4 Service strategy

4.1 Define the market

4.1.1 Services and strategy

Organizations have an interest in strategy within the context of service management in two distinct but related perspectives. There are strategies for services and there are services for strategies (Figure 4.1). From one perspective, strategies are developed for services offered. Providers differentiate their services from competing alternatives available to customers.

From the other perspective, service management is a competence for offering services as part of a business strategy. A software vendor may decide to offer software as a service. It combines its capabilities in software development with new capabilities in service management. It also makes use of its capabilities in maintaining software applications to bundle technical support as part of the core service. By adopting a service-oriented approach supported by service management capabilities, the vendor has transformed itself into a service business. This approach has also been adopted by internal software engineering groups who have changed from being cost centres to being profit centres.

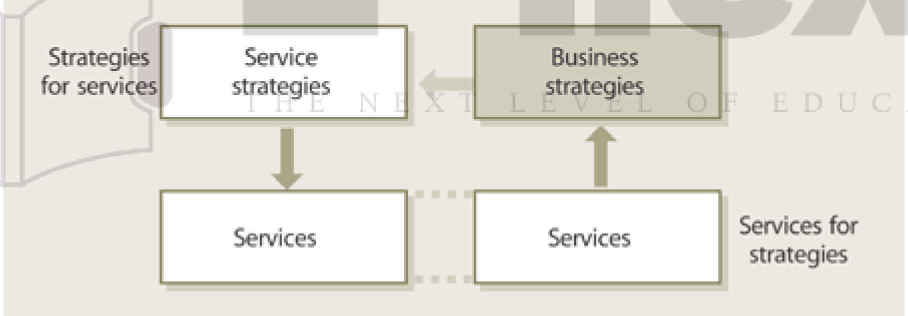

Figure 4.1 Strategies for services and services for strategies

For example, the market leader in airline reservation systems originated from a successful internal computer-based reservation system of a major airline. Such transformations require strong capabilities in marketing, finance, and operations.

4.1.2 Understand the customer

Organizations strive to achieve business objectives using whatever assets they have at hand, subject to various constraints. Constraints include costs and risks attributable to complexity, uncertainty and conflicts in the business environment. The value-creating potential of the business depends on the performance of business assets. Assets must perform well at their full potential. The assets may

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be owned by the business or available for use from others under various types of financial arrangements.

More often than not such arrangements are agreements or contracts for services. Business managers are given the responsibility, authority, and resources necessary to deliver certain outcomes using the best possible means. Services are a means for managers to enable or enhance the performance of business assets leading to better outcomes. The value of a service is best measured in terms of the improvement in outcomes that can be attributed to the impact of the service on the performance of business assets. Some services increase the performance of customer assets, some services maintain performance, and yet others restore performance following adverse events. A major aspect of providing value is preventing or reducing the variation in the performance of customer assets.

In a trading system, for example, it is not enough for the service to feed the trading system with real-time market data. To minimize trading losses the data feed must be available without interruption during trading hours, and at as many trading desks necessary with a contingency system in place. An investment bank is therefore willing to pay a premium for a news-feed service providing a higher level of assurance than a service used by a competitor. The difference translates into greater trading gains.

Focus on customer assets

The performance of customer assets should be a primary concern of service management professionals because without customer assets there is no basis for defining the value of a service.

4.1.3 Understand the opportunities

Customers own and operate configurations of assets to create value for their own customers. The assets are the means of achieving outcomes that enable or enhance value creation. For example, for a lending bank value is created by the outcome of processing a loan application on time (Figure 4.2). Customers receiving the loan will have access to the required financial capital and the lender benefits from the onset and accrual of interest. The lending process is therefore a business asset whose performance leads to specific business outcomes.

Figure 4.2 Analysing an outcome23

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It is important for managers to gain deep insight into the businesses they serve or target. This includes identifying all the outcomes for every customer and market space that falls within the scope of the particular strategy. For the sake of clarity, outcomes are classified and codified with reference tags that can be used in various contexts across the Service Lifecycle (Table 4.1).

Category	Tag	Outcome statement
Enhanced capabilities (EC)	EC1	Decision making and action in response to business events is faster
	EC2	Increase in knowledge, skills, and experience for business processes
	EC3	Business processes are enhanced with superior logic
	EC4	Industry best practices are available through application updates
	EC5	Supply chain is extended
	EC6	Availability of specialized knowledge and expertise
Increased performance (IP)	IP1	Increase in throughput of business processes
	IP2	Decrease in average collection period (accounts receivables)
	IP3	Increase in return on assets
	IP4	Increase in customer satisfaction
Enhanced resources (ER)	ER1	Resources are freed up for new opportunities
	ER2	Increase in productivity of staff
	ER3	Increased flexibility in operations
	ER4	Increase in available resources
Reduced costs (RC)	RC1	Decrease in fixed costs of business process
	RC2	Decrease in unit costs of employee benefits administration
	RT3	Lower start-up time for new or expanded operations
Reduced risks (RR)	RR1	Decrease in operational risks from variation in performance of assets
	RR2	Decrease in operational risks from shortage in capacity of assets
	RR3	Business continuity is assured. Passed audit.
	RR4	Business processes are compliant with regulations

Table 4.1 Example of a scheme to tag customer outcomes

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Customer outcomes that are not well supported represent opportunities for services to be offered as solutions. Some outcomes are supported by services existing in a catalogue. Other outcomes can possibly be supported by services in the pipeline but presently in the design and development phases. Outcomes that are presently well supported are periodically reviewed. New opportunities emerge when changes in the business environment cause a hitherto well-supported outcome to be poorly supported (Figure 4.3).

Services and service assets are tagged with the customer outcomes they facilitate. This is a principle similar to the idea of tagging materials, components and sub-assemblies to the final products they are embedded in. The valuation of services and service asset becomes easier when it is possible to visualize the customer outcomes they facilitate. Mapping of customer outcomes to services and service assets can be accomplished as part of a Configuration Management System (CMS).

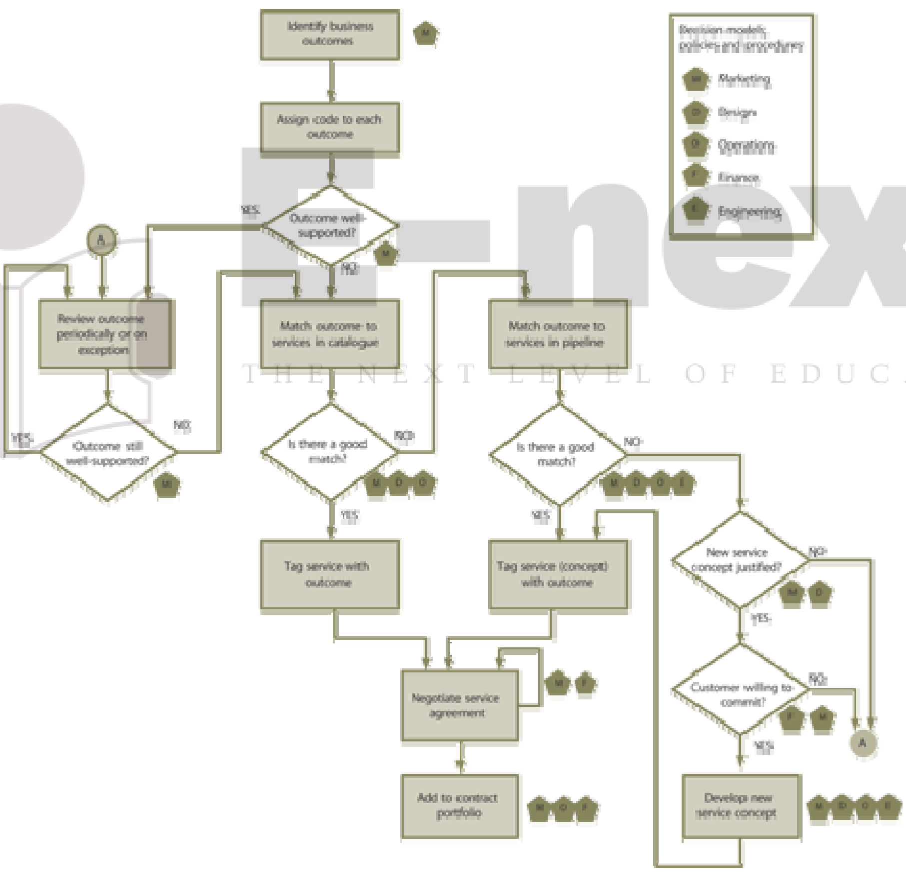

Figure 4.3 Customer outcomes are used to tag services and service assets

Gaining insight into the customer's business and having good knowledge of customer outcomes is essential to developing a strong business relationship with customers. Business Relationship Managers (BRMs) are responsible for this.

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They are 'customer focused' and manage opportunities through a Customer Portfolio.

In many organizations BRMs are known as Account Managers, Business Representatives, and Sales Managers. Internal IT Service Providers need this role to develop and be responsive to their internal market. They work closely with Product Managers who take responsibility for developing and managing services across the lifecycle. They are 'product-focused' and perceive the environment through a Service Portfolio.

An outcome-based definition of services ensures that managers plan and execute all aspects of service management entirely from the perspective of what is valuable to the customer. Such an approach ensures that services not only create value for customers but also capture value for the service provider.

4.1.4 Classify and visualize

Services differ primarily by how they create value and in what context. Service archetypes are like business models for services. They define how service providers act on behalf of customers to create value (Figure 4.4). Customer assets are the context in which value is created because they are linked to business outcomes that customers want. Customers own and operate different types of assets (Ay) depending on several factors such as strategic industry factors, customers, competitors, business models, and strategy.

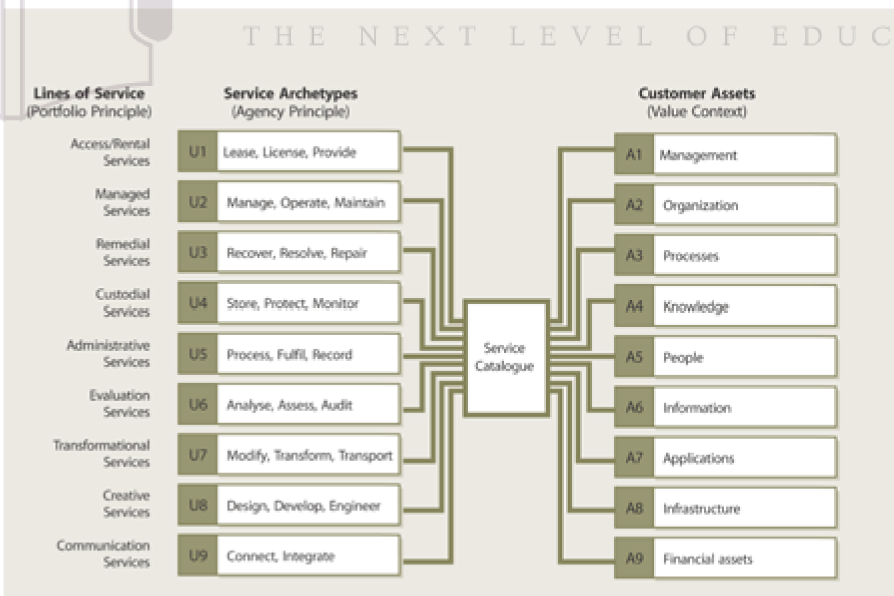

Figure 4.4 Provider business models and customer assets

A combination of service archetype and customer assets (Ux-Ay) represents an item in the Service Catalogue. Several services in a catalogue may belong to the

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same archetype or model (Ux). Many service archetypes may be combined with the same type of customer asset (Ay) under an asset-based service strategy. The same archetype may be used to serve different types of customer assets under a utility-based service strategy (Figure 4.5). This is a variation of need-based and access-based positioning. The strategy of the service provider will determine the contents of the Service Catalogue.

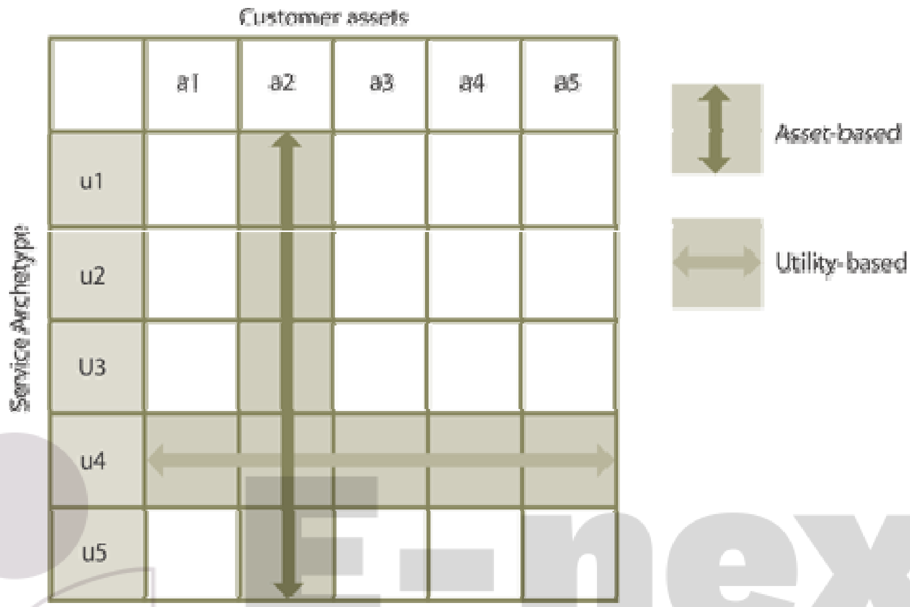

Figure 4.5 Asset-based and utility-based positioning

It is useful for managers to visualize services as value-creating patterns made up of customer assets and service archetypes (Figure 4.6). Some combinations have more value for customers than others even though they may be made of similar asset types and archetypes. Services with closely matching patterns indicate opportunity for consolidation or packaging as shared services. If the Applications asset type appears in many patterns, then service providers can have more investments in capabilities and resources that support services related to Applications. Similarly, if many patterns include the Security archetype, it is an indication that security has emerged as a core capability. These are just simple examples of how the Service Catalogue can be visualized as a collection of useful patterns. Service strategy can result in a particular collection of patterns (intended strategy) or a collection of patterns can make a particular service strategy attractive (emergent strategy).

