



PEER INSIGHT

*Developing New Services:
Are You Ready for the Challenge?*

Presented at
NORCAL PDMA Breakfast
January 27, 2005

Thank you for joining us today

The Peer Insight leadership team:



Jeneanne M. Rae, Co-founder & EVP
(jrae@peerinsight.com)

- 14 years experience in innovation, including seven on senior management team at IDEO
- Spearheaded IDEO's growth in service innovation
- Clients included Kodak, Ford, Intel, Pepsi
- Adjunct Professor of Marketing, Georgetown University McDonough School of Business
- MBA, Harvard Business School
- BS, University of Virginia

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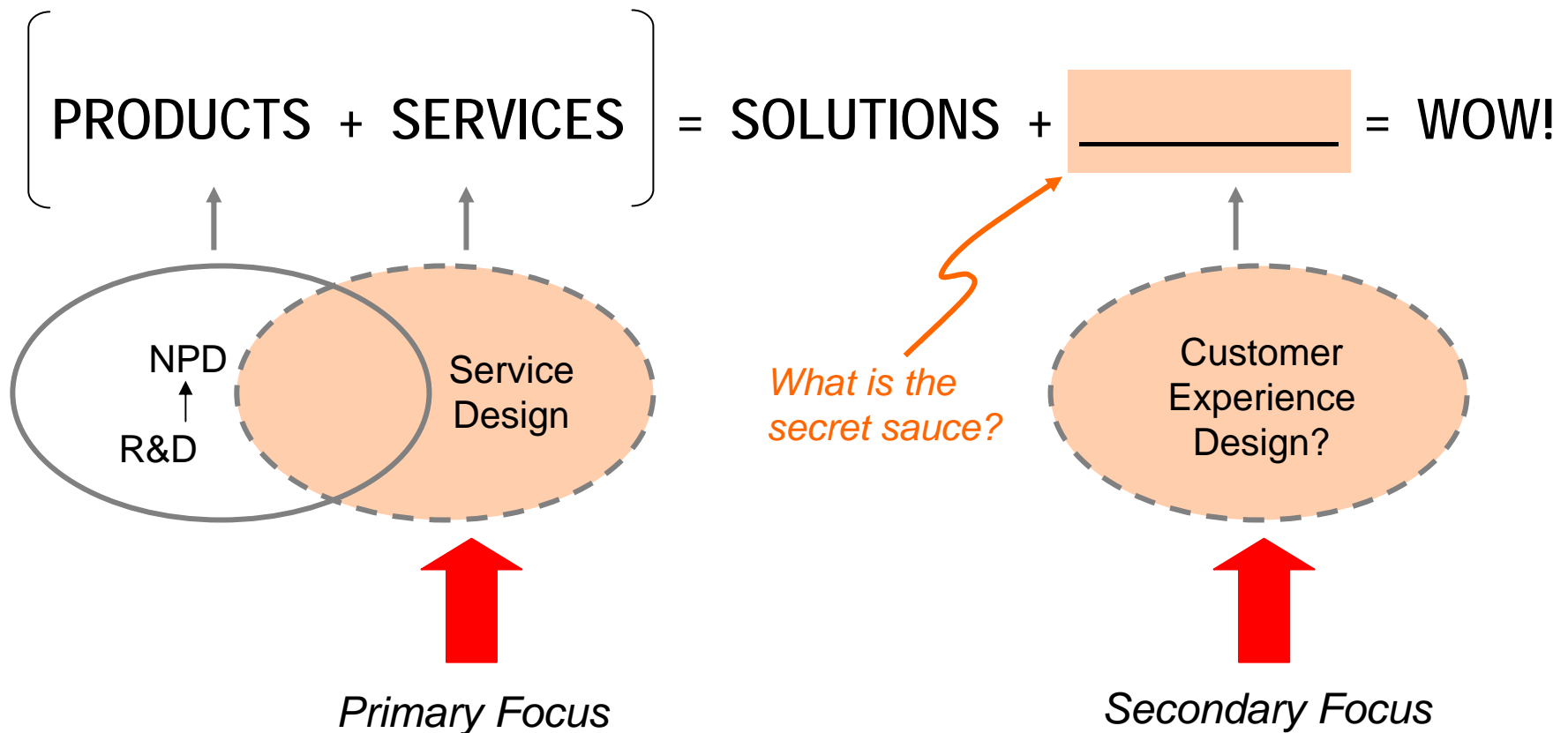


Tim Ogilvie, Co-founder & CEO
(tim@peerinsight.com)

- Four years as a Partner of Kaiser Associates
- Founded and led the Price Waterhouse global benchmarking practice
- Provided consortia research services to over 60 of the *Fortune* 500
- Founded a successful high-tech industrial services company
- Masters in CIMS, Georgia Tech
- BA, University of Virginia

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Our insights come from original research interviews with 150+ service innovators at 50+ Fortune 500 companies



Some modest proposals by Peer Insight

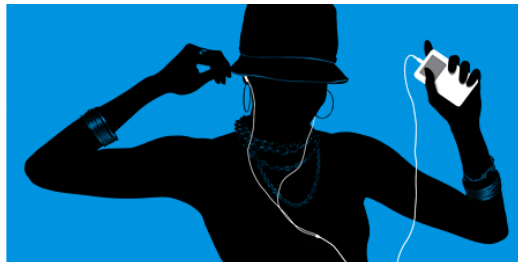
- Nobody wants products
- New products and services are only 1/10th of innovation
- Services only influence adoption rates half the time
- The tools of NPD are a poor fit for service innovators

(Along the way we'll show you four tools)

Products are cool ... right?



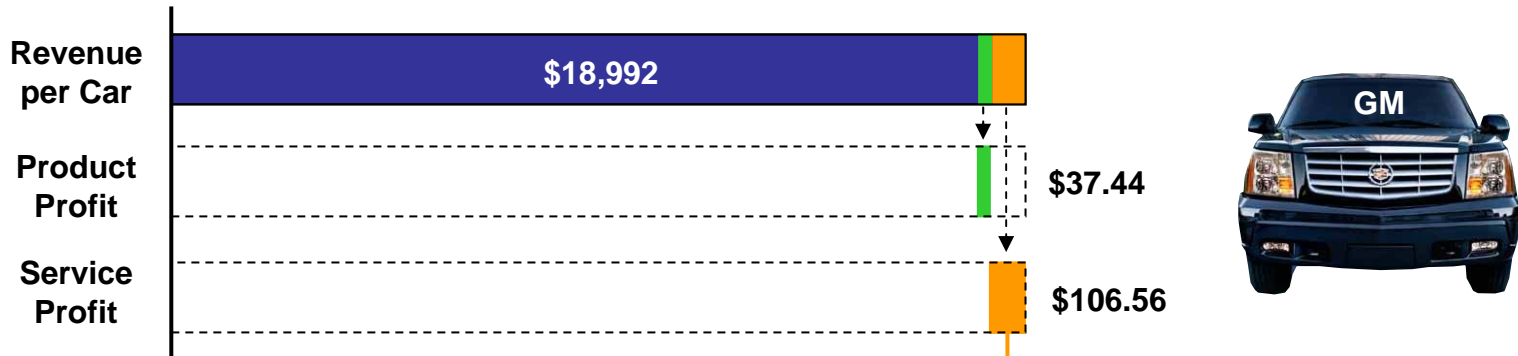
- When we say “innovation,” we immediately think of products
- The best business schools teach “new product development” and “service *management*”
- Google shows a 99 ½ -to-1 dominance of products over services (April 2004)
 - “new product development” returns 427,000 hits
 - “new service development” returns 4,290 hits



Is GM a *product* company or a *service* company?



