

How to Invent a Service Product

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Background

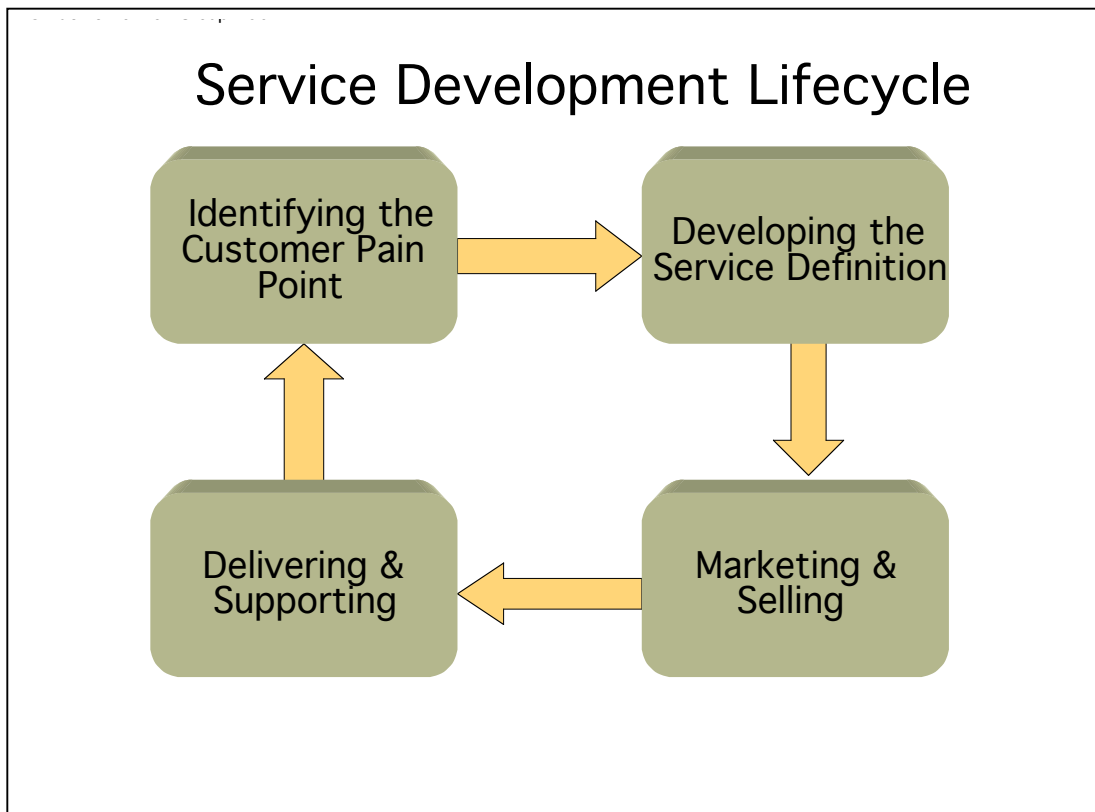
Perhaps your product support organization is like many others: you've been successfully delivering break/fix product support for many years, but there seem to be many opportunities to offer other services to your current customers. However, it isn't clear how to define these services and market them to customers.

This article addresses this challenge by identifying four key steps that can help your product support organization invent and bring to market a successful service product.

The Service Development Lifecycle

Services marketing is built on carefully understanding the deeper needs of your customers, and then providing services that will help to make them more successful. There is a great deal of leverage in providing services, since after your organization has started to delight your customers with your first services, you'll have the opportunity to hear your customers articulate progressively higher impact areas that they'd like you to address. This is when a virtuous cycle emerges: your most demanding, early adopter customers help you to identify services that will subsequently address the needs of your mainstream market customers months or years later. When this occurs you have succeeded in building a services business based on a deep understanding of your customers!