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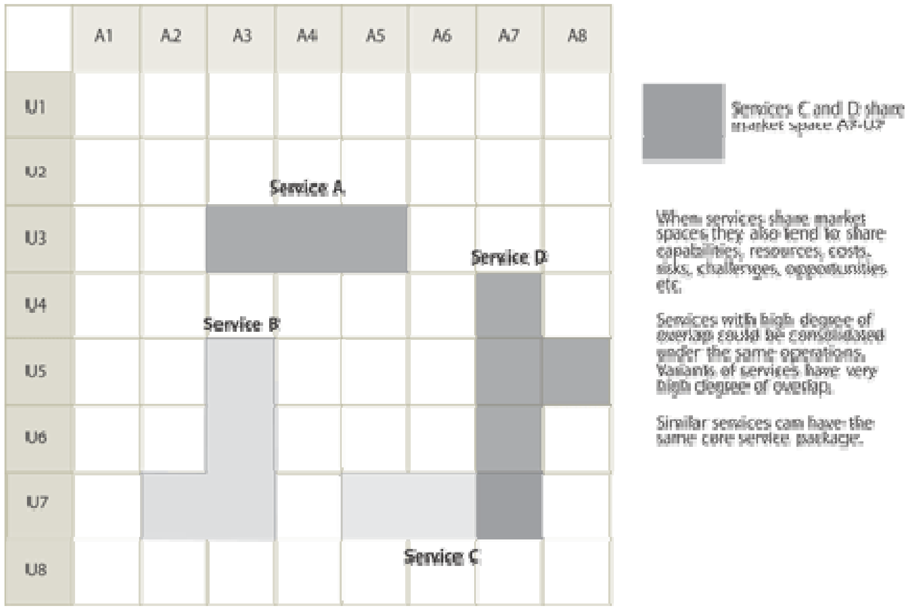

Figure 4.6 Visualization of services as value-creating patterns

This visual method can be useful in communication and coordination between functions and processes of service management. These visualizations are the basis of more formal definitions of services. Proper matching of the value-creating context (customer assets) with the value-creating concept (service archetype) can avoid shortfalls in performance. For example, the customer's business may involve reviewing and processing of application forms, requests, and account registrations. Questions of the following type can be useful:

- Do we have the capabilities to support workflow applications?
- What are the recurring patterns in processing application forms and requests?
- Do the patterns vary based on time of year, type of applicants, or around specific events?
- Do we have adequate resources to support the patterns of business activity?
- Are there potential conflicts in fulfilling service level commitments? Are there opportunities for consolidation or shared resources?
- Are the applications and requests subject to regulatory compliance? Do we have knowledge and experience of regulatory compliance?
- Do we come in direct contact with the customers of the business? If yes, are there adequate controls to manage user interactions and information?

The preceding set of questions is an instance of a more generic set of probing questions that is useful to gain valuable insight into the customer's business (Table 4.2). These are not merely questions. When effectively applied, they are tools of incision used to dissect business outcomes that customers want services

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to support. They reveal not only challenges associated with a particular customer or business environment but also the opportunities.

With respect to themselves	With respect to their customers
Who are our service providers?	Who are their customers?
How do services create value for them?	How do they create value?
What assets do we deploy to provide value?	Which of their assets receive value?
Which assets should we invest in?	Which of our assets do they value most?
How should we deploy our assets?	How do they deploy their assets?

Table 4.2 Probing questions to gain insight

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4.2 Develop the offerings

4.2.1 Market space

A market space is defined by a set of business outcomes, which can be facilitated by a service. The opportunity to facilitate those outcomes defines a market space. The following are examples of business outcomes that can be the bases of one or more market spaces.

- Sales teams are productive with sales management system on wireless computers
- E-commerce website is linked to the warehouse management system
- Key business applications are monitored and secure
- Loan officers have faster access to information required on loan applicants
- Online bill payment service offers more options for shoppers to pay
- Business continuity is assured.

Each of the conditions is related to one or more categories of customer assets, such as people, infrastructure, information, accounts receivables and purchase orders, and can then be linked to the services that make them possible. Each condition can be met through multiple ways (Figure 4.7). Customers will prefer the one that means lower costs and risks. Service providers create these conditions through the services they deliver and thereby provide support for customers to achieve specific business outcomes.

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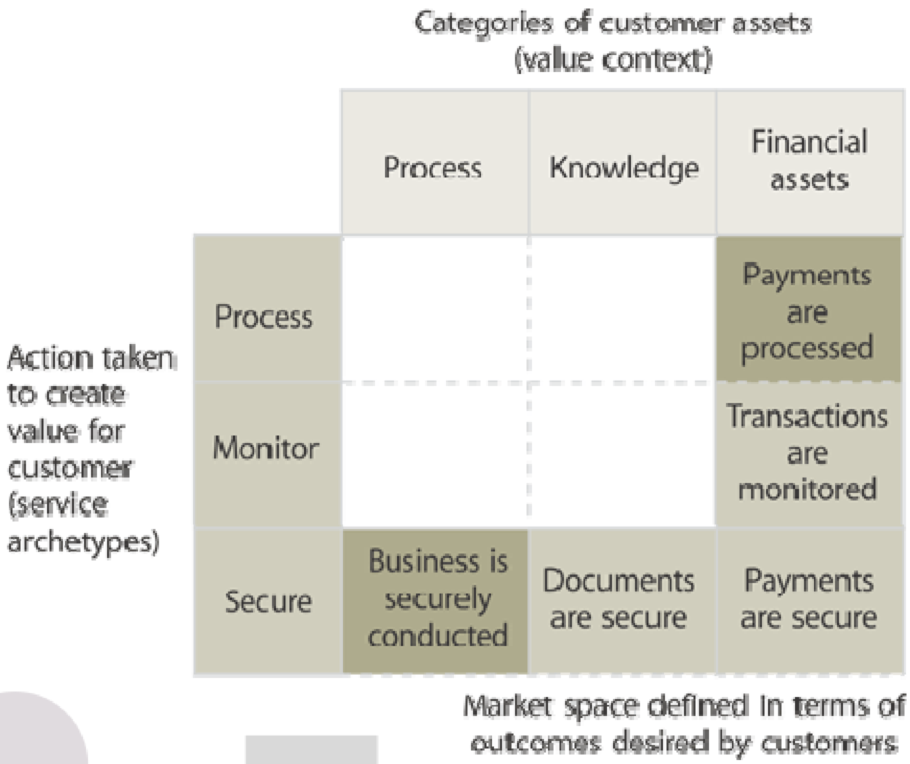

Figure 4.7 Market spaces are defined by the outcomes that customers desire

A market space therefore represents a set of opportunities for service providers to deliver value to a customer's business through one or more services. This approach has definite value for service providers in building strong relationships with customers. Customers often express dissatisfaction with a service provider even when terms and conditions of service level agreements (SLAs) are fulfilled. Often it is not clear how services create value for customers. Services are often defined in the terms of resources made available for use by customers. Service definitions lack clarity on the context in which such resources are useful, and the business outcomes that justify the expense of a service from a customer's perspective. This problem leads to poor designs, ineffective operation and lacklustre performance in service contracts. Service improvements are difficult when it is not clear where improvements are truly required. Customers can understand and appreciate improvements only within the context of their own business assets, performances and outcomes. A proper definition of services takes into account the context in which customers perceive value from the services.

4.2.2 Outcome-based definition of services

An outcome-based definition of services ensures that managers plan and execute all aspects of service management entirely from the perspective of what is valuable to the customer. Such an approach ensures that services not only create value for customers but also capture value for the service provider.

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Solutions that enable or enhance the performance of the customer assets indirectly support the achievement of the outcomes generated by those assets. Such solutions and propositions hold utility for the business. When that utility is backed by a suitable warranty customers are ready to buy.

Services are a means of delivering value to customers by facilitating outcomes customers need to achieve without owning specific costs and risks.

Well-formed service definitions lead to effective and efficient service management processes. Generic examples are given below:

- Example 1: Collaboration services provide value to the customer when cooperative business communications are conducted without the constraints of location or device. Value is created when the provider operates for the customer store-and-forward and real-time methods of electronic messaging, so that (the customer's) employees can compose, send, store and receive communications in a manner convenient, reliable and secure, for a specified community of users.
- Example 2: Application-hosting services provide value to the business when business function services and processes continue to operate without the need to invest capital in a non-core business capability. Value is created when the provider maintains for the business an application software platform system and assures that employees and business systems can work continuously in a manner convenient, secure and reliable, for a specified portfolio of services.
- Example 3: Mobile workplace services provide value to the customer when business activity is conducted without the constraints of fixed location. Value is created when the provider operates for the customer a wireless messaging system and assures that (the customer's) employees and business systems can exchange voice and data messages in a manner convenient, reliable and secure, within a specified area of coverage.
- Example 4: Order-to-cash services provide value to the business when purchase orders are converted to cash flows without the need to invest capital in a non-core business capability. Value is created when the provider licenses to the business an order fulfilment system and assures that the sales teams and online shoppers can enter or modify purchase orders in a manner convenient, fast and secure within a specified time schedule.

Service definitions are useful when they are broken down into discrete elements that can then be assigned to different groups, who will manage them in a coordinated manner to control the overall effect of delivering value to customers (Figure 4.8).

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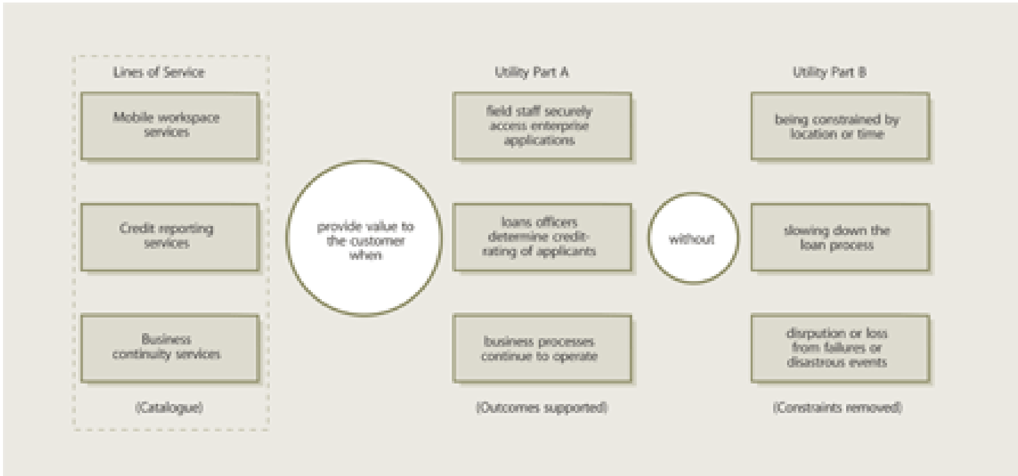

Figure 4.8 Actionable components of service definitions in terms of utility

Being able to define services in an actionable manner has its advantages from a strategic perspective. It removes ambiguity from decision making and avoids misalignment between what customers want and what service providers are organized and capable enough to deliver.