GM's profitability and growth are driven by services



Here's where the profit is:

GMAC FINANCIAL SERVICES

2003 Revenues: \$29.7B
 Pct. of Total GM Revenues: 16%
 2003 Profits (Margin): \$3.8B (13%)
 Pct. of Total GM Profits: **74%**

Here's where the growth is:

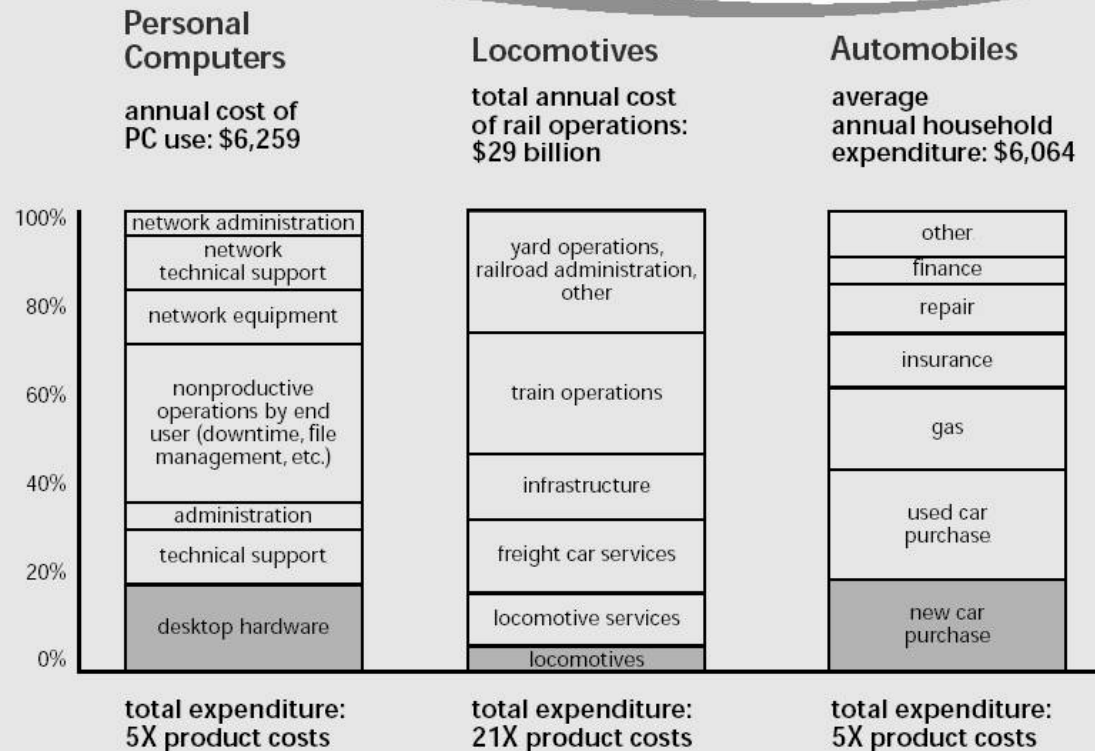
OnStar

2003 Subscribers: 2.5 million
 Annual revs/subscriber: \$300
 2003 Revenues: \$750M
 Growth rate: **33% CAGR**

Services dominate the spending in many “product” categories

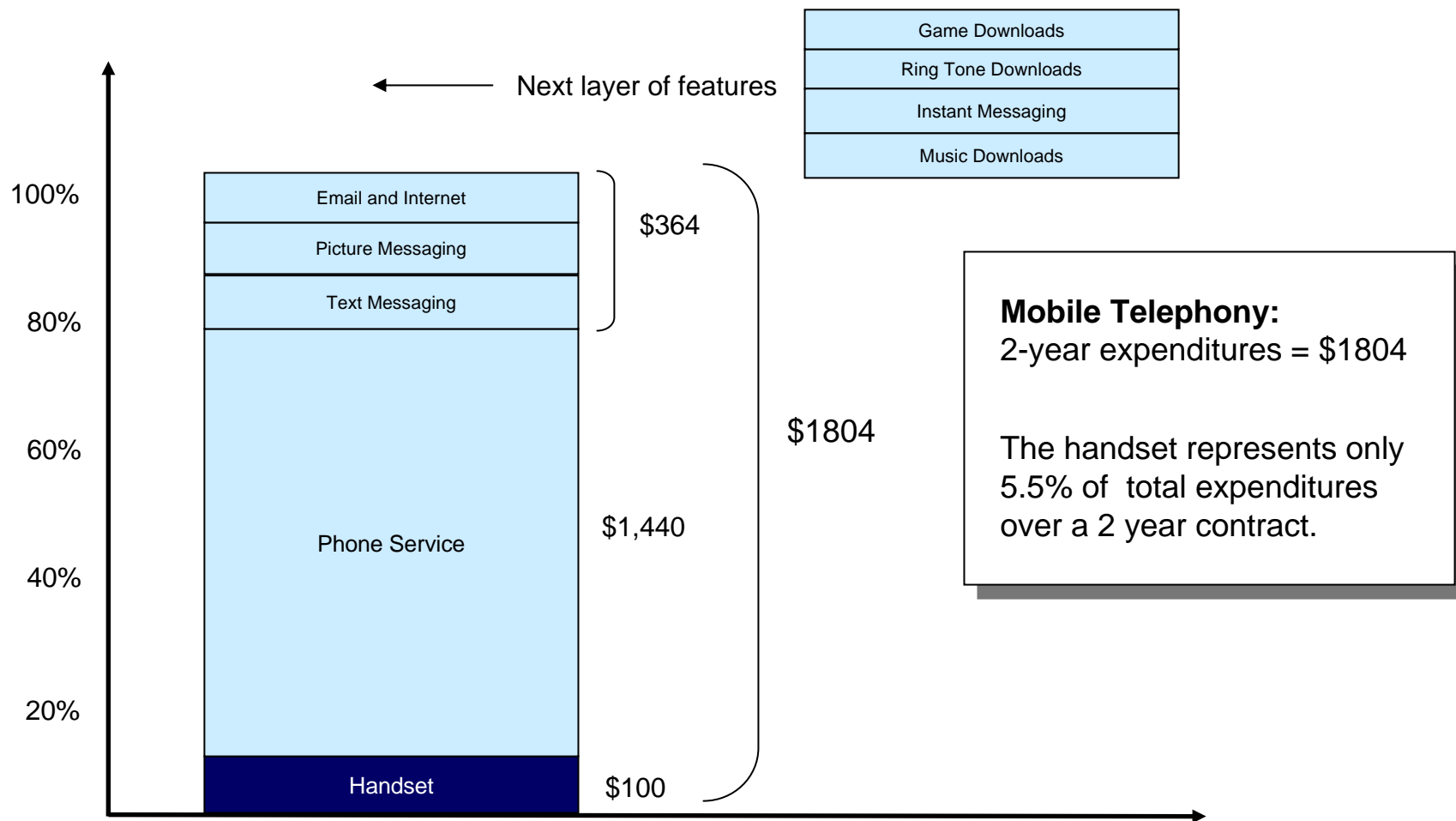
Where the Money Is

In many industries today, the sale of a product accounts for only a small portion of overall revenues. Providing services to customers is where the real money is. This exhibit shows the distribution of revenues in three industries.



