising opportunity will be formulated into initial servitization concept. Previous prioritization of the opportunities was assessing opportunities - their market and industry perspective. Opportunity that has great potential in general might not be appropriate for the particular company - final assessment should be done from the perspective of the company and its capabilities to perform and implement.**

| **Key tools portfolio:** | **Phase 2 - 1.5. Prioritized Opportunities (Company Perspective)** |
|---|---|

| Customer related opportunity | Company's solution | Investment level 1min-5max | Effort and time 1min-5max | Market risk 1min-5max | Technology risk 1min-5max | Change level 1min-5max | Score sum |
|---|---|---|---|---|---|---|---|
| | | | | | | | |
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This phase ends with initial "**Servitization concept**" (or a few of them) based on opportunities which will be recognized as most promising and doable. In case of more possibilities, the company will have to make a decision on which opportunity for servitization to pursue, having in mind its own capabilities, challenges and possible gains.

Key elements of the initial servitization concept are:

- Servitization idea tagline
- Service description
- Customer experience description
- Service outcome description (benefits, emotions, value)
- Organizational aspects
    - Human and other resources needed
    - Processes (new or alterations of existing activities)
    - Structure – organizational and hierarchical
    - Key performance indicators, main goals and outputs
- Responsibilities and management elements
    - Key creation and development responsibilities
    - Implementation responsibilities once the service is up and running

| | |
|---|---|
| **Key output of the second phase is the initial servitization concept - a brief description (or few of them) of the new service that will be complemented to the product chosen for the servitization initiative.**<br><br>**The aim is to identify key elements that are crucial for the implementation and to enable understanding of the organizational and operative changes that will be envisioned during the next steps.** | |
| **Key tools portfolio:** | **Phase 2 - 1.6. Servitization concept** |

**Servitization concept**

| | | |
|---|---|---|
| Key idea: | | |
| Service description | | |
| Service experience | | |
| Benefits | Emotions | Value |
| Organizational aspects | | |
| Development responsibilities | Implementation / commercialization responsibilities | |

After participants define their servitization concept, they should elaborate the **New ("to be") Customer Journey** by using the already proposed tool **(1.3. Customer Journey)**, this time describing the customer's experience with the new service.

After the workshop, when company gains augmented customer centric perspective, this time based on feedback from direct interactions with the customers, it should revise the customer assessment steps (segment, profile, journey) and the servitization concept, and also the new customer journey.

| Phase 2 summary | | |
|---|---|---|
| **Tasks** | **Supporting tools** | **Note** |
| Workshop | Customer segments list & description(s) | Optional |
| | Customer Persona (per segment) | 30 - 60 min |
| | Customer Journey(s) (per segment) | 60 - 120 min |
| | Servitization opportunities | 60 - 100 min optional |
| | Prioritized Opportunities (Company Perspective) | 30 - 60 min optional |
| | Servitization concept | Decision 30 min |
| | New ("to be") Customer Journey | 30 - 60 min |
| Homework | Customer research | / |
| | Interviews, Focus Groups, Experiments, Observations | / |