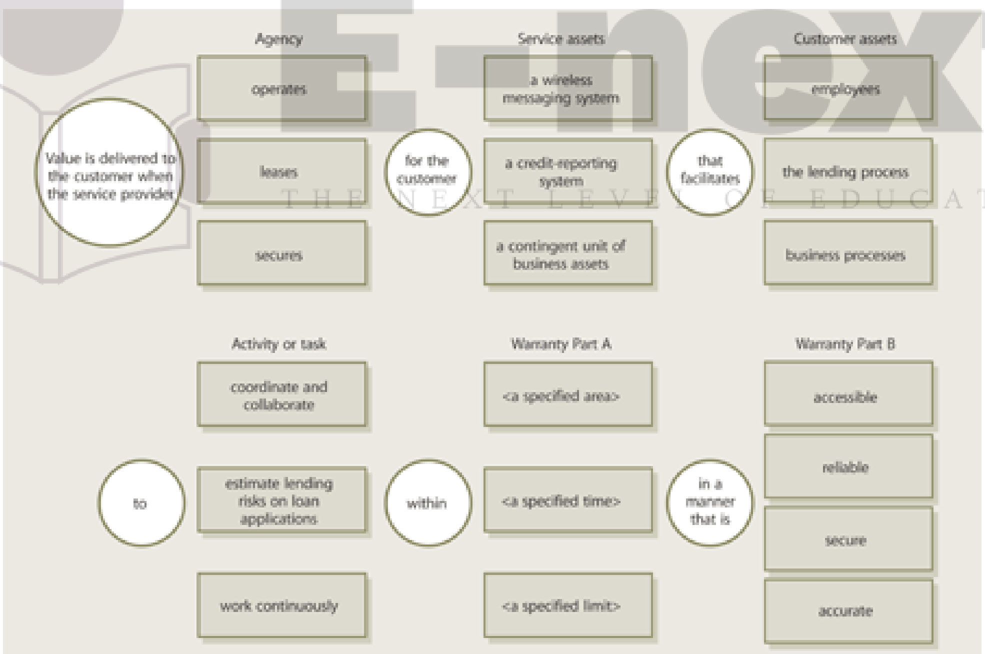

Figure 4.9 Actionable components of service definitions in terms of warranty

Well-constructed definitions make it easier to visualize patterns across Service catalogues and portfolios that earlier were hidden due to unstructured definitions (Figure 4.9). Patterns bring clarity to decisions across the Service Lifecycle. Table 4.3 shows the type of questions that can guide analysis of service definitions to make them actionable.

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Service type	Utility (Part A and B)
What services do we provide? Who are our customers?	What outcomes do we support? How do they create value for their customers? What constraints do our customers face?
Customer assets	Service assets
Which customer assets do we support? Who are the users of our services?	What assets do we deploy to provide value? How do we deploy our assets?
Activity or task	Warranty
What type of activity do we support? How do we track performance?	How do we create value for them? What assurances do we provide?

Table 4.3 Analysis of service definitions for action

Without the context in which the customers use services it is difficult to completely define value. Without complete definition of value, there cannot be complete production of value. As a result, outcomes are not fulfilled to the customer's satisfaction.

However, it is not to say that a service cannot be developed without a customer in hand. It simply means that the story of a service begins either with the needs of a specific customer or a category of customers (i.e. market space). Customer needs exist and are fulfilled independent of service providers or their services. However, value for a customer rests on not only fulfilment of these needs, but also how they are fulfilled, and often at what risks and costs. Certain services create value by preventing or recovering from undesirable conditions or states. In such cases customers may desire a change in the risks to which their assets may be exposed. In either case, the second-order effect of services is that the changes they produce, or prevent, have a positive and usually measurable effect on the performance and outcomes of the customer's business.

These types of questions and others of a similar nature are crucial for an organization to consider in the implementation of a strategic approach to service management. They are applied by all types of service providers, internal and external. What changes is the context and meaning of certain ideas such as customers, contracts, competition, market spaces, revenue and strategy. In fact, these clarifying questions are particularly important for internal service providers who typically operate within the realm of an enterprise or government agency, have customers who are also owners, and whose strategic objectives may not always be clear.

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4.2.3 Service Portfolio, Pipeline and Catalogue

The Service Portfolio represents the commitments and investments made by a service provider across all customers and market spaces. It represents present contractual commitments, new service development, and ongoing service improvement plans initiated by Continual Service Improvement (Figure 4.10). The portfolio also includes third-party services, which are an integral part of service offerings to customers. Some third-party services are visible to the customers while others are not. Chapter 5 provides further guidance on how to develop and manage portfolios.

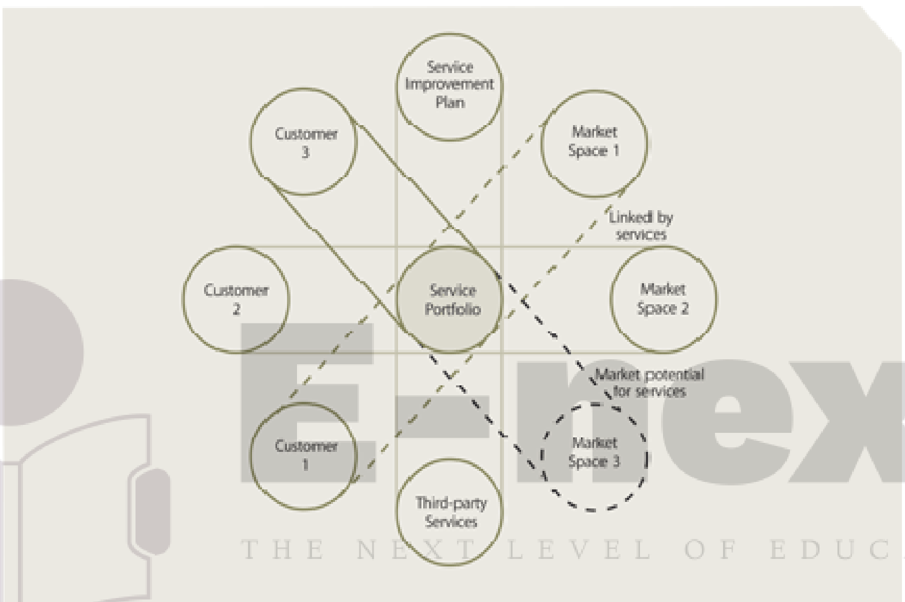

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Figure 4.10 Service Portfolio

The portfolio management approach helps managers prioritize investments and improve the allocation of resources. Changes to portfolios are governed by policies and procedures. Portfolios instil a certain financial discipline necessary to avoid making investments that will not yield value. Service Portfolios represent the ability and readiness of a service provider to serve customers and market spaces. The Service Portfolio is divided into three phases: Service Catalogue, Service Pipeline and Retired Services (Figure 4.11).

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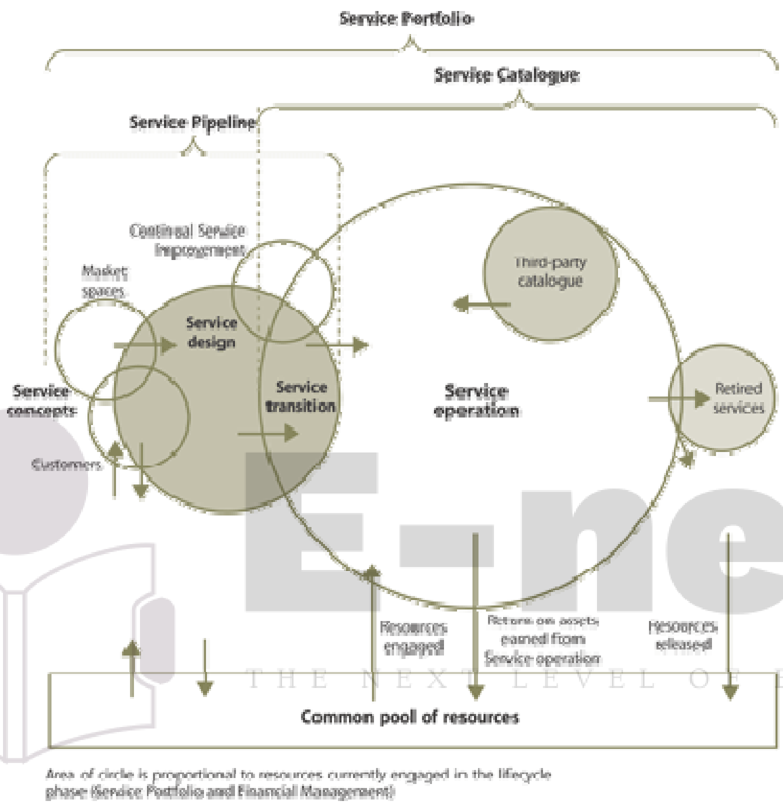

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Figure 4.11 Service Pipeline and Service Catalogue

The Service Portfolio represents all the resources presently engaged or being released in various phases of the Service Lifecycle. Each phase requires resources for completion of projects, initiatives and contracts. This is a very important governance aspect of Service Portfolio Management (SPM). Entry, progress and exit are approved only with approved funding and a financial plan for recovering costs or showing profit as necessary. The Portfolio should have the right mix of services in the pipeline and catalogue to secure the financial viability of the service provider. The Service Catalogue is the only part of the Portfolio that recovers costs or earns profits.

In summary, SPM is about maximizing value while managing risks and costs. The value realization is derived from better service delivery and customer experiences. Through SPM, managers are better able to understand quality requirements and related delivery costs. They can then seek to reduce costs

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through alternative means while maintaining service quality. The SPM journey begins with documenting the organization's standardized services, and as such has strong links to Service level management, particularly the Service Catalogue (Figure 4.12).

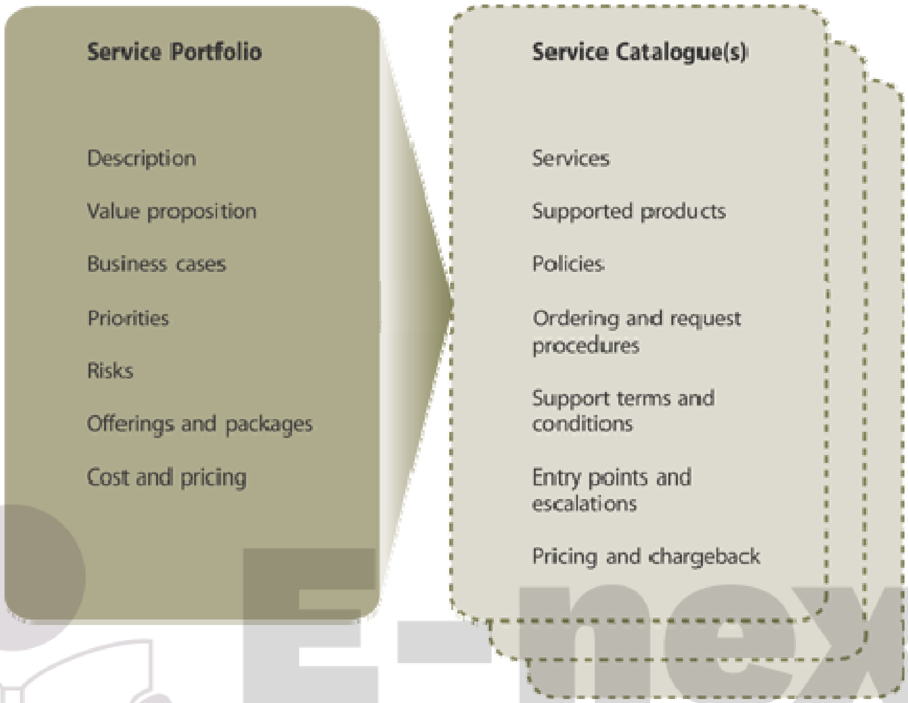

Figure 4.12 Elements of a Service Portfolio and Service Catalogue

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4.2.3.1 Service Catalogue

The Service Catalogue is the subset of the Service Portfolio visible to customers. It consists of services presently active in the Service Operation phase and those approved to be readily offered to current or prospective customers. Items can enter the Service Catalogue only after due diligence has been performed on related costs and risks. Resources are engaged to fully support active services.

The Catalogue is useful in developing suitable solutions for customers from one or more services. Items in the Catalogue can be configured and suitably priced to fulfil a particular need. The Service Catalogue is an important tool for Service Strategy because it is the virtual projection of the service provider's actual and present capabilities. Many customers are only interested in what the provider can commit now, rather than in future. The value of future possibilities is discounted in the present.

It serves as a service order and demand channelling mechanism. It communicates and defines the policies, guidelines and accountability required for SPM. It defines the criteria for what services fall under SPM and the objective of each service. It acts as the acquisition portal for customers, including pricing and

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service-level commitments, and the terms and conditions for service provisioning. It is in the Service Catalogue that services are decomposed into components; it is where assets, processes and systems are introduced with entry points and terms for their use and provisioning. As providers may have many customers or serve many businesses, there may be multiple Service Catalogues projected from the Service Portfolio. In other words, a Service Catalogue is an expression of the provider's operational capability within the context of a customer or market space.

The Service Catalogue is also a visualization tool for SPM decisions. It is in the catalogue that demand for services comes together with the capacity to fulfil it. Customer assets attached to a business outcome are sources of demand (Figure 4.13). In particular, they have expectations of utility and warranty. If any items in the catalogue can fulfil those expectations, a connection is made resulting in a service contract or agreement. Catalogue items are clustered into Lines of Service (LOS) based on common patterns of business activity (PBA) they can support.