Source: GartnerGroup, Association of American Railroads, Federal Highway Administration Office of Highway Information Management. Railroad expenditures are for Class 1 railroads.

Mobile telephony is even more skewed toward services



Note: Estimates are based on typical Verizon Wireless plan for 800 minutes, 100 text messages, & 20 picture messages as of January 2005

Customers don't want products or services . . .



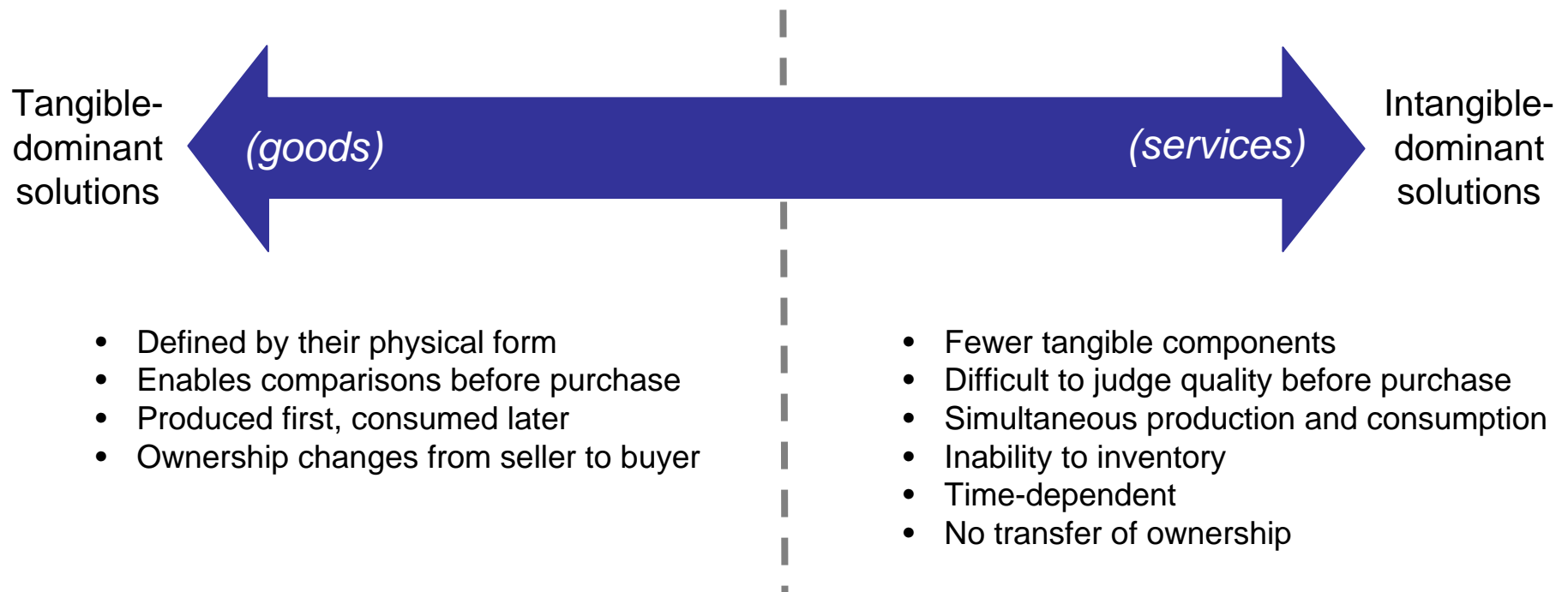
*“People don’t want a quarter-inch drill. They hire a quarter-inch drill because they want a quarter-inch **hole**.”*

*– Theodore Levitt
Harvard Business School*

. . . they want outcomes.

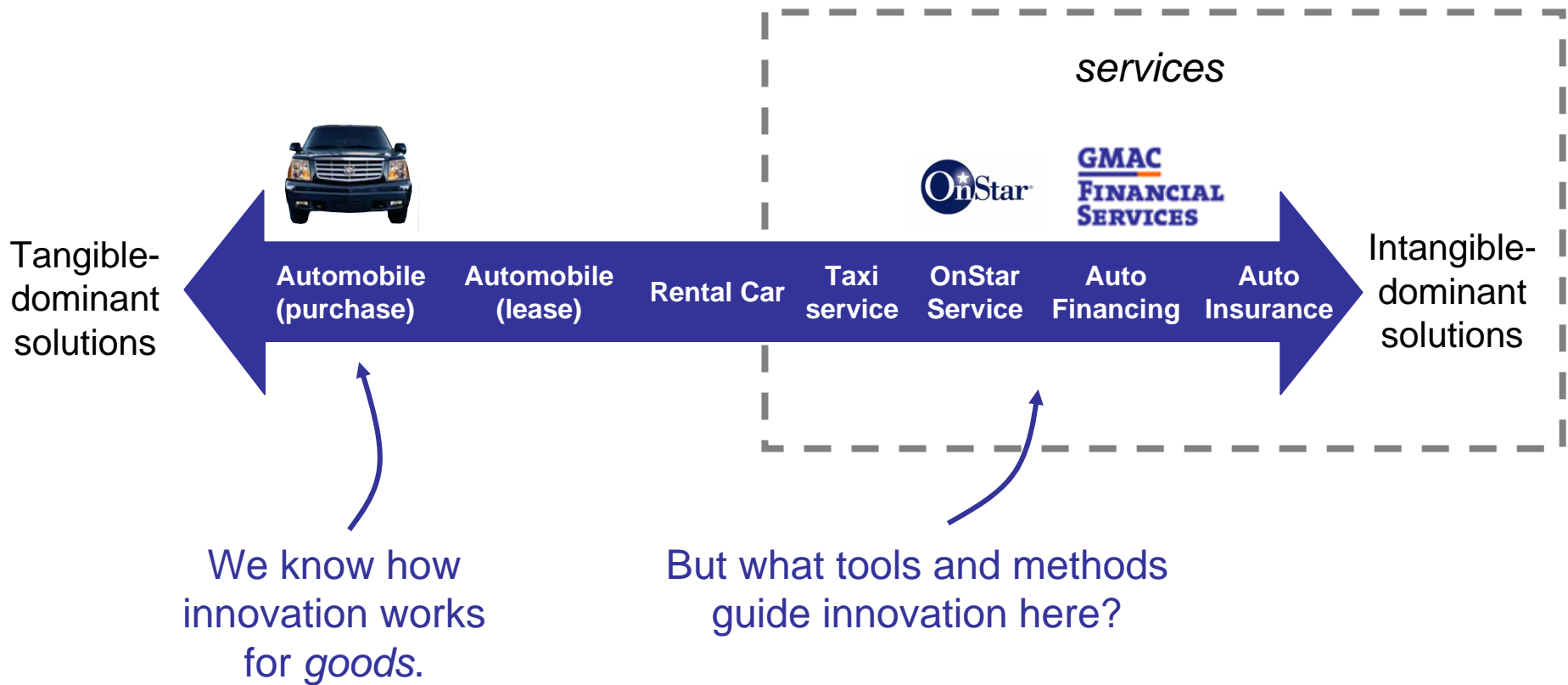
Furthermore, there are no pure goods or pure services

