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THE KNOWLEDGE

THE VALUE OF SERVICE

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One of the dominant themes in marketing today is the attempt to create services that add value "beyond the product". And yet, although almost every company talks about it, there are very few successful examples. The strategy of GE Healthcare to connect up the information from various different imaging and diagnostic devices is one but in general "added value services" is a concept that is more talked about than enacted. Research into this is revealing some interesting lessons for firms who see added value services as part of their strategy. These findings are summarised and discussed in more detail below.

4 Lessons from value adding companies

1. A service is only value-adding if customers will pay for it, directly or indirectly; undifferentiated, commonly available services are not seen as valuable.

2. Value usually lies in the inefficiencies between different parts of the customer's process; finding it requires a deep knowledge of the customer's value chain.

3. Many large value opportunities are inaccessible to some companies; creating sustainable value requires some distinctive competencies or assets.

4. The ability to create a value-added service is usually culturally embedded; failure usually lies in product oriented cultures and functionally-siloed structures.

What is valuable?

Value is the ratio of benefits to costs, so a service only adds value if it decreases costs or improves benefits (or a combination of both) relative to alternatives. This means that, firstly the service must allow the customer to get significantly better "bang for bucks" and, secondly, the service must be relatively unique and hard to substitute. So called "thin" services, such as slightly improved delivery or text reminders are unlikely to pass these tests. The acid test for a value added service is that the customer must be willing to pay for it, either directly in fees or indirectly by paying a premium price for a product. This is not true of the large majority of services perceived as "added value" by their providers because customers know that they could obtain the same service, for free, from a number of alternative suppliers. Just consider timed delivery slots for groceries or apps for downloading an airline boarding pass. Most of these "thin" services are better described as "core value" than "added value", but they prompt the question of how might companies identify opportunities for added value and then design a truly added value service.

Where is the value?

In one of our early research interviews, a senior marketer in a successful case study observed:

"To say our service 'creates value' is a little bit misleading. More accurately, we find latent, hidden value and release it".

This comment was strongly supported by our subsequent work. In essence, the process of value creation begins with a deep understanding of the customers' internal value chain. Even for relatively simple consumer goods, this can be a complex network of events; think of the process of remembering, choosing, buying and sending a greeting card. For complex B2B markets, it is even more so; think of the treatment pathway for a cancer patient. It is in this complexity that latent, hidden value often lies, because separate activities may have large implications for other activities. Choosing a sub-optimal drug for a cancer patient means expensive readmission to hospital and forgetting it's your Mother's birthday in two days time means rearranging your working day to get to a card shop.

The complexity of modern life, for consumers and businesses, means that there are a huge number of possible ways to create value. In the GE example, the cost and efficacy implications of not being able to easily access all necessary patient diagnostic data are enormous and, by addressing this issue, GE is realising a great deal of latent value for its customers. In the card example, Moonpig.com addresses both the inconvenience of choosing cards and sending them. The key lesson here is that to understand the customer's life extremely well is the first step in creating value added services.

Which value shall we release?

We found that for companies with a deep understanding of their customers, there is often no shortage of potential opportunities to release value. Rather, the issue is to select the area where value can be released in the most commercially sustainable way. To paraphrase another research respondent:

"Once we looked hard, there were so many places to create value we didn't know where to start. We had to develop a method of picking the right opportunity"

Interestingly, we found that exemplary companies use one of two approaches to select where they create value added services but one approach seems much more effective than the latter. The first, less effective, approach was by opportunity size. Large value opportunities that were built around embedded processes (in B2B) or ingrained customer habits (in B2C) were obvious opportunities but were often too difficult for a company to influence. We see this in areas such as banking and office software when good new entrants fail to displace incumbents.

A second approach, which we characterised as "inside out" was usually more successful. This approach involved a deep and objective assessment of the company's unique capabilities or assets, especially those not directly related to individual products. Examples of this include much of what Google is doing; the customer information they gather "coincidentally" is a valuable "asset" that allows them to create new forms of value for both searchers and advertisers.

Similarly, firms with a wide and complementary product range in areas such as electrical components or automotive spares coincidentally have an intangible knowledge "asset" about how the complementarity of such products influences the efficiency of the customer process. The "inside out" approach involves selecting opportunities to create added value services on the basis of which opportunity makes best use of the company's unique assets. Amazon's "suggestions" seem to be an example of this. The key lesson here is that to objectively assess one's own unique strengths is the second step in creating value added services.

How can we release value?

Given an insightful understanding of where hidden value lies and which latent value to release, the final question our research sought to answer was how that value could be released. As already mentioned, there are very few good examples of this and each one is very different from each other. More examples are seen in companies with access to data mines (Google, Amazon) or those selling to very complex customers (GE Healthcare).

However, three fundamental commonalities can be seen even in such varied markets. The first of these is a customer-oriented approach rather than a product-oriented approach. Culturally, companies who create good value added services seem able to put their products to the back of their mind when they begin to design services. The second is financial orientation. Value added services may be technologically based, but they have to create value for the customer and profit for the supplier; a narrow focus on product issues seems to hinder firms seeking to release value for their customers. Finally, value added services seem to require a holistic, wide view of the customer that transcends traditional boundaries in both the customer and the supplier organisations. Creating significant value almost always requires working across the boundaries of the customer organisation, working up and down their value chain. A corollary of this is that there is little room, in value added service companies, for siloed working in traditional functions such as marketing, sales or technical functions. The need for very effective cross-functional working means that value-added service is often associated with an advanced variant of key account management, in which the customer and supplier have many "touch points" and these are coordinated by a senior, empowered manager. The key lesson here is that whilst the detail of creating value-added services is extremely context-dependent, all successful cases are built on three fundamentals of customer-orientation, financial-orientation and a holistic approach.

Why So Few Good Examples?

Although our work uncovered a number of examples of value-added service creation, it remains true that there are disappointingly few examples of excellent practice in this area. This in itself raises a question as to why, despite the commercial imperative to do so, companies seem to find this approach so challenging. By contrasting cases in our study, we concluded that there were four dominant reasons, although these manifested themselves in different ways in different cases. The first was to fundamentally misunderstand the customer-perceived nature of value; it seems that many companies believe their own marketing material and conclude that any kind of service, however undifferentiated, is value-adding. The second was a poor understanding of the customer. Many companies, we found, could talk at length about their product's technicalities but were often ignorant of their customer's value chain. A third reason for failure was the failure to identify unique assets, either because there were none or because the company did not understand the nature of intangible, non-product related assets such as knowledge. Finally and most fundamentally, many companies have a culture that hinders the creation of value added services because it is product-oriented, functionally-siloed.

We think our findings explain not only how to develop added value services but also why it is so difficult to do. This of course is the paradox of value creation through services; if it were easy, everyone would quickly follow and services would become another commoditised, undifferentiated part of the value proposition. It is the difficult of creating services that truly add value that makes them a source of sustainable competitive advantage.

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