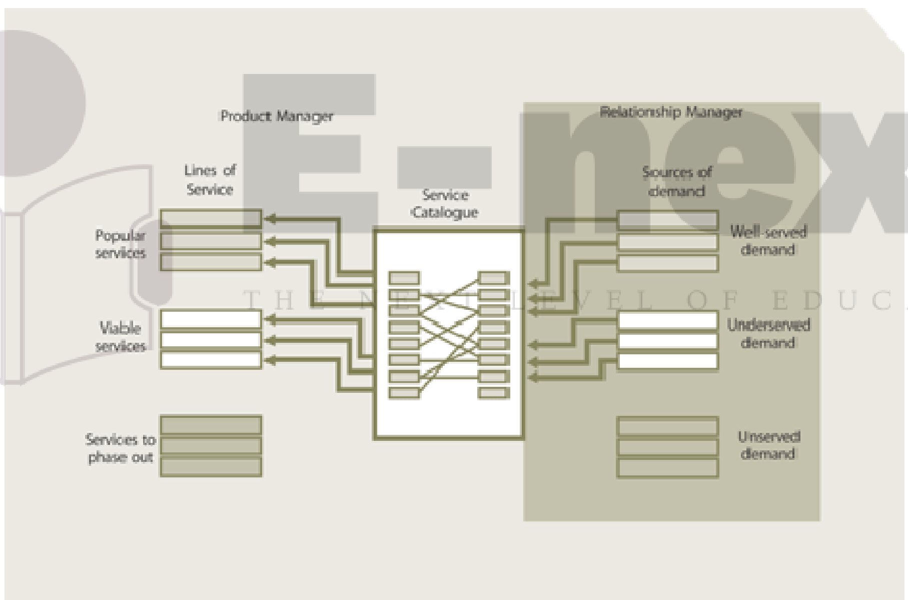

Figure 4.13 Service Catalogue and Demand Management

LOS performing well are allocated additional resources to ensure continued performance and anticipate increases in demand for those services. Items performing above a financial threshold are deemed viable services. An effort is to be made to make them popular by introducing new attributes, new service level packages (SLP), improved matching with sources of demand, or by new pricing policies. If performance drops below a threshold, then they are marked for retirement. A new Service Transition project is initiated and a Transition Plan is drafted to phase out the service.

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Services with poor financial performance may be retained in the Catalogue with adequate justification. Some catalogue services may have strategic use of such contingency for another service and contractual obligations to a few early customers. Whatever the justification, it must be approved by senior leadership who may choose to subsidize. This issue differs with Type I (internal) providers who are often required to maintain a catalogue of service, regardless of their independent financial viability.

A subset of the Service Catalogue may be third-party or outsourced services. These are services that are offered to customers with varying levels of value addition or combination with other Catalogue items. The Third-Party Catalogue may consist of core service packages (CSP) and SLP. It extends the range of the Service Catalogue in terms of customers and market spaces. Third-party services may be used to address underserved or unserved demand (Figure 4.13) until items in the Service Pipeline are phased into operation. They can also be used as a substitute for services being phased out of the Catalogue. Sourcing is not only an important strategic option but can also be an operational necessity. Section 6.5 provides more guidance on sourcing strategy.

Candidate suppliers of the Third-Party Catalogue may be evaluated using the eSourcing Capability Model for Service Providers (eSCM-SP™) developed by Carnegie Mellon University.

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4.2.3.2 Service Pipeline

The Service Pipeline consists of services under development for a given market space or customer. These services are to be phased into operation by Service Transition after completion of design, development, and testing. The pipeline represents the service provider's growth and strategic outlook for the future. The general health of the provider is reflected in the pipeline. It also reflects the extent to which new service concepts and ideas for improvement are being fed by Service Strategy, Service Design and Continual Improvement. Good Financial Management is necessary to ensure adequate funding for the pipeline.

4.2.3.3 Retired services

Some services in the Catalogue are phased out or retired. Phasing out of services is part of Service Transition. This is to ensure that all commitments made to customers are duly fulfilled and service assets are released from contracts. When services are phased out, the related knowledge and information are stored in a knowledge base for future use. Phased-out services are not available to new customers or contracts unless a special business case is made. Such services may be reactivated into operations under special conditions and SLAs that are to be approved by senior management. This is necessary because such services may cost a lot more to support and may disrupt economies of scale and scope.

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4.2.3.4 The role of Service Transition

Approval from Service Transition is necessary to add or remove services from the Service Catalogue. This is necessary for the following reasons:

- Once an item enters the catalogue it must be made available to customers who demand it. Due diligence is necessary to ensure that the service is a complete product that can be fully supported. This includes technical feasibility, financial viability, and operational capability. Incomplete products offered in haste can result in significant losses for service providers and customers.
- Items in the Service Catalogue are mostly in the Service Operation phase with contractual commitments made to customers. Any changes to the catalogue have to be evaluated for impact on the ability to meet those commitments.
- Adding items to the Service catalogue means the need to set aside capabilities and resources for present and prospective customers. This is like maintaining spares for every piece of equipment in every type of aircraft in operation in the fleet. Having more has advantages if each item is doing well. Otherwise, valuable resources are locked by catalogue items not doing well. There is a need to balance flexibility and choice for customers with the increase in complexity, uncertainty, and resource conflicts.

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Standardization and reuse

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There are instances in which certain business needs cannot be fulfilled with services from a catalogue. The service provider has to decide how to respond to such cases. The options are typically along the following lines:

- Explain to the customer why the need cannot be fulfilled.
- Explain what is needed of the customer in terms of commitment, sponsorship or funding for new service development. Customers may reconsider their needs in view of service development costs they may have to bear.
    - Develop the service if the customer makes the necessary commitment
    - Decline the opportunity if the customer cannot commit.
- Consider supporting the customer in partnership with third parties.

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4.3 Develop strategic assets

Service providers should treat service management as a strategic asset and entrust it with challenges and opportunities in terms of customers, services, and contracts to support. Investments made in trusted assets are less risky because they have the capability to deliver consistently time and again. Service management begins with capabilities that coordinate and control resources to support a catalogue of services (Figure 4.14). Challenges are overcome in achieving progressively higher service levels. There is mutual reinforcement between the two. Capabilities and resources are adjusted until the goal is reached. Customers perceive demonstrated value from the service provider.

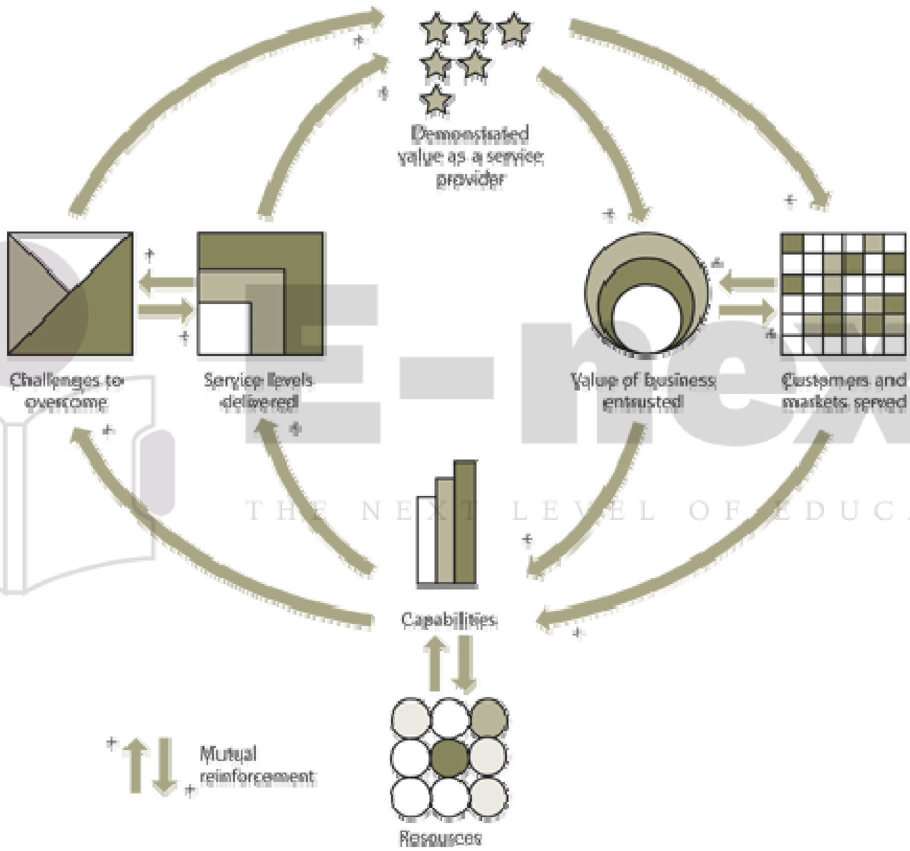

Figure 4.14 Growth and maturity of service management into a trusted asset

Customers perceive benefits in a continued relationship, and entrust the provider with the business of increasing value and also adding new customers and market spaces to the realm of possibilities. This justifies further investments in service management in terms of capabilities and resources, which have a tendency to reinforce each other.

Stakeholders may initially trust the provider with low-value contracts or non-critical services. Service management responds by delivering the performance

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expected of a strategic asset. The performance is rewarded with contract renewals, new services, and customers, which together represent a larger value of business. To handle this increase in value, service management must invest further in assets such as process, knowledge, people, applications and infrastructure. Successful learning and growth enables commitments of higher service levels as service management gets conditioned to handle bigger challenges.

Over time, this virtuous cycle results in higher capability levels and maturity in service management leading to a higher return on assets for the service provider. Services play the role of a belt that engages service assets with customer assets (Figure 4.15). Service agreements or contracts define the rules of engagement. Unless properly defined the cost of service assets spent in support of customers' assets may be difficult to account for and recover. This leads to situations where there is adequate creation of value for the customer but inadequate value capture for the provider.

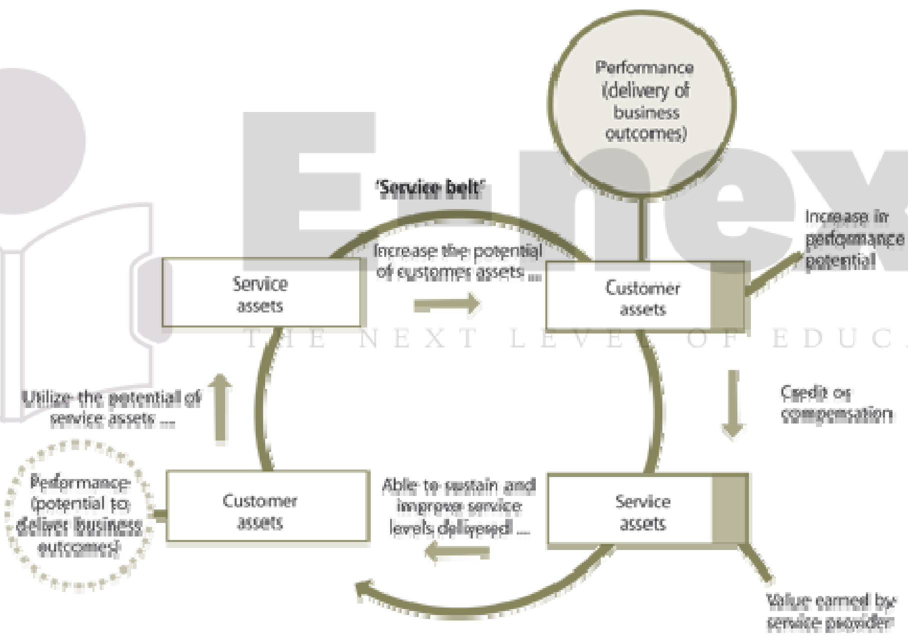

Figure 4.15 Mutual welfare when service assets are engaged in supporting customer outcomes

Value capture is an important notion for all types of service providers, internal and external. Good business sense discourages stakeholders from making major investments in any organizational capability unless it demonstrates value capture. Internal providers are encouraged to adopt this strategic perspective to continue as viable concerns within a business. Cost recovery is necessary but not sufficient. Profits or surpluses allow continued investments in service assets that have a direct impact on capabilities.

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Linking value creation to value capture is a difficult but worthwhile endeavour. In simplest terms customers buy services as part of plans for achieving certain business outcomes. Say, for example, the use of a wireless messaging service allows the customer’s sales staff to connect securely to the sales force automation system and complete critical tasks in the sales cycle. This has a positive impact on cash flows from payments brought forward in time. By linking purchase orders and invoices expedited from use of the wireless service it is possible to sense the impact of the service on business outcomes. They can be measured in terms such as Days Sales Outstanding (DSO) and average time of the Order-to-Cash cycle. The total cost of utilizing the service can then be weighed against the impact on business outcomes.

It is difficult to establish the cause-and-effect relationship between the use of the service and the changes in cash flows. Quite often, there are several degrees of separation between the utilization of the service and the benefits customers ultimately realize. While absolute certainty is difficult to achieve, decision making nevertheless improves.

4.3.1 Service management as a closed-loop control system

As defined earlier, service management is a set of organizational capabilities specialized in providing value to customers in the form of services. The capabilities interact with each other to function as a system for creating value. Service assets are the source of value and customer assets are the recipients (Figure 4.16). Services have the potential to increase the performance of customer assets and create value to the customer organization. Improvements in the design, transition and operation of the service increase this customer performance potential and reduce the risks of variations on customer assets. This requires a clear and complete understanding of customer assets and desired outcomes.

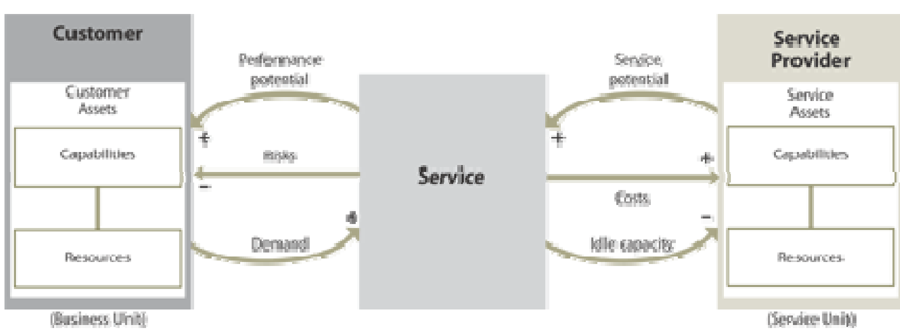

Figure 4.16 Service management as a closed-loop control system

Services derive their potential from service assets. Service potential is converted into performance potential of customer assets. Increasing the performance potential frequently stimulates additional demand for the service in terms of scale or scope. This demand translates into greater use of service assets and

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justification for their ongoing maintenance and upgrades. Unused capacity is reduced. Costs incurred in fulfilling the demand are recovered from the customer based on agreed terms and conditions.