Customers want outcomes, or “solutions” ... and compelling solutions mix tangible and intangible elements¹



Note 1: Lynn Shostack, “Breaking Free From Product Marketing,” *Journal of Marketing*, 44 (April 1977).

Example: Personal transportation solutions





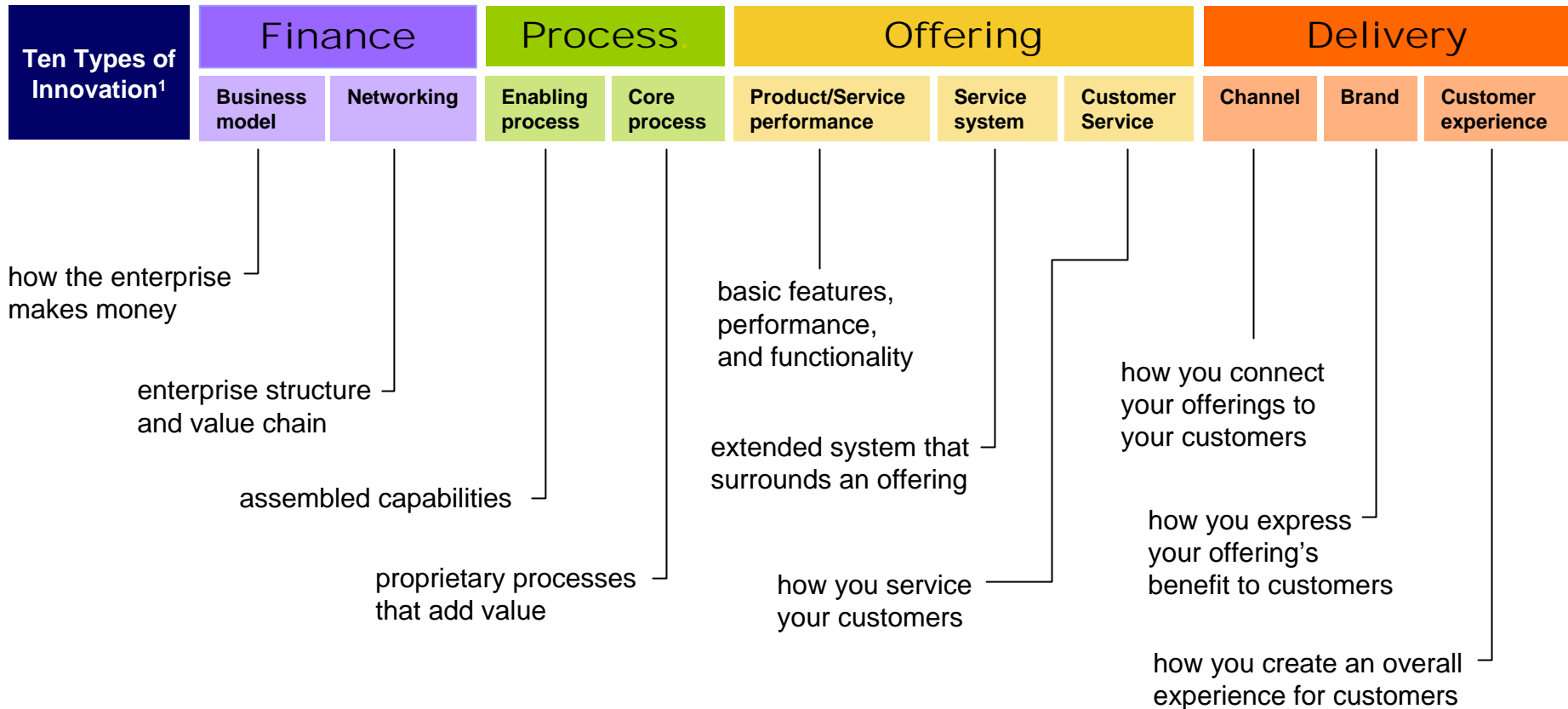
Point 1:
Products need services
(and vice versa) ... and
both need innovation



- What are the elements of innovation that can augment products?
- When will innovating services influence adoption rates the most?
- What are the unique tools that drive successful service innovation?

A broad set of innovation levers exist

There are 10 types¹:

