



Service Innovations

# Value-Added Services

## Best Practices

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## Key Questions

- Why services?
- How do product companies successfully expand into Services?
- Why some product companies succeed while others fail?

Market leaders across industries recognize services is key to driving revenue, differentiating offerings and meeting customer needs

### ■ Cost

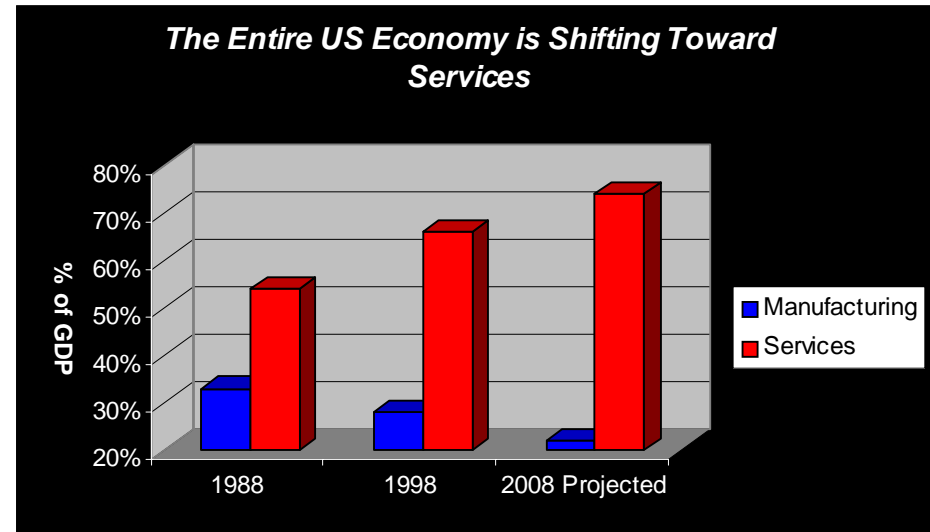
- *Increasing global competition*
- *Mounting product price pressure*
- *Decreasing product margins*

### ■ Cycle Time

- *Decreasing product life cycles*

### ■ Integrated customer needs

- *Meeting wider set of related customer needs & customer out comes*
- *Creating new sources of differentiation*
- *Diversifying revenue stream*
- *Higher Margins*
- *Longer contracts*



## Insight of the market leaders demonstrates a fundamental transformation to become a services business

- **GE** (Number 5 on the Fortune 500)

- “Our vision for the next century is a GE that is a global service company that also sells high-quality products”

Jack Welch, Chairman & CEO, GE Corporation



- **Siemens**

- “To keep a competitive edge globally and secure long-term survival amid changing business environments, it is vital for a company to identify and maintain a well-balanced, robust portfolio ....”

Heinrich v. Pierer, president and CEO of Siemens AG of Germany

**SIEMENS**

- **IBM** (Number 9 on the Fortune 500)

- “What will "IBM" mean to customers...in the years ahead? Our company used to be experienced primarily through our products. But going forward, a smaller percentage of our customers will buy an item with "IBM" stamped on it. Sometime within the next five years, more than half of our revenues and workforce will come from services.”

Lou Gerstner, Chairman & CEO, IBM (1999)



Pitney Bowes and Home Depot created service offerings by expanding on the value proposition of existing products



**Pitney Bowes**

Mailing equipment  
(meters, scales,  
sorter, etc.)

Timely, efficient handling of  
mail

Provide outsourcing of mail  
room operations



Home improvement  
products

Renovated kitchens,  
bathrooms, patios, etc.