From this perspective, service management is a closed-loop control system with the following functions, to:

- Develop and maintain service assets
- Understand the performance potential of customer assets
- Map service assets to customer assets through services
- Design, develop, and operate suitable services
- Extract service potential from service assets
- Convert service potential into performance potential
- Convert demand from customer assets into workload for service assets
- Reduce risks for the customer
- Control the cost of providing services.

4.3.2 Service management as a strategic asset

To develop service management as a strategic asset, define the value network within which service providers operate in support of their customers. This network may exist entirely within a business enterprise, as is often the case for Type I and Type II providers (Figure 4.17). More often the value network extends across organizational boundaries to include external customers, suppliers, and partners. By identifying the key relationships and interactions in the network, managers have better visibility and control over the systems and processes they operate. This allows managers to manage the complexity that exists in their business environments as customers pursue their own business models and strategies. It also helps account for all the costs and risks involved in providing a service or supporting a customer.

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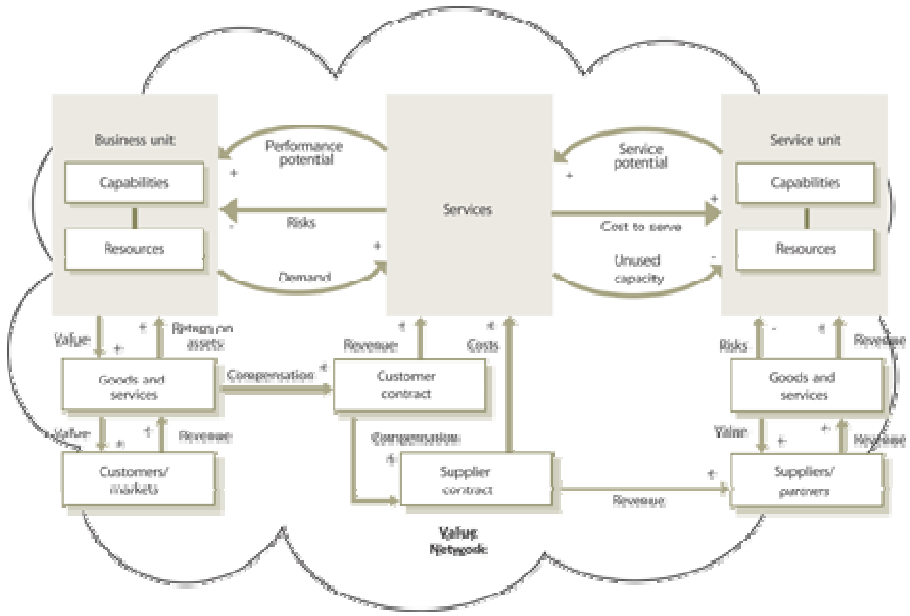

Figure 4.17 Service management as a strategic asset and a closed-loop system

Strategic assets are dynamic in nature. They are expected to continue to perform well under changing business conditions and objectives of their organization. That requires strategic assets to have learning capabilities. Performance in the immediate future should benefit from knowledge and experience gained from the past. This requires service management to operate as a closed-loop system that systematically creates value for the customer and captures value for the service provider. An important aspect of service management is controlling the interactions between customer assets and service assets.

4.3.2.1 Increasing the service potential

The capabilities and resources (service assets) of a service provider represent the service potential or the productive capacity available to customers through a set of services (Figure 4.17). Projects that develop or improve capabilities and resources increase the service potential. For example, implementation of a Configuration Management System leads to improved visibility and control over the productive capacity of service assets such as networks, storage, and servers. It also helps quickly to restore such capacity in the event of failures or outages. There is greater efficiency in the utilization of those assets and therefore service potential because of capability improvements in Configuration Management. Similar examples are given below in Table 4.4. One of the key objectives of service management is to improve the service potential of its capabilities and resources.

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Service management initiative	Increasing service potential from capabilities	Increasing service potential from resources
Data centre rationalization	Better control over service operations Lower complexity in infrastructure Development of infrastructure and technology assets	Increases the capacity of assets Increases economies of scale and scope Capacity building in service assets
Training and certification	Knowledgeable staff in control of Service Lifecycle Improved analysis and decisions	Staffing of key competencies Extension of Service Desk hours
Implement Incident Management process	Better response to service incidents Prioritization of recovery activities	Reducing losses in resource utilization
Develop service design process	Systematic design of services Enrichment of design portfolio	Reuse of service components Fewer service failures through design
Thin client computing	Increased flexibility in work locations Enhanced service continuity capabilities	Standardization and control of configurations Centralization of admin functions

Table 4.4 Examples of how service potential is increased

Through Configuration Management, all service assets should be tagged with the name of the services to which they add service potential. This helps decisions related to service improvement and Asset Management. Clear relationships make it easier to ascertain the impact of changes, make business cases for investments in service assets, and identify opportunities for scale and scope economies. It identifies critical service assets across the Service Portfolio for a given customer or market space.

4.3.2.2 Increasing performance potential

The services offered by a service provider represent the potential to increase the performance of customer assets (Figure 4.18). Without this potential there is no justification for customers to procure the services. Visualize and define the performance potential of services so that all decisions made by managers are rooted in the creation of value for customers. This approach avoids many of the problems of service businesses where value for customers is created in

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intangible forms and therefore harder to define and control. Working backwards from the performance potential of customers ensures that service providers are always aligned with business needs regardless of how often those needs change.

The performance potential of services is increased primarily by having the right mix of services to offer to customers, and designing those services to have an impact on the customer's business. The key questions to be asked are:

- What is our market space?
- What does that market space want?
- Can we offer anything unique in that space?
- Is the space already saturated with good solutions?
- Do we have the right portfolio of services developed for a given market space?
- Do we have the right catalogue of services offered to a given customer?
- Is every service designed to support the required outcomes?
- Is every service operated to support the required outcomes?
- Do we have the right models and structures to be a service provider?

The productive capacity of service assets is transformed into the productive capacity of customer assets. An important aspect of delivering value for customers through services is the reduction of risks for customers. By deciding to utilize a service, customers are often seeking to avoid owning certain risks and costs. Therefore the performance potential of services also arises from the removal of costs and risks from the customer's businesses.

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For example, a service that securely processes payments or transfer of funds for the customer reduces the risks of financial losses through error and fraud and at the same time reduces the cost per transaction by leveraging economies of scale and scope on behalf of the customer. The service provider can deploy the same set of service assets to process a large volume of transactions and free the customer from having to own and operate such assets. For certain business functions such as payroll, finance, and administration, the customer may face the financial risk of under-utilized or over-utilized assets and may therefore prefer a service offered by a Type I, Type II or a Type III service provider.

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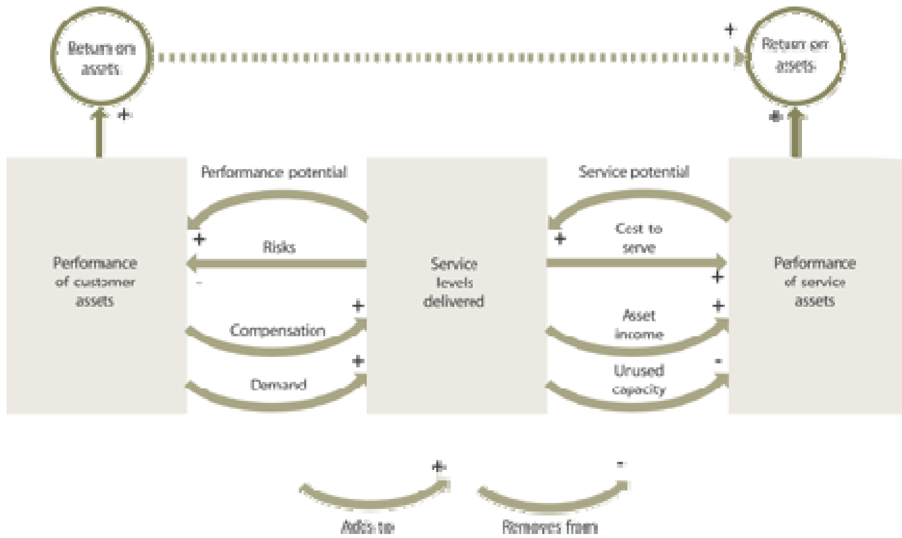

Figure 4.18 Closing the loop with demand, capacity and cost to serve

4.3.2.3 Demand, capacity and cost

When services are effective in increasing the performance potential of customer assets there is an increase in the demand for the services. This acts as a positive feedback to the system to be taken into account. An increase in the performance potential leads to an increase in customer demand (Figure 4.18). The demand for services is accompanied by compensation from customers for the service levels received. The form of compensation received depends on the type of agreement between the service unit and business unit. The higher the service levels, the greater the compensation that services providers can expect to achieve. All decisions in service management should be directed towards increasing this positive feedback. The compensation earned by the service contributes to the incomes earned by the service assets deployed by the service unit to deliver and support the service. The returns depend on the asset income and the cost to serve. The model is used by managers for managing the finances of every service. In general, the cost to serve increases with the service levels delivered. However, the actual nature of this relationship varies across service delivery systems.

As the maturity of service management increases, it is possible to deliver higher levels of utility and warranty without a proportional increase in costs. Due to the effect of fixed costs and overheads, the costs of providing additional units of service output can decrease with an increase in the demand for services. Service assets are in a productive state when they are engaged in supporting customer assets. In every demand cycle of the customer, value is created by a corresponding delivery cycle. Value creation for the customer is matched by value capture for the service provider.

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4.4 Prepare for execution

Every model represents a kind of process. This model represents a clear and practical approach for formulating service strategies. It does not, however, guarantee success. What is needed is, through reflection and examination, to make a strategy suitable in an organization's context or situation. Strategy involves thinking as well as doing. See Figure 4.19. For senior managers accountable for investment decisions, financial- and personnel-related, the stakes are high. Strategy is critical to the performance of the organization. Service strategies must be formed and be formulated. Broad outlines are deliberate while details are allowed to emerge and adapt en route.

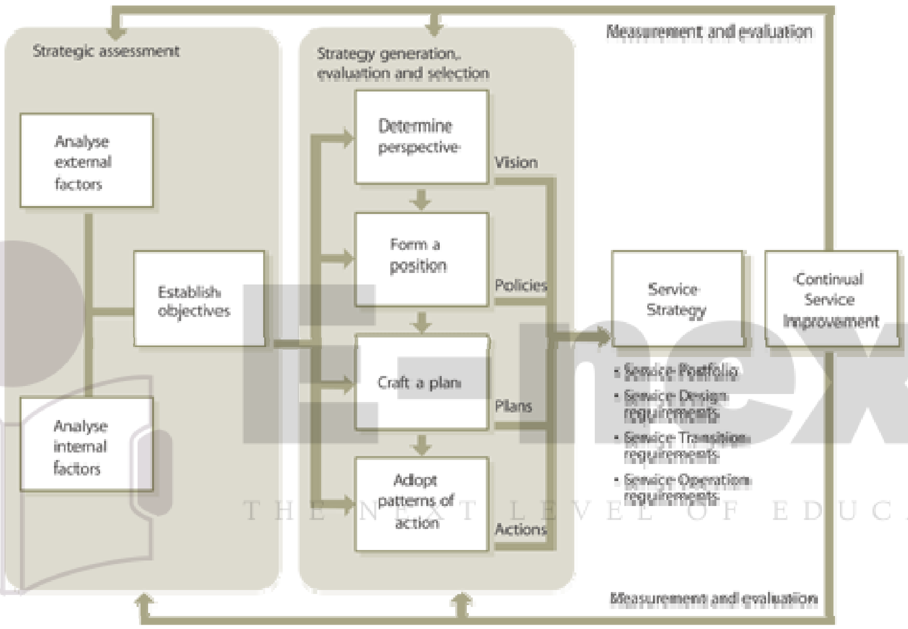

Figure 4.19 Forming and formulating a service strategy

4.4.1 Strategic assessment

In crafting a service strategy, a provider should first take a careful look at what it does already. It is likely there already exists a core of differentiation. An established service provider frequently lacks an understanding of its own unique differentiators. The following questions can help elucidate a service provider's distinctive capabilities:

Which of our services or service varieties are the most distinctive?

Are there services that the business or customer cannot easily substitute? The differentiation can come in the form of barriers to entry, such as the organization's know-how of the customer's business or the broadness of service offerings. Or it may be in the form of raised switching costs, due to lower cost structures generated through specialization or service sourcing. It may be a

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particular attribute not readily found elsewhere, such as product knowledge, regulatory compliance, provisioning speeds, technical capabilities or global support structures.

Which of our services or service varieties are the most profitable?