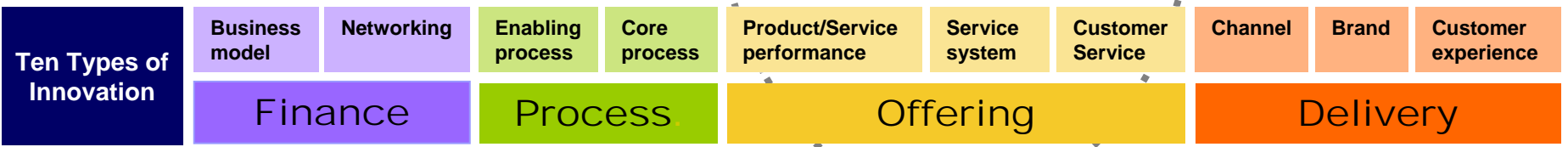
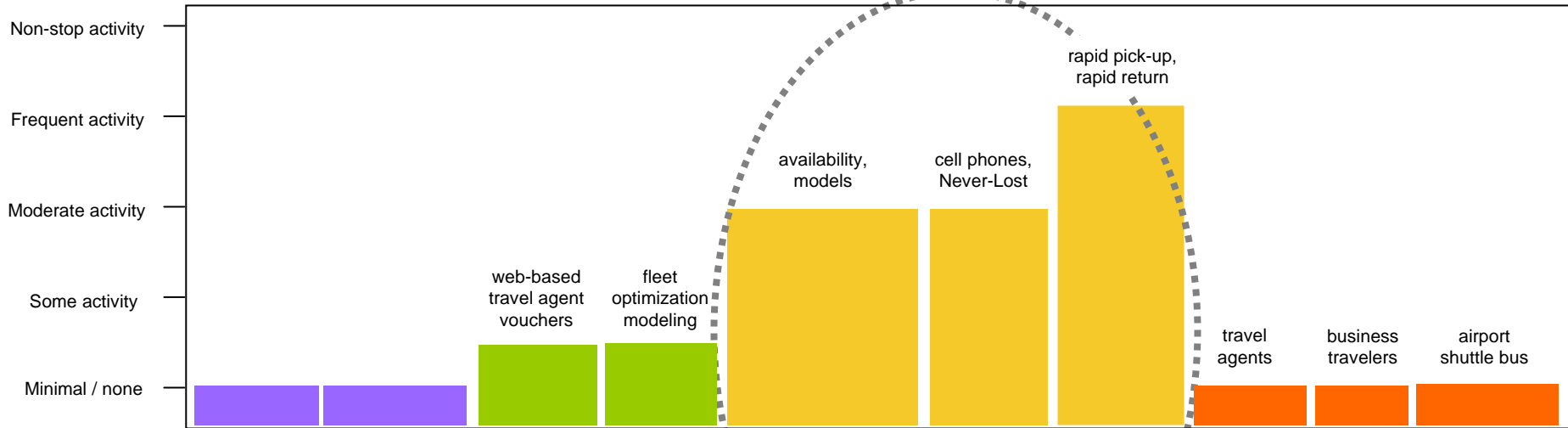


Note 1: "Ten types of Innovation", by Larry Keeley/Doblin Inc. (1999)

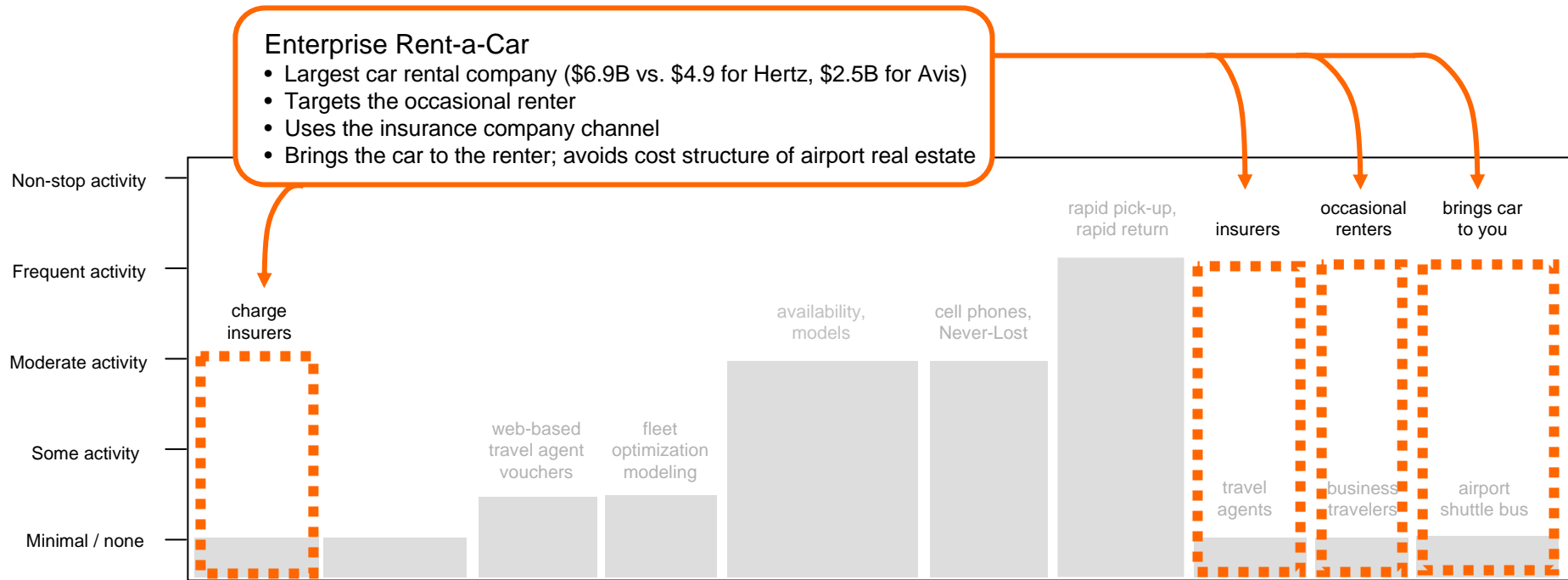
Consider how the rental car industry engages in “feature warfare”

Most competitive activity in the rental car industry is focused here (turn the page)

(feature warfare)




Enterprise used four types of innovation to exploit the *white space* and become #1