Offer professional installation of  
Home Depot products

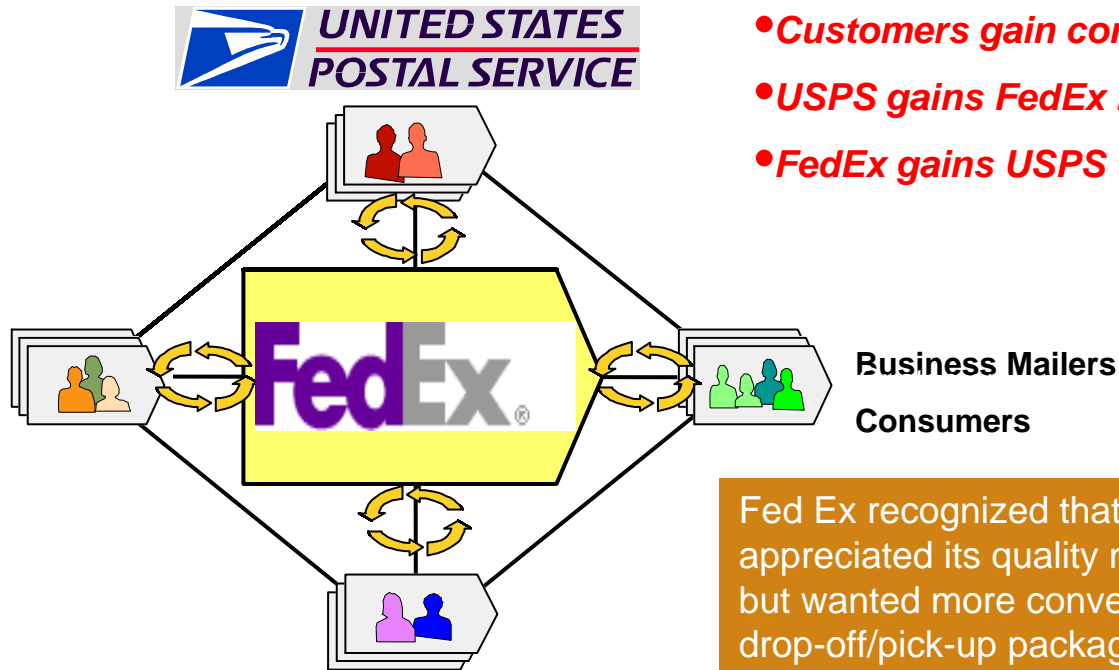
# Federal Express recognized a key pain area for its customers and competitors and created an innovative solution that created value for all players

Fed Ex recognized that one of its leading competitors, USPS, had a great strength in its 15,000 retail locations but struggled to deliver quality next-day service.

## Solution:

### Ally with USPS

- *Customers gain convenience*
- *USPS gains FedEx next day services*
- *FedEx gains USPS traffic*



Fed Ex recognized that customers appreciated its quality next-day service but wanted more convenient ways to drop-off/pick-up packages.

## Innovative services can evolve out of internal capabilities



Marriott has more than 60 years of experience in laundry operations in support of its 2,000 hotel units. Marriott recognized the value of this capability to external clients and began a laundry outsourcing services.

Companies often have highly developed competencies services that are used internally between business units.

**Many of these capabilities have external market potential.**

### Key questions for developing opportunities:

- What internal services do your business units exchange?
- Which services do you excel at?
- Does this services have value for external customers?

Xerox struggled to apply best-practices and failed to successfully execute its service strategy



**"The Paper Jam at Xerox Gets Worse"**

Business Week, Nov. 6, 2000

### What Went Wrong?

- **Solution companies are not built in a day:** *Xerox had ambitious plans to become a solutions company but did not have competitive products and services to build upon*
- **You've got to have the skills:** *Xerox struggled to re-train and re-deploy its sales force*
- **Plan:** *Xerox was slow to recognize and react to the fundamental flaws in its business model*
- **Execution, Execution, Execution:** *Xerox struggled with internal communication, incentive structures and sales efforts*

## Summary

### Best Practices

- **It's about the customer:** *successful companies develop customer-focused services that create real value for customers*
- **You've got to have the skills:** *successful companies recognize their capabilities gaps and create plans for developing and integrating required capabilities*
- **A robust delivery infrastructure:** *Successful companies have invested in the appropriate technology, equipment, hiring and training to support the services venture*
- **Plan:** *successful companies recognize and confront the risks associated with business transformation, organizational change and strategic fit: higher investments, longer sell cycles and longer contracts*
- **Solution companies are not built in a day:** *successful companies move from products to service to solution in manageable steps*
- **Execution, Execution, Execution:** *successful companies understand that their biggest challenge is in the execution of their service initiatives*