The form of value may be monetary, as in higher profits or lower expenses, or social, as in saving lives or collecting taxes. For non-profit organizations, are there services that allow the organization to perform its mission better? Substitute ‘profit’ with ‘benefits realized’.

Which of our customers and stakeholders are the most satisfied?

Which customers, channels or purchase occasions are the most profitable?

Again, the form of value can be monetary, social or other.

Which of our activities in our value chain or value network are the most different and effective?

The answers to these questions will likely reveal patterns that lend insight to future strategic decisions. These decisions, and related objectives, form the basis of a strategic assessment. See Table 4.5.

Factor	Description
Strength and weaknesses	The attributes of the organization. For example, resources and capabilities, service quality, operating leverage, experience, skills, cost structures, customer service, global reach, product knowledge, customer relationships and so on.
Distinctive competencies	As discussed throughout the chapter, ‘What makes the service provider special to its business or customers?’
Business strategy	The perspective, position, plans and patterns received from a business strategy. For example, a Type I and II may be directed, as part of a new business model, to expose services to external partners or over the internet. This is also where the discussion on customer outcomes begins and is carried forward into objectives setting.
Critical success factors	How will the service provider know when it is successful? When must those factors be achieved?
Threats and opportunities	Includes competitive thinking. For example, ‘Is the service provider vulnerable to substitution?’ Or, ‘Is there a means to outperform competing alternatives?’

Table 4.5 Internal and external factors for a strategic assessment

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4.4.2 Setting objectives

Objectives represent the results expected from pursuing strategies, while strategies represent the actions to be taken to accomplish objectives. Clear objectives provide for consistent decision making, minimizing later conflicts. They set forth priorities and serve as standards. Organizations should avoid the following means of 'not managing by objectives'.

- Managing by crisis – the belief that the measure of an organization is its problem solving ability. It is the approach of allowing events to dictate management decisions.
- Managing by extrapolation – continuing the same activities in the same manner because things are going well.
- Managing by hope – making decisions on the belief they will ultimately work out.
- Managing by subjective – doing the best you can to accomplish what should be done. There is no general plan.

To craft its objectives, an organization must understand what outcomes customers desire to achieve and determine how best to satisfy the important outcomes currently underserved. This is how metrics are determined for measuring how well a service is performing. The objectives for a service include three distinct types of data. These data sources are the primary means by which a service provider creates value. See Table 4.6.

Type of Objective Data	Description
Customer tasks	What task or activity is the service to carry out? What job is the customer seeking to execute?
Customer outcomes	What outcomes is the customer attempting to obtain? What is the desired outcome?
Customer constraints	What constraints may prevent the customer from achieving the desired outcome? How can the provider remove these constraints?

Table 4.6 Customer tasks, outcomes and constraints

There are four common categories of information frequently gathered and presented as objectives. Senior managers should understand the risk that comes with each category, if not altogether avoided:23

- Solutions – customers present their requirements in the form of a solution to a problem. Customers may lack the technical expertise to be able to arrive at the best possible solution. Customers may be ultimately disappointed by the very solution they present. To mitigate this risk, rather than looking to customer ideas about the service itself, look for the criteria they use to measure the value of a service.

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- Specifications – customers present their requirements in the form of specifications – vendor, product, architectural style, computing platform, etc. By accepting specifications, a provider needlessly prevents its own organization from devising optimal services.
- Needs – customers present their requirements as high-level descriptions of the overall quality of the service. By their nature, high-level descriptions do not include a specific benefit to the customer. For example, '...service will be available 99.9% of the time'. These inputs are frequently ambiguous and imprecise. They leave the provider wondering what customers really mean: '99.9% of business hours? 99.9% of a calendar year? Does this include maintenance windows? Can the 0.1% be used all at once?' By leaving room for interpretation, the provider leaves too much to chance. Be sure all input is measurable and actionable (Figure 4.20).
- Benefits – customers present their requirements in the form of benefit statements. Again, the risk is in the ambiguity or imprecision of the statements. 'Highly reliable', 'Faster response' and 'Better security' take on many meanings and present different implications for the organization.

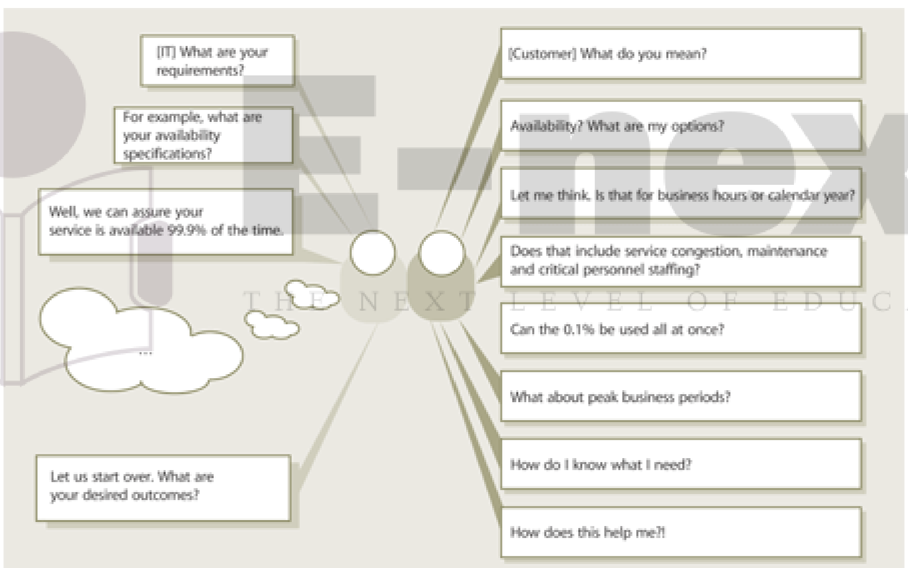

Figure 4.20 Moving from customer-driven to customer-outcomes

When service providers solicit requirements, customers respond in a manner and language meaningful and convenient to them. This customer-driven approach fails because it inevitably solicits the wrong inputs – the type that cannot be used to predictably ensure success. This explains the frequent disconnection between IT organizations and the businesses they serve. What the customer values is frequently different from what the organization believes it provides. Service providers should think very differently. A clear understanding of what the customer values is called a marketing mindset, compared to a manufacturing mindset. Rather than focusing inward on the production of services, look from the outside in, from the customer's view. Rather than lagging indicators, begin with

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the leading indicators of Table 4.6, Common business objectives. These indicators lead to a clearer understanding of service utility and service warranty, which in turn lead to defining better requirements. Customers do not buy services; they buy the satisfaction of a particular need.

4.4.3 Aligning service assets with customer outcomes

Service providers must manage assets much in the same manner as their customers. Service assets are coordinated, controlled, and deployed in a manner that maximizes the value to customers while minimizing risks and costs for the provider. For example, a messaging service such as wireless email increases the performance of one of the most critical and expensive type of customer assets: managers and staff. The customer deploys these assets in a manner that gets the most out of their productive capacities.

This means, for example, that sales managers spend more time on-site with clients, technicians are quickly dispatched to cover equipment failures in the field, and administrative staff are consolidated at strategic locations to improve operational effectiveness. To support the customer, the service provider configures and deploys its assets in a manner that effectively supports the customer's own deployments. It may require the design, deployment, operation, and maintenance of highly available and secure messaging on wireless phones or computers. What matters is that the customer's employees are able to coordinate business activities, access business applications and control business processes.

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4.4.4 Defining critical success factors

For every market space there are critical success factors that determine the success or failure of a service strategy. These factors are influenced by customer needs, business trends, competition, regulatory environment, suppliers, standards, industry best practices and technologies. Critical success factors are also referred to in business literature as strategic industry factors (SIF) and have the following general characteristics:24

- They are defined in terms of capabilities and resources
- They are proven to be key determinants of success by industry leaders
- They are defined by market space levels, not peculiar to any one firm
- They are the basis for competition among rivals
- They change over time, so they are dynamic not static
- They usually require significant investments and time to develop
- Their value is extracted by combination with other factors.

Critical success factors by themselves are altered or influenced by one or more of the following factors:

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- Customers
- Competitors
- Suppliers
- Regulators.

Identifying critical success factors for a market space is an essential aspect of strategic planning and development. In each market space service providers require a core set of assets in order to support a Customer Portfolio through a Service Portfolio (Figure 4.21). For example, in the market space for high-volume real-time data processing, such as those required by the financial services industry, service providers must have large-scale computer systems, highly reliable network infrastructure, secure facilities, knowledge of industry regulations, and a very high level of contingency. Without these assets, it would not be possible for such service units to provide the utility and warranty demanded by customers in that market space.

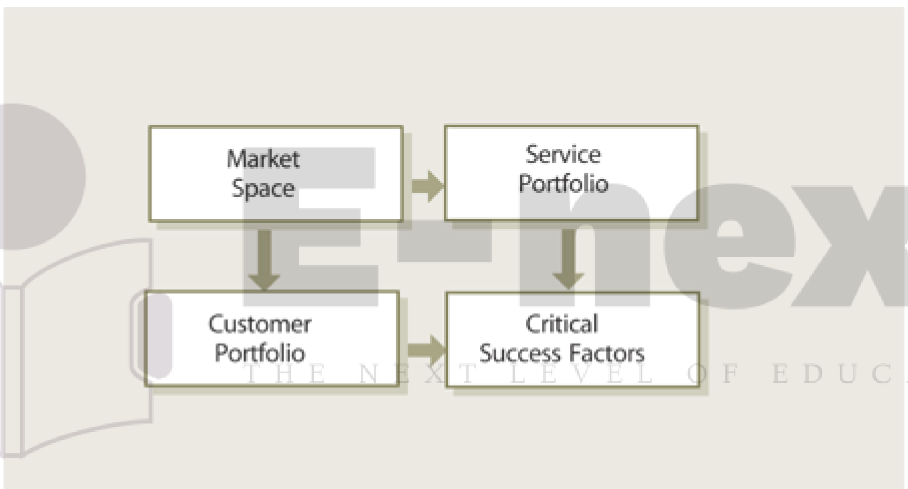

Figure 4.21 Critical success factors

The dynamic nature of markets, business strategies, and organizations requires critical success factors to be reviewed periodically or at significant events such as changes to Customer Portfolios, expansion into new market spaces, changes in the regulatory environment and disruptive technologies. For example, new legislation for the healthcare industry on the portability and privacy of patient data would alter the set of critical success factors for all service providers operating in market spaces related to healthcare.

The dominating success of a new market leader in search engines and online advertising may add a new critical success factor through a combination of innovative business model and technological capability. Most critical success factors are a combination of several service assets such as financial assets, experience, competencies, intellectual property, processes, infrastructure, and scale of operations.

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Critical success factors determine the service assets required to implement a service strategy successfully. For example, if a strategy requires services to be made available across a large network of locations or a wide area of coverage, the service provider must not only build capacity at key locations. The provider must also operate the network as a system of nodes so that the cost of serving all customers is roughly identical to and within a price point consistent with a strategic position in a market space. Not all critical success factors need favour large organizations or economy of scale in operations. Some strategies favour organizations small in size but highly competitive through the knowledge they have of customers and related market spaces. Managers must therefore conduct evaluation exercises to ascertain the critical success factors in force.

One way to define critical success factors is by customer assets and the service archetypes (Figure 4.22). For example, in healthcare, IT Service Providers have extensive knowledge of hospital procedures, medical equipment, interactions between physicians, clinicians and pharmacists, insurance policies and privacy regulations. Service providers present in market spaces related to the quality of outcomes in healthcare typically have physicians and clinicians on their payroll. Service strategies for the healthcare market spaces take into account the need to deal with users with highly specialized skills, special-purpose equipment, low tolerance for error, and the need to balance security with usability of services. These are critical success factors for a cluster of market spaces related to healthcare. A subset of these critical success factors is shared by other market spaces such as military applications. Critical success factors can therefore span more than one market space. They represent opportunities for leveraging economies of scale and scope.

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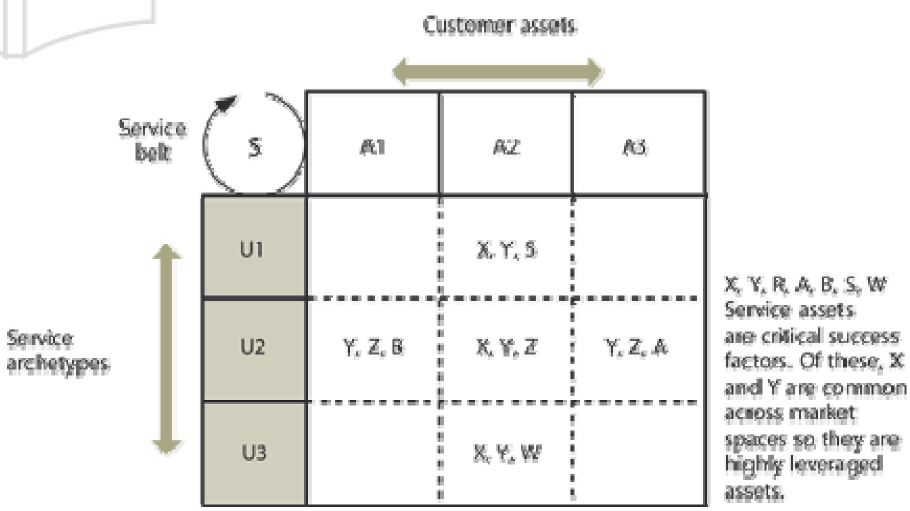

Figure 4.22 Critical success factors leveraged across market spaces

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4.4.5 Critical success factors and competitive analysis

CSFs are determinants of success in a market space. They are also useful in evaluating a service provider's strategic position in a market space and driving changes to such positions. This requires CSFs to be further refined in terms of some distinct value proposition to customers. For example, being competitive in a market space may require very high levels of availability, fail-safe operation of IT infrastructure, and adequate capacity to support business continuity of services. In many market spaces cost-effectiveness is a common CSF, while in others it may be specialized domain knowledge or reliability of infrastructure. Customer satisfaction, richness of service offerings, compliance with standards and global presence are also common CSFs. Type I and Type II providers tend to score well on familiarity with the customer's business.