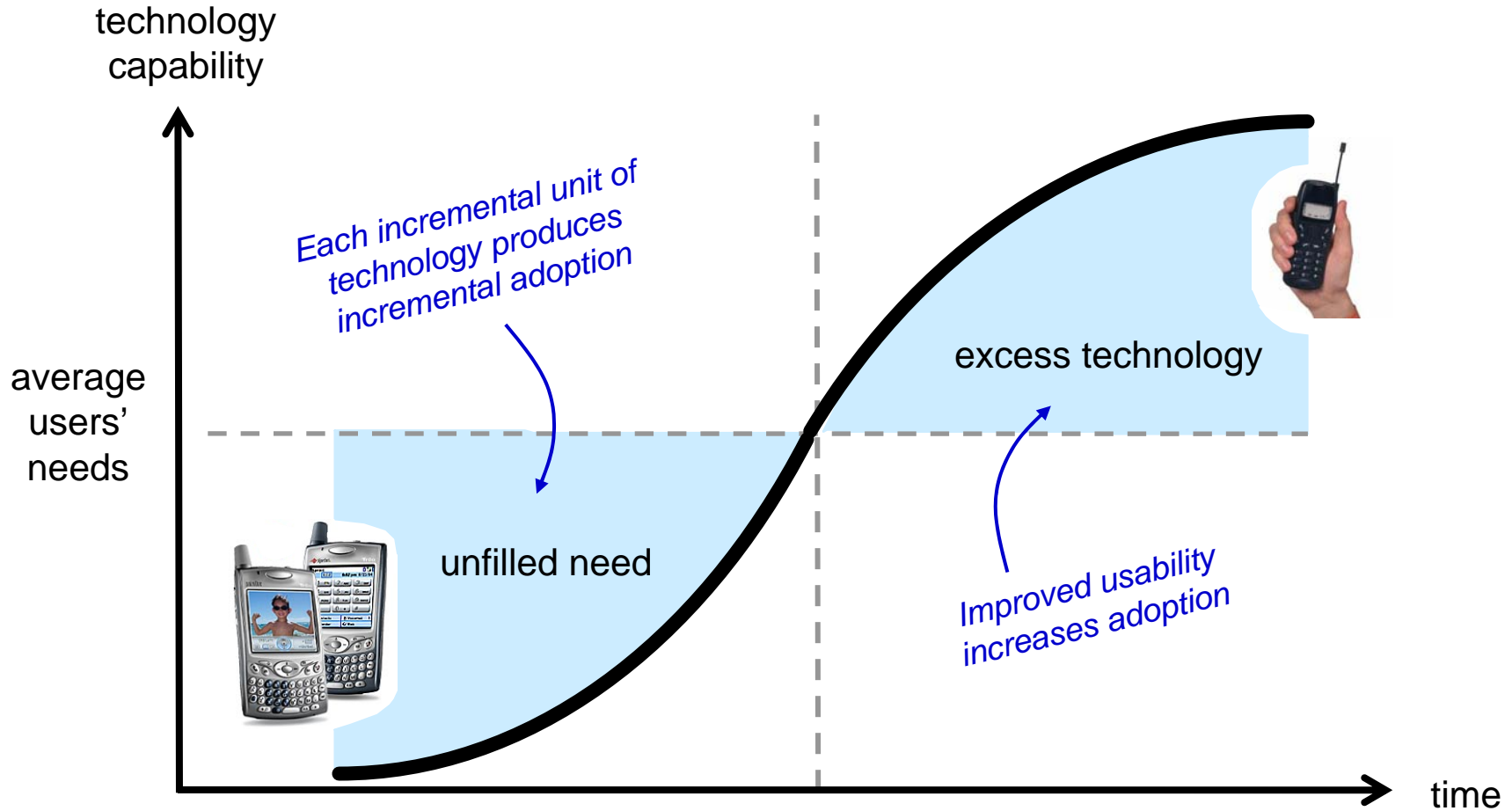


Source: Peer Insight analysis

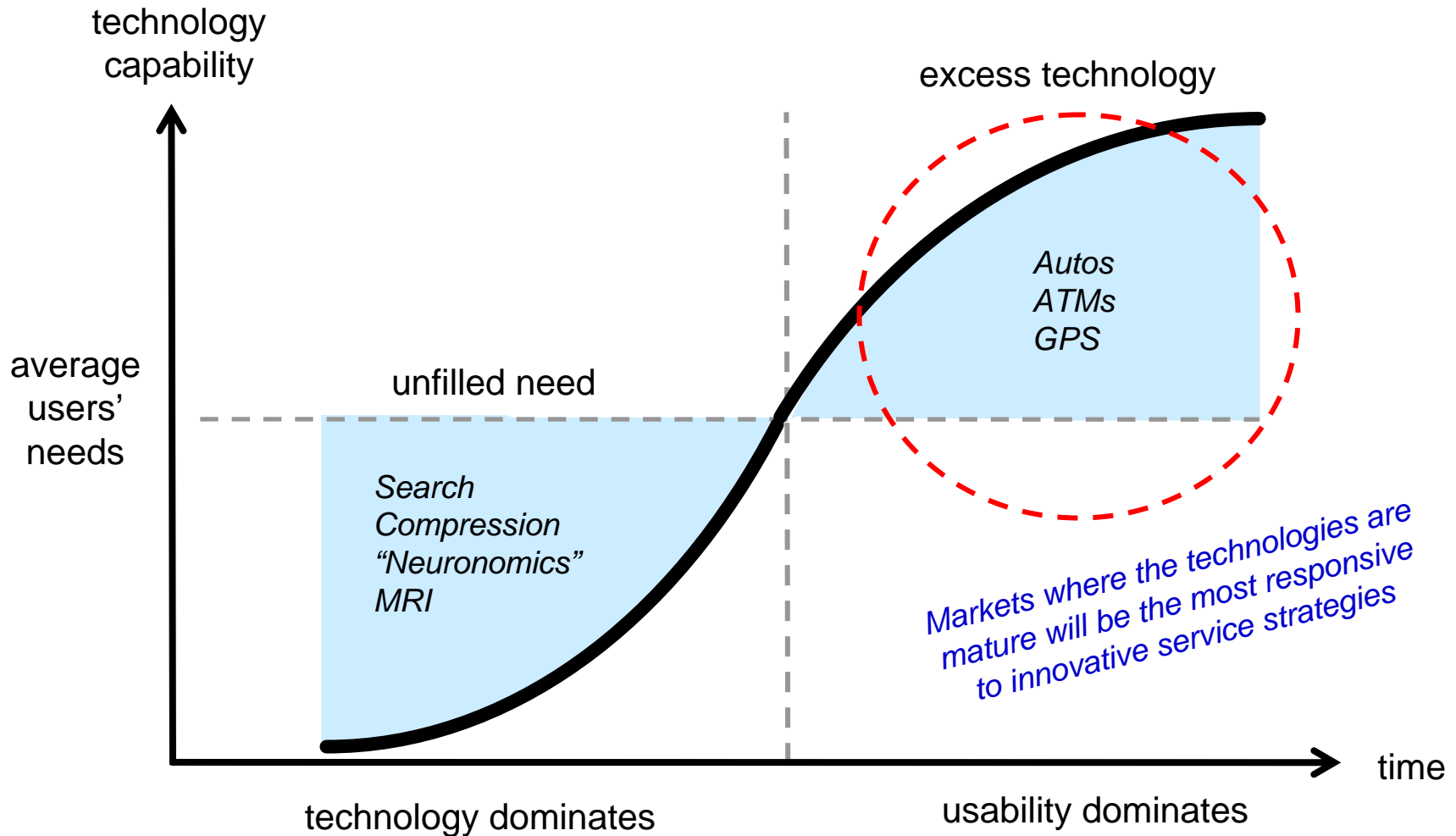
10 types of innovation

- What are the elements of innovation that can augment products?
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Services drive usability, which will *sometimes* drive adoption