The diagram identifies the four phases of the Service Development Lifecycle:



The starting point is the market research phase of Identifying the Customer Pain Point. During this phase the customer pain points and requirements are captured. The next phase, Developing the Service Definition, takes these needs and casts them into a set of service components that form the heart and soul of the customer engagement. The third phase, Marketing & Selling, develops the customer-facing portfolio used to communicate and sell the service product to a customer. Once the service is purchased by a customer, the fourth phase, Delivering & Supporting, is used to implement the service. Insight gained during this implementation phase is used as input into the identification of new customer pain points, leading to the development of additional services.

Customer Pain Point

Identifying the Customer Pain Point is the starting point in the Service Development Lifecycle. The choice of the words "pain point" is intentional: only something that is severe enough to be *painful* to your customer will cause them to act to relieve the pain. This pain doesn't necessarily have to be in a negative sense; the pain can easily be that of the frustration of wanting your product to do even more than it does today. If you've established good communications with your customers, they'll tell you their pain points.

What will the pain points sound like? They might be articulated as "I can't allocate headcount to have a staff person do software patch management. I'd like to have your organization do this for me" or "I need to increase the production availability of your product to at least 90%".

In essence, during this phase of the Service Development Lifecycle you perform market research to identify in a very specific way the unmet services needs of your customers. The identification of the customer pain point can involve the use of formal and informal market research methods. Among the many techniques are:

1. **In-depth interviews with your field support staff.** Field support personnel can be walking treasure troves of information on the customer's pain points. It's easy to overlook them as a source of information, since they're often in job roles in which there is no expectation for them to seek out and disseminate information on customer needs.
2. **Requests from your most important customers.** These are the low hanging fruit of market research! If the requests seem reasonable, and especially if you hear similar requests from multiple companies, you have a very viable candidate for a service. A note of caution: a bit of probing is needed to make sure that the customer requests are an accurate reflection of their business need.
3. **One-on-one customer interviews.** These can range from an informal conversation over lunch on through to interviews conducted with scripted questions. The interviews ideally include people in multiple roles in the customer organization so that a clear understanding of business impact can be determined.
4. **Customer focus groups.** This is a formal market research method in which your customers participate in a group discussion with other customers. The discussion questions are posed by an independent meeting facilitator. This method can be expensive, but is warranted when a significant investment (or risk) will be part of bringing the service to market.
5. **Customer user group meetings.** These can provide a ready-made forum for discussions of current challenges.
6. **Review of customer support calls or warranty claims to identify systemic problems.** For example, you might find that customers who don't have trained operators have a higher rate of warranty and out of warranty repair claims than those who train their operators. This could provide compelling justification to tell customers why they should purchase training services, whether classroom or custom education.

7. **Assessment of competitor and customer in-house offerings.** Do your product competitors offer services? If so, some market research may indicate that your customers would want similar services for your products. What problems do these services address? Note that your "competitor" can also be the in-house capability developed by your customer.
8. **Suggestions from executives as well as personnel in other functional areas of your company.** Marketing, sales and engineering personnel might have detailed customer profiles. If so, they may be able to provide suggestions on what your customers need.

Since it's likely that a number of pain points will be identified, you'll want to leverage some business methods to prioritize and choose among the alternatives. If you anticipate the opportunity to provide multiple services, you might want to develop a services portfolio, with a roadmap indicating when they'll be developed and brought to market.

You are likely to find that many of your customers have common pain points. This is a good thing because it gives you the opportunity to define a service product that addresses the needs of multiple customers. When you have multiple customers for the same service, you have a market!

Customers will be more likely to find budget authority to purchase your service if the service is directly relevant to meeting a business performance goal. For example, services which have an impact on meeting revenue targets, improving profitability, or increasing equipment utilization will get the attention of executives in the customer organization.

Services can span a range: from something as simple as making available a knowledgeable person to address unique customer issues on a time and materials basis, on through to services in which the provider is paid a fee based on performance (e.g., your customer experiences at least a 10% improvement in system performance). Or, you might have a goal to define a repeatable service, one that can be packaged and delivered as a standard offering. For example, a supplier of point-of-sale equipment might offer a service that at each customer branch location they'll install the system and train the customer staff. Often, services are the "glue" between the product that the customer has purchased and having it provide the greatest benefit to the customer's organization.