Conduct a strategic analysis for every market space, major customer and Service Portfolio to determine current strategic positions and desired strategic positions for success. This analysis requires service providers to gather data from customer surveys, service level reviews, industry benchmarks, and competitive analysis conducted by third parties or internal research teams. Each critical success factor is measured on a meaningful index or scale. It is best to adopt indices and scales that are commonly used within a market space or industry to facilitate benchmarking and comparative analysis. Critical success factors are used to define playing fields, which serve as reference frameworks for evaluation of strategic positions and competitive scenarios (Figure 4.23).

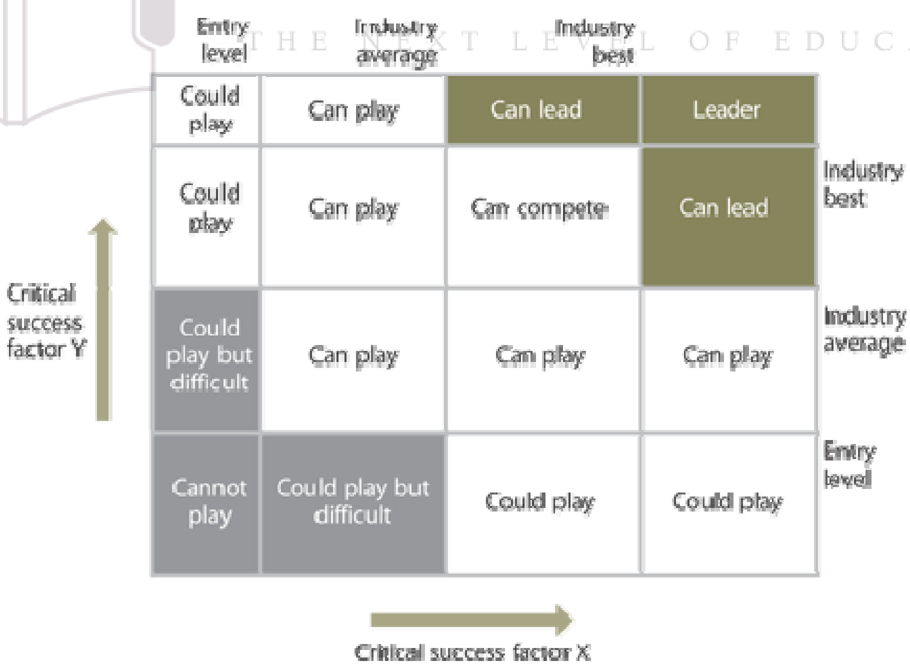

Figure 4.23 Critical success factors and competitive positions in playing fields

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Playing fields have the following benchmarks that determine the various zones in which a service provider is currently positioned or plans to be.

- Entry level: performance below this level is not acceptable to customers (grey in Figure 4.23)
- Industry average: performance below this level is not competitive (white in Figure 4.23)
- Industry best: performance above this level signifies leadership (green in Figure 4.23).

These benchmarks are relative (not absolute) and their values on an index may vary over time. For example, the initial entry-level benchmark for cost as a CSF may be quite easy to cross in a new market space with low levels of competition. The benchmark may become higher (lower costs) because of competitive action combined with technology innovations or other factors, such as excessive supply of resources in the market space (as happened a few years ago with telecommunications bandwidth). Strategic analysis should take into account not only the current benchmarks for a playing field but also the direction in which they are expected to move (higher or lower), the magnitude of change, and the related probabilities.

This analysis is necessary for service providers to avoid being surprised by changes in the market space that can completely destroy their value proposition. Type I service providers may be particularly vulnerable to such blind spots if they are not accustomed to the business analysis found in Type II and Type III providers. Type I providers also face competition even if they have captive customers within their enterprise. The playing field is used to conduct strategic analysis of Market Spaces, Customer Portfolios (Figure 4.24), Service Portfolios, and Contract Portfolios. Managers decide the required scenarios to construct using applicable CSFs, scales and indices.

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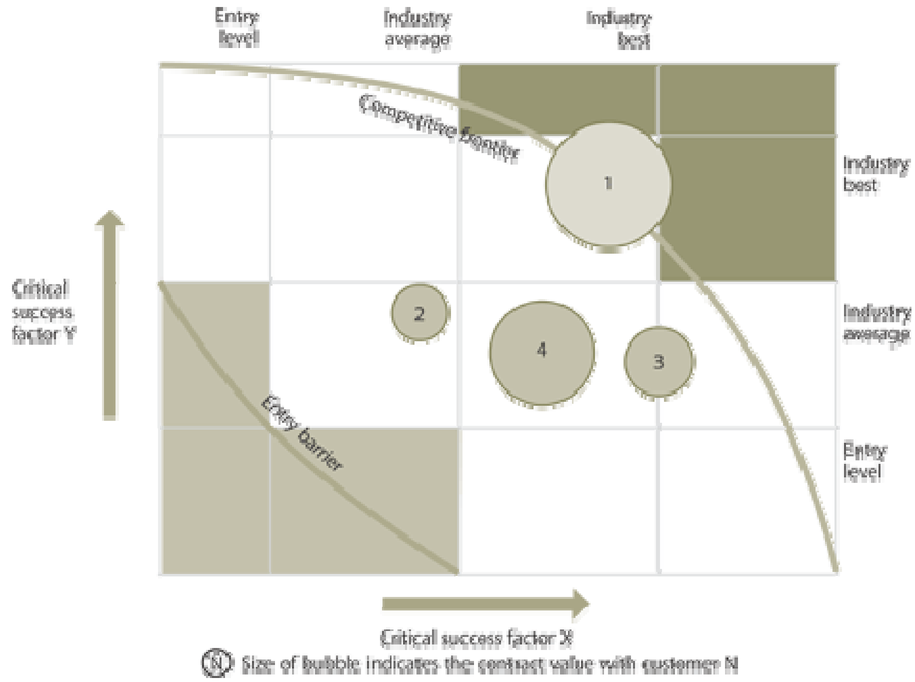

Figure 4.24 Strategic analysis of Customer Portfolio

4.4.6 Prioritizing investments

One common problem service providers have is prioritizing investments and managerial attention on the right set of opportunities. There is a hierarchy in customer needs analogous to Maslow's Hierarchy of Needs for individuals. At any one time, the business needs of customers are fulfilled to varying levels of satisfaction. The combination of hierarchy or importance of a need and its current level of satisfaction determines the priority in the customer's mind for purchases. The best opportunities for service providers lie in areas where an important customer need remains poorly satisfied (Figure 4.25).

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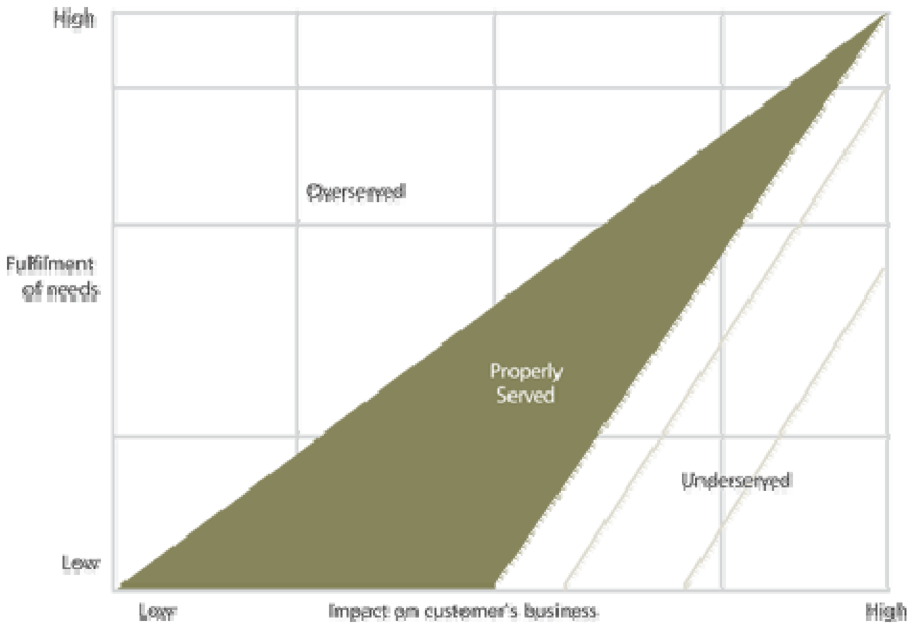

Figure 4.25 Prioritizing strategic investments based on customer needs23

Service Portfolios should be extended to support such areas of opportunity. This typically means there is a need for services to provide certain levels of utility and warranty. However, managers should not overlook the costs and risks in such areas. There are usually strong reasons why certain needs of customers remain unfulfilled. Breakthrough performance and innovation are usually required to successfully deliver value in underserved areas of opportunity.

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4.4.7 Exploring business potential

Service providers can be present in more than one market space. As part of strategic planning, service providers should analyse their presence across various market spaces. Strategic reviews include the analysis of strengths, weaknesses, opportunities and threats in each market space. Service providers also analyse their business potential based on unserved or underserved market spaces. This is an important aspect of leadership and direction provided by the senior management of service providers. The long-term vitality of the service provider rests on supporting customer needs as they change or grow as well exploiting new opportunities that emerge. This analysis identifies opportunities with current and prospective customers. It also prioritizes investments in service assets based on their potential to serve market spaces of interest. For example, if a service provider has strong capabilities and resources in service recovery, it explores all those market spaces where such assets can deliver value for customers.

Begin with a broad set of outcomes such as business asset productivity. This defines a broad market space. Lost business asset productivity is linked with how it is recovered through services. Unserved and underserved customer needs are

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identified within this context and focus is applied based on existing strengths and opportunities. This defines narrower market spaces with specialization based on the categories of business assets and the manner in which they are supported by services (service archetypes).

Providers decide which customer needs are effectively and efficiently served through services, while choosing to serve certain market spaces and avoid others. This essential aspect of service strategy is broken down into the following decisions. Firstly, identify:

- Market spaces that are best served by existing service assets
- Market spaces to avoid with existing service assets.

Then for each market space to be served (Figure 4.26), decisions are made with respect to:

- Services to offer (Service Portfolio)
- Customers to serve (Customer Portfolio)
- Critical success factors
- Underserved market spaces
- Service models and service assets
- Service Pipeline and Service Catalogue.

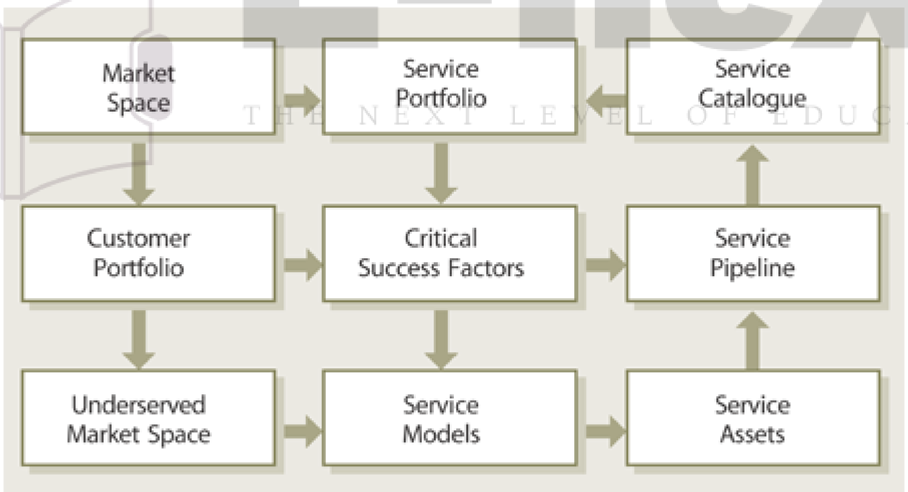

Figure 4.26 New service development

Market space analysis for Type I and Type II providers follows similar principles to those for Type III. Differences are in terms of the extent to which decisions are influenced by:

- Priority and strategic value
- Investments required
- Financial objectives (including profit motive)

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- Risks involved
- Policy constraints.

4.4.8 Alignment with customer needs

Understand the mutual relationship between customers and market spaces. Customers can contain one or more market spaces. Market spaces can contain one or more customers (Figure 4.27).

- The market spaces of Type I service providers are internal to the organizational unit within which they are embedded.
- The market spaces of Type II providers are internal to the enterprise but distributed across the constituent business units and the corporate functions.
- The market spaces of Type III providers are typically distributed across more than one enterprise customer.