We must choose which markets receive service emphasis



10 types of innovation

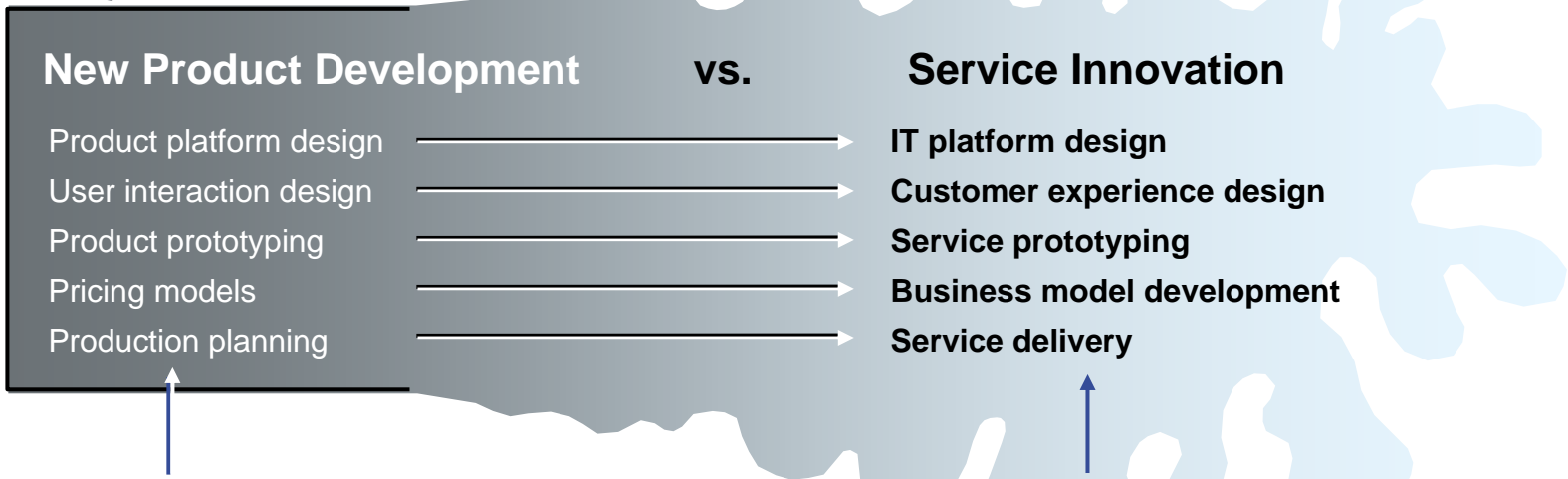
maturity

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Many NPD tools are simply a poor fit for services

Service innovation is amorphous. The science is just emerging, especially as compared to a mature discipline such as new product development.



robust tools and methods exist, such as QFD and conjoint analysis

these tools are just beginning to be understood

To innovate, we need to grasp precisely *how* services are different

Innovating services means addressing the “IHIP” challenge¹

IHIP: The 4 unique characteristics of services

1. **Intangibility:** Services have no physical form. They cannot be seen before purchase or taken home after.
2. **Heterogeneity:** Unlike tangible products, no two service delivery experiences are alike.
3. **Inseparability:** The act of supplying a service is inseparable from the customer’s act of consuming it.
4. **Perishability:** Services cannot be inventoried.

For these reasons:

“Developing marketing strategies based on knowledge accumulated from goods marketing (is) often insufficient and even inappropriate.”²

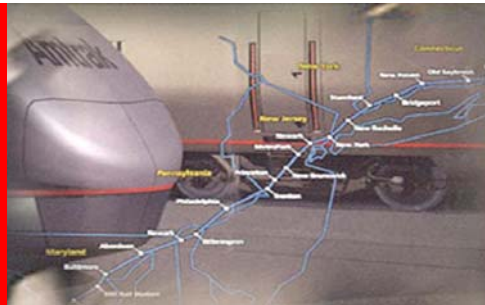
Note 1: Earl Sasser, et al, “Management of Service Operations,” Allyn & Bacon (1978).

Note 2: Christopher Lovelock, “Whither Services Marketing?” Journal of Service Research, Volume 7, No. 1, August 2004.

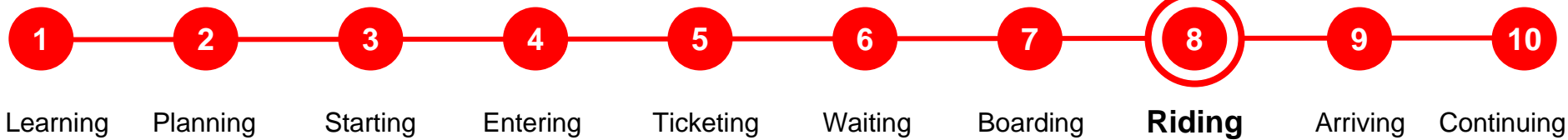
For the Acela, all 10 points on the customer journey had to be mapped and designed ... not just #8, Riding

Case Example:

Amtrak Acela
Customer Journey



Too much focus here ignores the totality of the customer experience



For example: There was no car rental facility at the Rt. 128 terminus, so Acela had to delay opening until it could be established.





Acela Brand of Services

The Acela brand represents an integrated set of Amtrak services in the Northeast Corridor that includes regional and commuter lines as well as the high-speed Express. Regional trains are being refurbished with amenities now found on the new Acela Express cars.



Amtrak Acela train galley



Interactive Kiosks

This information kiosk prototype was developed as part of the Acela brand launch to show how the graphic system and structural elements would work together.