# 5. Phase 3: Change and implementation design

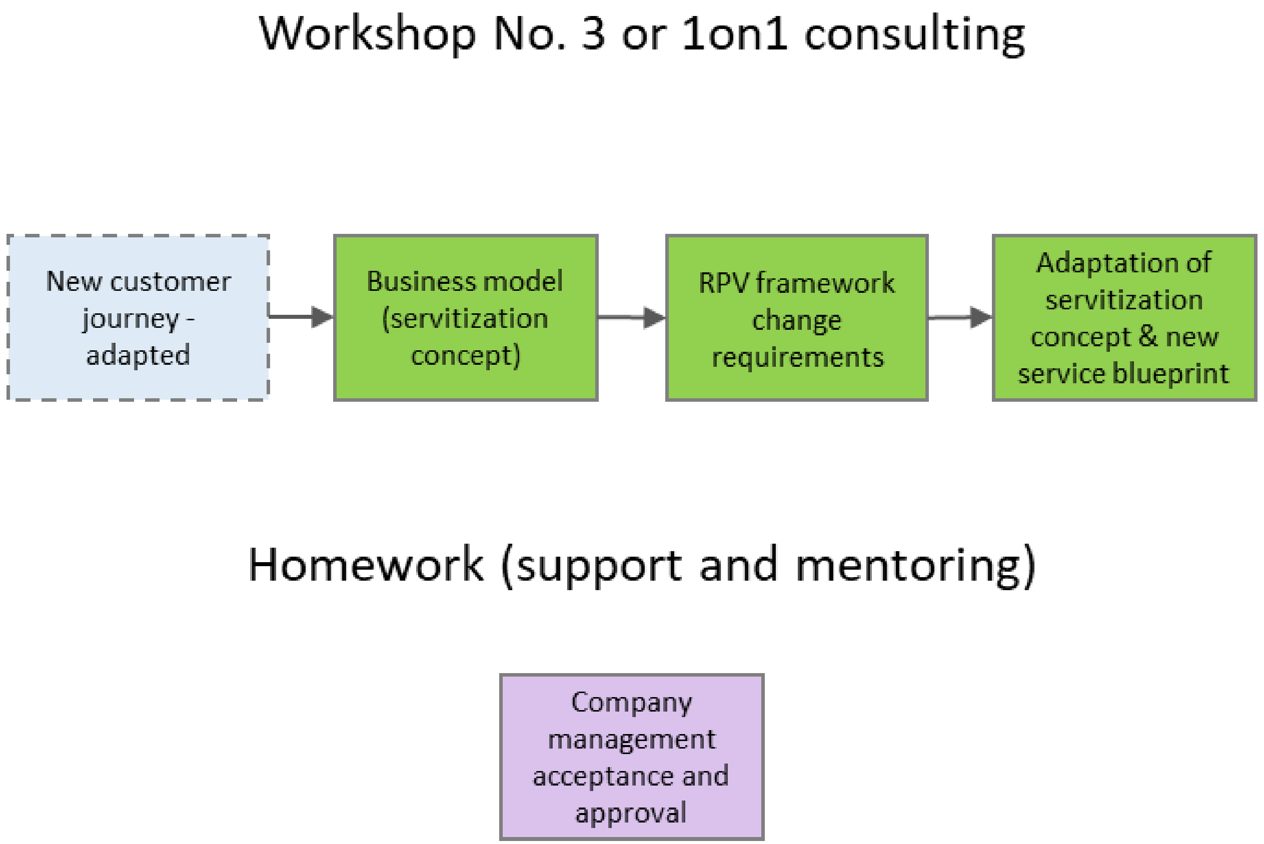



Figure 3 Workflow of the third phase of the Service Innovation Methodology

## 5.1. Workshop 3: Design of actions (towards customers and company)

Third phase workshop's main task is identification of the key changes in the way how the customers will be served, and how business model and key elements that define company capabilities (resources, processes and decision-making criteria and values) should be altered.

Workshop can start with the revision of the **New ("to be") Customer Journey** based on the initial servitization concept. If appropriate and seen as beneficial, **starting point of the workshop can be short presentations (up to five minutes)** of each initial servitization concept pilot companies developed.

It is suggested that the revised Customer Journey should be developed from the scratch – as if there is no previously established relationships and activities related to "old" customer journey. Participants should first focus on the customer side (Doing/Thinking/Experiencing) in order to maximize value proposition and adaptation to the customer needs.

Usually, when additional services are included, the timeline span is expanded (or it is at least equal to the old one) – from the perspective of the company. Reason for that is one of the servitization consequences - servitized product "supports" bigger portion of the customer lifecycle.

After the customer side is defined, company perspective should be explored in order to define: which are the touchpoints, in what way to organize them and what will be the most appropriate way to support the newly developed customer side. Touchpoints are enabled and reinforced with supporting back end infrastructure – meaning what should be in place in order to seamlessly deliver services according to newly designed customer experience.

"New" and "old" will be confronted after the "ideal" customer journey is created – to identify the differences and understand the challenged. Of course, if some elements are difficult to assure from the company perspective, the "New Customer Journey" should be adapted to what seems to be possible to implement.

The only difference in the customer journey form (compared with the previous "documentation step" customer journey form) is the bottom row – at this stage, instead of opportunities, companies should fill the main differences - changes or missing resources and capabilities that are needed to deliver and support envisioned customer experience based on the "servitized product" (**Suggested timeframe: 90 min**).

Next step is to integrate the planned changes into the business model. To be able to do it, participant companies should understand both existing key elements of their business model and changes that are required.

Suggested procedure is to use **Business Model Canvas** as checklist for the identification and description of key business model elements of:

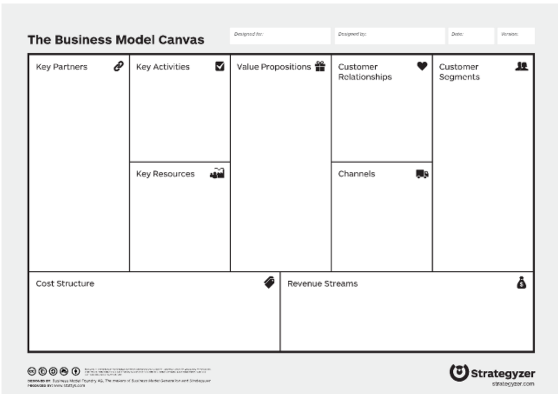
- existing product manufacturing-based business model
- servitized business model.