With a bit of luck, one of the pain points will clearly emerge as the most appropriate one to address with a service product. The choice should of course align with the business plans of your support organization. Once you've settled on a specific customer pain point to address, you're then ready to develop the service.

Service Definition

The second phase of the Service Development Lifecycle is Developing the Service Definition. During this phase the detailed characteristics of the service are developed. A clear, concise statement of service deliverables and impact will enhance customer satisfaction. Your customers will feel that their purchase decisions have less risk when they are confident that they know what they'll get for their money. Similarly, your organization will have more of an ability to resist scope creep during the delivery of the service, since the deliverables are spelled out. Very importantly, a well-defined set of deliverables will clearly identify an end point for the service engagement. Without this, the engagement can drag on and pull down your profit margin.

A number of methods can be used to define the service:

1. **Restate the customer pain point into an action statement.** For example, the customer pain point "the computing throughput of the software is too slow for

- selected applications" can become a service that "performs a systematic evaluation and tuning of 20 parameters to reduce system response time by at least 10%."
2. **Dissect the customer pain point statement.** The detailed points can then be used as the basis for the components of the service.
 3. **Define and bound the range of work to be performed.** Provide a detailed description of which product areas and interfaces will be examined. Similarly, mention those areas that *won't* be evaluated.
 4. **Develop a clearly stated definition for the completion of the services engagement.**
 5. **Develop a service methodology.** The methodology provides a consistent approach to be used by your field delivery personnel, ideally across many different services. At a high level, the methodology identifies the sequence of steps taken during delivery of the service.
 6. **Seek alignment with the goals and capabilities of other functional organizations in your company:**
 - a. Will you need engineering resources to develop your service?
 - b. Will you need the sales channels to commit quota and commission for taking on the sales effort?
 - c. Will you need to build staff within your support organization to be able to deliver and support the new service?
 7. **Define the roles and responsibilities of field personnel:**
 - a. Will the services be delivered by a "Professional Services" organization, or by the same organization that provides break/fix support?
 - b. Will there be a named Engagement Manager for each customer engagement?
 8. **Identify roles and responsibilities for your staff and the customer staff.** Identify any equipment to be provided by either organization, the decision making process, timelines, et al.
 9. **For higher priced, higher risk services, identify an executive sponsor for the engagement within the customer organization.** This person can remove organizational roadblocks, and work through problems.
 10. **Identify whether the customer wants a knowledge transfer to their staff or for your organization to provide operations staffing as well**
 11. **Develop an assessment of the costs to develop and deliver the service**
 12. **Decide whether to have a dry run deployment.** An alpha release of the service involves having it delivered within your own company before it is made available to end customers. A beta release is a services engagement with a friendly customer who agrees to provide significant feedback while the service is in the very last stages of development. These forms of pre-release testing are very appropriate when the service engenders a large potential impact, or risk, to your company or to your customers.
 13. **Craft methods to measure and track customer satisfaction.**

The service definition, together with the customer pain point statement for the customer, forms the inputs into the next phase: Marketing & Selling the new support service.

Marketing & Selling

The next phase of the Service Development Lifecycle is Marketing & Selling your new support service. This phase packages the service into an offering that can readily be communicated and sold by your company. If you've done your homework carefully during the proceeding phases, you'll have a very clear notion of target customer, customer needs (pain points) addressed by the service, the impact and benefits that your customer will experience from your service, and how the service will be delivered. If any of these points aren't clearly resolved, then it's essential that you return to the appropriate prior phase and resolve them before continuing on with this phase.

This is also the phase in which to develop a "business model" which identifies your financial targets, pricing approach, sales channel(s), channel selling, resource requirements, et al. The amount of time and effort that you put into the development of the business model is of course commensurate with the anticipated level of impact of the service product on your organization and the overall company.