Acela highlights the challenges for service innovators

Key Differences Between Services and Products

1. **Intangibility:** Services have no physical form. They cannot be seen before purchase or taken home after.
2. **Heterogeneity:** Unlike tangible products, no two service delivery experiences are alike.
3. **Inseparability:** The act of supplying a service is inseparable from the customer's act of consuming it.
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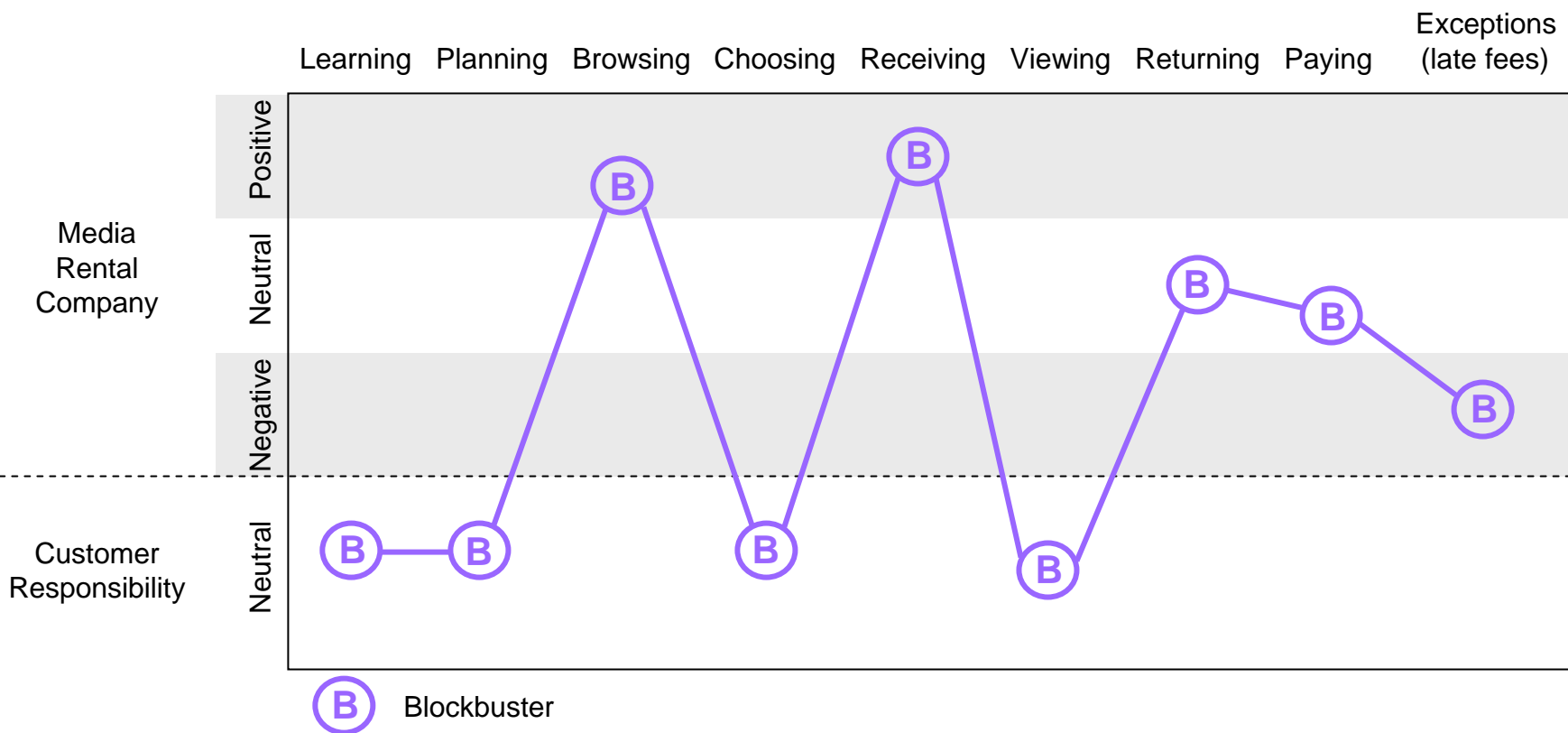


Implication for Service Innovators

- Brand promise
- Customer experience
- Tangibles
- Training of delivery personnel
- IT systems as platforms
- Multiple touch points
- Service prototyping
- Peak vs. off-peak
- 24/7 requirements
- Internet

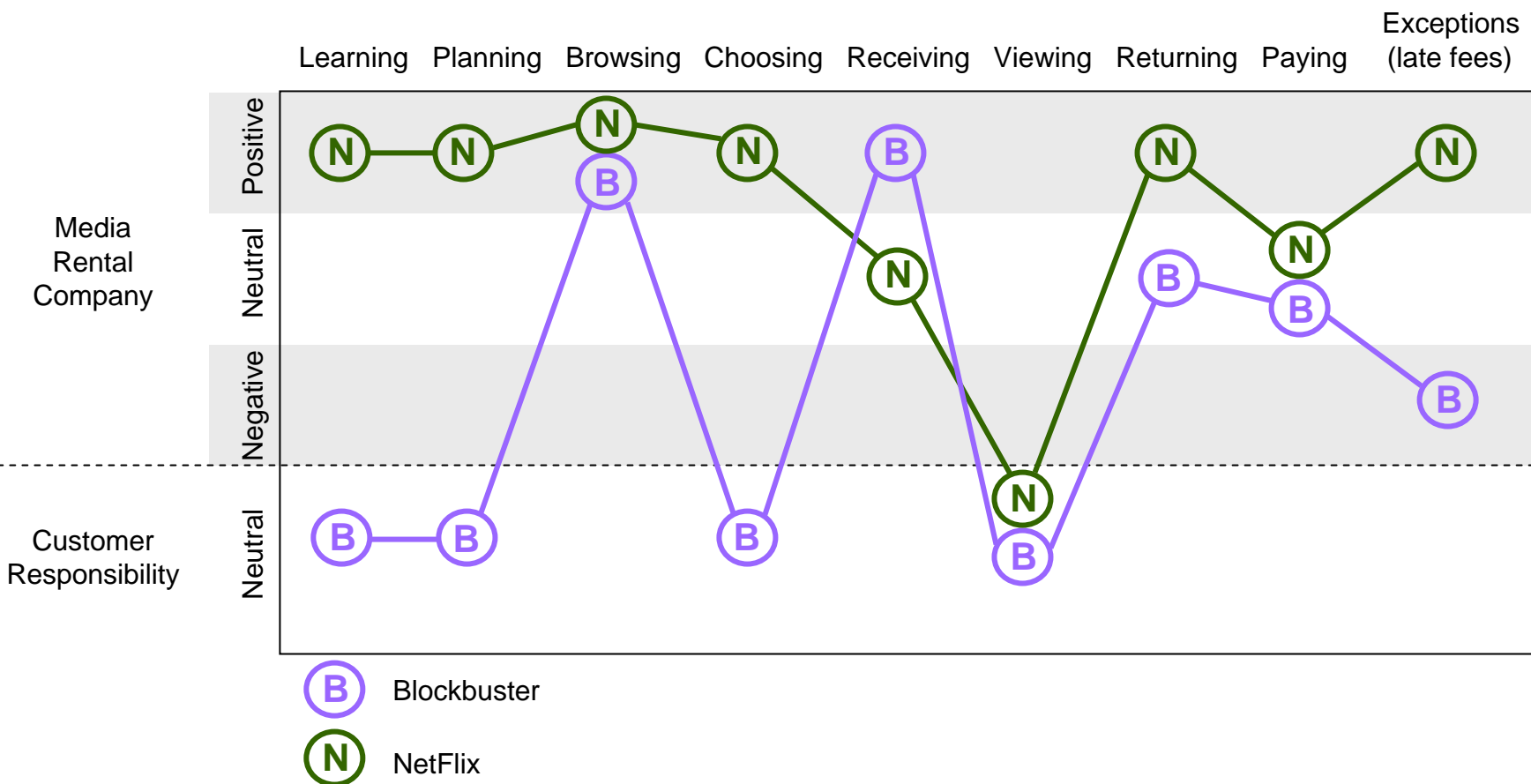
Quiz: Can you spot Blockbuster's value gaps?

Customer Experience Map: Media Rentals



Answer: NetFlix found some gaps

Media Rental Customer Experience Map





10 types of innovation

- What are the elements of innovation that can augment products?
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maturity

mapping +

Summary: Four tools we have touched upon

- Expenditure analysis
- Product maturity S-curve analysis
- 10 types of innovation
- Customer experience mapping

Summary: Did we make our case?

- Nobody wants products
- New products and services are only 1/10th of innovation
- Services only influence adoption rates half the time
- The tools of NPD are a poor fit for service innovators

Questions?



Thank you!



To further discuss how Peer Insight can help your company create sustainable competitive advantage through services strategy, service innovation, and service design, please contact us:



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