Osterwalder/Pigneur Business model canvas is suggested since that framework became "the standard" and there is a lot of free or cheap resources and instructions for use available. Official resources and sources are suggested, therefore it is advised to start with Strategyzer.com and available books and learning channels (youtube.com).

Once existing “as is” and planned “to be” business models are defined - overlaps and differences need to be checked. Since it is very difficult (or even impossible) to run two different business models within the same organization, there are two possible actions.

First - to adapt existing business model and make it universal, valid for the whole company and plan the migration from the old to new business model. This approach should work better for incremental servitization projects (where services are added to the product but product is still the main part of the offer) and/or micro and small companies that are limited in size, scope and with simple ownership and management structure.

Second – to create separate organizational unit (even better as separate profit center) that will be in charge of the servitization project implementation. This approach is more appropriate for the radical servitization initiatives where service part will become the main element of the offer and when substantial change in processes and culture is required. This is a project with higher complexity, more appropriate for bigger SMEs with capabilities and competences to carry on the complex shift.

| | |
|---|---|
| **Business Model Canvas is used as a checklist for identifying key elements of the business model - the rationale of creating, delivering and capturing value. Key aim is description of existing BM and identification of the elements that will be changed or added.** | |
| **Key tools portfolio:** | **Phase 3 - 1.1. Business Model Canvas** |
|  | |
| **Suggested timeframe: 90 min** | |



Since Business model canvas allows only to define the general view, more detailed description of the differences and expected changes and results are possible with the use of the **RPV (Resource-Processes-Values) framework.**

The tool is very useful add-on to the Business model canvas and it is used to describe in detail enabling elements (key resources and key activities) but also the decision-making criteria that may impose limits to the implementation (perception of the customers, favourable deals and customers, “quality”, margin, size of the deal etc.).

RPV framework is used for:

1. detailed understanding of the existing resources, processes and values (philosophy, decision making criteria…)
2. identification of the influencing forces (optional step – companies can use as inspiration phase 1 tool “Environment and influencing forces”)
3. transformations of the existing resources, processes and values that are needed to enable servitization initiatives implementation and commercialisation/internationalization
4. results that are expected as outcomes of the proposed changes. (optional but strongly suggested)

| RPV framework should be elaborated and assessed through perspective of change that is envisioned. Companies should perform initial snapshot of the its resources, processes and values. Key aim is to define which elements will change and describe the change and expected results. Additional insight regarding trends and outside forces is suggested but optional. | |
|---|---|
| **Key tools portfolio:** | **Phase 3 - 1.2. Resources Processes and Values Framework - extended with trends, change requirements and expected results** |

| | Changes and transformations | Expected results |
|---|---|---|
| **Resources**<br>Things company has access to - that can buy or sell, build or destroy, tangible or intangible | | |
| **Processes**<br>Way of doing business (skills) - established ways companies turn resources into products or services | | |
| **Values**<br>Prioritization determinant (motivation) – the criteria by which prioritization decisions are made | | |

**<u>Suggested timeframe: 90 min</u>**

Third phase workshop/joint work ends with a review of the previously defined servitization concept from the feasibility perspective. The key elements to assess are:

- is the servitization concept aligned with the existing business model or substantial alterations of the business model are needed?
- does the company have a clear idea which changes are needed and how to manage those changes and their implementation?
- are planned changes feasible and within limits for the particular company?
- are the limitations and restrictions of the planned changes (if any) making servitization initiative meaningless (if yes, go back and redefine new customer journey having in mind identified limitations)?

**Suggested timeframe: 60 min.**

Follow up homework activities should focus on further exploration of the change issues and integration of servitization concept into existing management framework of the company.

Servitization concept, business model elements and RPV framework should be discussed with all organizational parts (departments, stakeholders etc.) in order to get estimations of implementation impact and requirements, costs, delivery terms, limitations, capacities etc. The goal is to have enough information to start drafting the strategic plan and formulation of the strategic management guideline in the next phase.

This phase ends with the acceptance of the servitization project blueprint and its approval by the senior management of the company. Those companies that are capable to deliver the servitization based offer according to the defined concept can be considered as contributors to ***Threshold 1 - New service to be put in their portfolio***. The implementation and commercialization of the offer will be further elaborated in Phase 4.

| Phase 3 summary | | |
|---|---|---|
| **Tasks** | **Supporting tools** | **Note** |
| Workshop | New Customer Journey | 90 min |
| | Business Model Canvas | 90 min |
| | RPV framework | 90 min |
| | Adaptation of servitization concept & new service blueprint | 60 min |
| Homework | Business Model Canvas | Discussion with all organizational parts of the SME |
| | RPV framefork | |
| | Servitization concept | |
| | Servitization project blueprint | Acceptance |