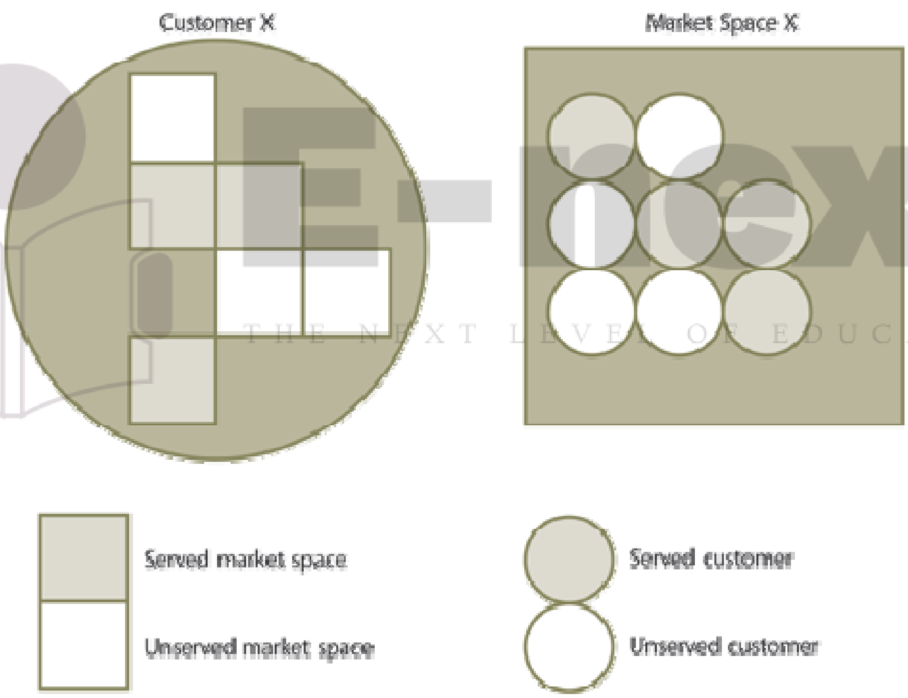

Figure 4.27 Customers and market spaces

The business strategy of a service provider usually determines the placement of market spaces. However, the placement of market spaces also influences the type of strategies to be pursued. This mutual influence will lead to adjustments and changes over any given planning horizon (Figure 4.28). Since market spaces are defined based on outcomes desired by customers, the changes and adjustments are ultimately based on the dynamics of the customer's business environment. Over time there will be cohesiveness between strategies and market spaces from mutual alignment and reinforcement.

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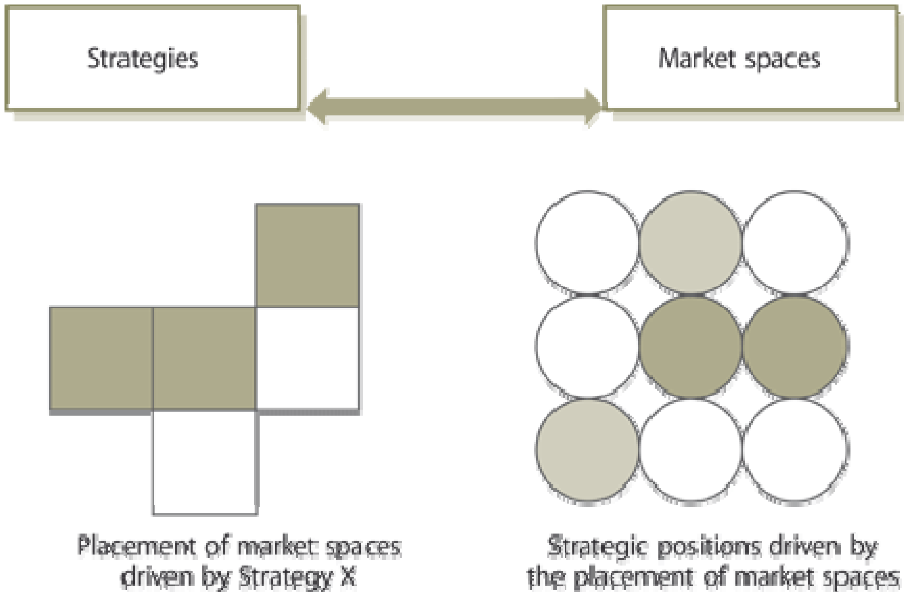

Figure 4.28 Strategies and market spaces

Since market spaces are defined in terms of the business needs of customers, service provider strategies are therefore aligned to customers. This is the most important reason why service providers must think in terms of market spaces and not simply industry sectors, geographies, or technology platforms. This is intuitive to the senior leadership of Type I providers because they are accustomed to being driven more by the outcomes expected by their business units than by the traditional segmentation of markets.

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4.4.9 Expansion and growth

Once service strategies are linked to market spaces, it is easier to make decisions on Service Portfolios, designs, operations, and long-term improvements. Investments in service assets such as skills sets, knowledge, processes, and infrastructure are driven by the critical success factors for a given market space. The growth and expansion of any business is less risky when anchored by core capabilities and demonstrated performance. Successful expansion strategies are often based on leveraging existing service assets (Figure 4.29) and Customer Portfolios to drive new growth and profitability.

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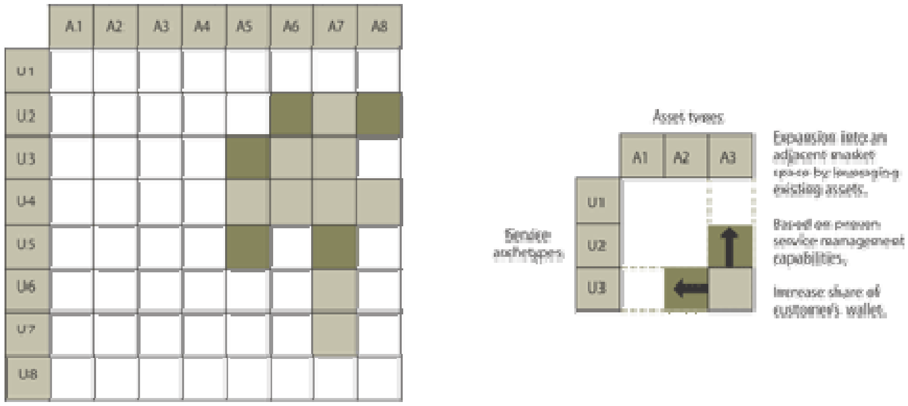

Figure 4.29 Expansion into adjacent market spaces

The resultant exposure to costs and risks is far lower in this approach compared to ad hoc expansions, which are purely opportunistic in nature. This is because expanding into adjacent market spaces leverages service assets that are common across market spaces. This means that additional investments are hedged across new and existing market spaces. If for any reason the expansion fails or business opportunities do not materialize, there will be a greater salvage value for the new investments made. To further reduce the risks of expansion strategies, it is best to leverage the presence in market spaces that have achieved sufficient growth. Growth and maturity could mean either improving results in existing market spaces or expanding the portfolio to other market spaces with a high potential for success.

Contracts represent combinations of customers and services. Contracts exist where there are commitments to a customer with respect to a service. Service agreements are types of contracts. It follows that Contract Portfolios are based on the interaction of the Customer Portfolio and the Service Portfolio. Changes to the Contract Portfolio are driven by changes to either the Customer Portfolio or the Service Portfolio (Figure 4.30). Growth in a market space is achieved by:

- Extensions to existing contracts (same service/same customer)
- Increases in demand (greater share of customer's wallet)
- Providing complementary services.

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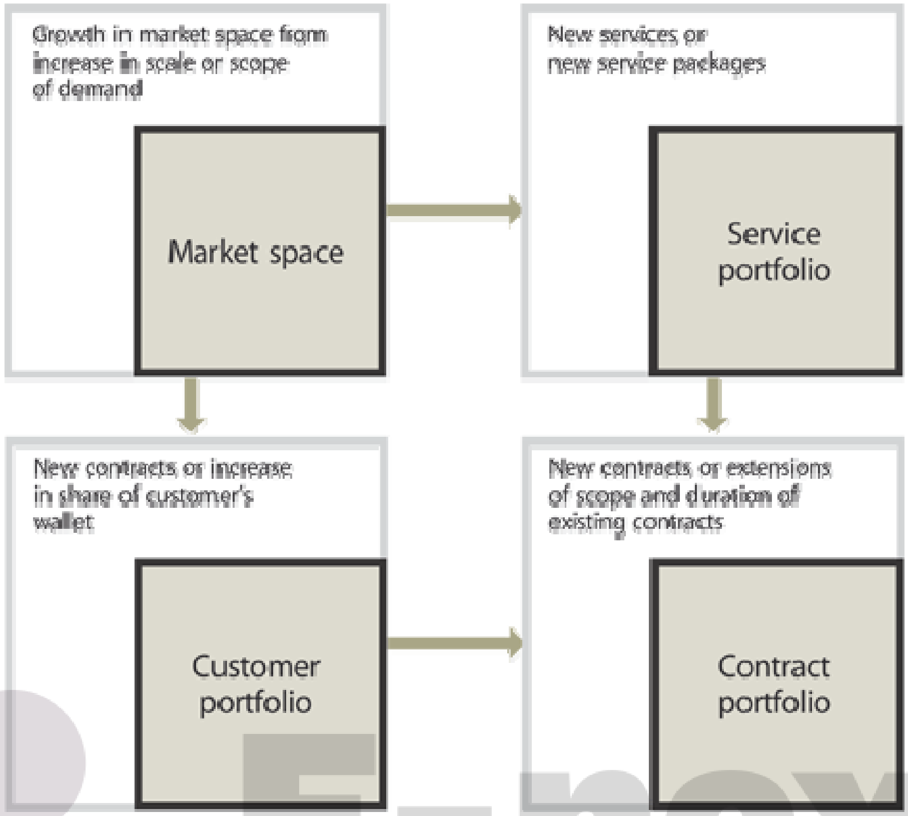

Figure 4.30 Growth in a market space

Strategic planning and review includes examining opportunities for growth within current customers and services. Growth in a market space is dependent on demonstrated ability to deliver value and a strong record with existing customers. Chapter 5 provides further guidance to senior managers on how to prioritize investments and allocate resources in a manner that reduces risks of failure.

4.4.10 Differentiation in market spaces

In a given market space, services provide utility to customers by delivering benefit with a level of certainty (i.e. warranty). Market spaces can be defined anywhere an opportunity exists to improve the performance of customer assets. Service strategy is about how to provide distinctive value in each market space. Service providers should analyse every market space they support and determine their position with respect to the options that customers have with other service providers.

In any given market space there are critical success factors that determine whether or not a service provider is competitive in offering services. These factors are defined in terms of the relative importance of a set of outcomes or benefits as perceived by customers. Examples are affordability, number of service channels or delivery platforms, lead times to activate new accounts, and

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the availability of services in areas where customers have business operations (Figure 4.31).

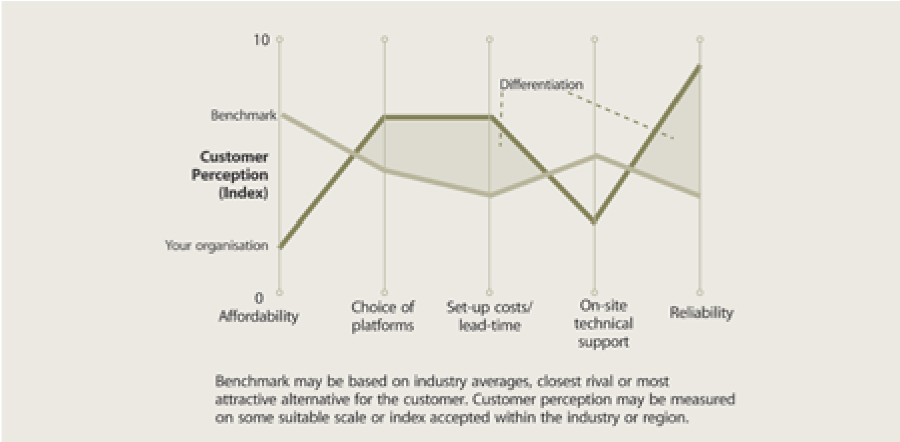

Figure 4.31 Differentiation in the market space

Appropriate indices or scales are necessary. A value curve can then be plotted by linking the performance on each scale or index corresponding to a critical success factor.25 Market research can determine the value curve that represents the average industry performance or one that represents key competitors. Feedback obtained from customers through periodic reviews or satisfaction surveys are used to plot your own value curve in a given market space or for your Customer Portfolio.

Service strategies should then seek to create a separation between the value curves, which are nothing but differentiation in the market space. The greater the differentiation, the more distinctive the value proposition offered in your services as perceived by customers. The differentiation is normally created through better a better mix of services, superior service designs, and operational effectiveness that allows for efficiency and effectiveness in the delivery and support of services. Through various combinations of factors there are many ways in which to create differentiation. Service management is about making decisions on the service design, transition, operation, and improvement that lead to differentiation in every supported market space.

Again, this is just as applicable to Type I providers. It is a good practice to periodically review the competitive position of every service in the corresponding market space. This is particularly important in relation to shifts in business trends or major changes in the business environment that may alter the economics behind the customer's decision to source a service

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