The activities in the Marketing & Selling phase emphasize the customer facing issues for the service:

1. Select a pricing approach. Will the service be sold:
 - a. As a fixed price engagement?
 - b. Based on time and materials?
 - c. On a performance/contingency basis?
2. Develop a discount policy
3. Provide a standard sales contract
4. Create marketing materials that provide an attractive description of the service. This can include brochures, web site, articles, customer satisfaction stories, and many others. The materials should emphasize the way in which the service addresses the customer pain point.
5. Build customer awareness for your service via customer presentations, email notices, webinars, conference presentations, conference call briefings, et al.
6. Provide a fact-oriented summary of the service deliverables. The customer can use this as part of the purchase order to identify what they are purchasing.
7. Identify the type of sales channel that will be the best fit. As a minimum, the sales reps should be excited about the opportunity to sell your service product. The following is a sample of sales channel alternatives:
 - a. Leverage the existing sales channel and personnel used by your company. This will work if each sales rep will be effective selling the service. An indicator of appropriateness of this channel is whether the sales management will take on quota for your service product.
 - b. Shift an existing sales rep to become the company wide sales rep for support products. This can make sense if the service, or the customer usage, is especially complex, and carries a high enough price to cover the cost structure of a dedicated sales rep.
 - c. Use factory based telesales reps, ideally ones who currently sell support products like break/fix support renewals. This can be an incrementally low-cost way to start sales for a service that is a low-risk, low-cost customer purchase decision.
 - d. Sell through an indirect channel partner, for example, a VAR or a systems integrator. These channel organizations often look to services to differentiate themselves from their competitors.
8. Leverage an existing business development staff to also handle the your service product.
9. Train your sales and delivery channels on the service

Does your target customer currently purchase services from other vendors? If not, you may need to consider a more lengthy sales cycle, since there'll be a significant education time period during which the customer comes to see the value of your services and allocates budget.

Perhaps it goes without saying, but it is essential that what you describe in your marketing materials is in fact what your organization can deliver! If you respect your customers, you'll provide nothing less.

At the conclusion of this phase the customer signs a purchase order for the service.

Delivering & Supporting

The final phase of the Service Development Lifecycle is Delivering & Supporting the new service product with a customer. To use a well worn phrase, "the rubber meets the road" during this phase. If the prior phases have been implemented carefully, the customer has a clear understanding of:

1. The components of service that will be delivered
2. How the service will be delivered (e.g., engineers on-site from 8:00 AM to 5:00 PM every business day, or, once per month visits to install system updates and retune the system)
3. Prerequisites and requirements to be fulfilled by the customer before and during the services engagement
4. Who will deliver the service, whether jointly, or solely by your company. The management structure and reporting relationships for the engagement are clearly identified, with specified roles and responsibilities.
5. Service methodology to be used
6. Timeline & milestones
7. Payment terms and conditions
8. Client training and support
9. Warranty
10. Engagement closure

During delivery of the service is a great time to actively engage in the first phase of the Service Development Lifecycle: Identifying the Customer Pain Point. Your team will now have significant access to key audiences in the customer organization, who may be very eager to articulate their needs to a good listener. You'll then be on your way to developing another service, with a launch customer from the very beginning!

Conclusion

Services can be readily identified and brought to market by product support organizations. The Service Development Lifecycle provides a straightforward process by which to identify, develop and bring to market services that are unique and relevant to your customers. The right services will simultaneously enhance customer satisfaction and provide revenue and profit growth for your company.

About the Author

David Birnbaum is the Principal of Pacific Horizon Group, a consulting organization dedicated to enhancing the business success of product support organizations. David brings 20 years of consulting and management experience across a number of high technology industries, including enterprise hardware and software, computer storage, and semiconductor capital equipment. His consulting engagements have included strategic and tactical plan formation for services and support products, business strategy development, and the management of corporate alliances. He can be contacted at david@pacifichorizon.net

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