Drivers of change for organisations around service over the next 3-5 years

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for Engine Service Design

Foreword by Joe Heapy

Futures@Engine
## Contents

Foreword by Joe Heapy, Engine Service Design  
1. Summary  
2. About this report: what is it and who is it for  
3. Background: The turn to service  
4. Drivers of change facing organisations related to service  
5. Drivers of change relating to service-centric organisations  

### Appendices  
A. List of interviewees  
B. Resources accessed  
C. Approach to understanding drivers of change
Foreword

The role of services in our lives and what we should expect from them has never been such a hot topic. People continue to expect more for less. Consumers are organising themselves at scale to provide services to each other without reliance on formal organisations. The big issues: the economy, our almost total reliance on technology and speculation on the impact of climate change are shaping legislation, lifestyle and consumer choices. All of this has implications for the design of services and organisations.

Having established Engine as a business designing services for organisations across sectors we’ve become increasingly interested and involved in the impact of organisations on service design and delivery. Our work at Engine over ten years has taught that great services need great organisations and that designing services is an organisational challenge. Today we apply design thinking and design method to business challenges at many levels from the design of experiences through to the development of teams and the skills to design collaboratively and in response to customer need. The subject for design has extended beyond the service product to the people, processes, purpose and culture of organisations.

Models of business and the nature and management of organisations are evolving rapidly with implications for their staff as well as consumers. Today, informed by the challenges faced by our clients, we have a chance to ask “what next?”. This report commissioned by Engine and carried out by Lucy Kimbell looks to capture the significant drivers that are shaping the contexts and opportunities for business and service design.

Although a great deal of market intelligence exists, the link between this intelligence, larger trends and the response of organisations seem less well documented. This report does not in itself have the answers, it doesn’t draw conclusions or fix Engine’s point of view. Its specific purpose is to stimulate discussion and debate in organisations by drawing together published research and insights from 11 interviews to identify the significant drivers for change.

If you read nothing else, read the short summaries of potential drivers in the summary. Have a think about which stand out for you in your work and which you feel have the greatest global impact. If time is short, prioritise those drivers that seem the least clear or are new to you.

Joe Heapy
Director, Engine Service Design
Section 1 Summary

About this report

This report is for managers and others in organisations interested in understanding the opportunities and issues around services over the next 3-5 years, whether they are in firms traditionally thought of as service organisations or not.

The aim is to stimulate discussion about the futures of service organisations by analysing and describing key future developments or “drivers of change” on all UK organisations concerned with service.

It does this by categorizing and synthesizing three types of research: 11 especially commissioned qualitative interviews with individuals working in large organisations in banking, IT, consumer brands, the public sector, and also professional service firms and academia; recent academic literature in particular on service management; and commercially available reports on several service sectors.

Key messages

Service is not seen as a novel concept, but what service means for customers and for organisations has changed and will continue to change.

Drivers of change relating to all organisations around service are:

1. Creating differentiation for manufacturers through service: service-centric marketing creates platforms for service and self-service
2. Relating and connecting: constructing meaningful data-driven dialogue
3. Opening up: boundaries of organisations are redefined as users become participants and co-producers
4. Scrutiny and dialogue: engaging with customers and users; and accepting greater scrutiny in return for greater intimacy
5. Time matters more, but whose idea of time?: delivering service in near real-time requires re-organising
6. Sustaining what matters: relating to key social and public questions

Drivers of change relating to service-centric organisations are:

1. Redefining value through designing service: what good service means is changing and what it means is different for different customers and users
2. Cost-cutting as an opportunity to improve and innovate in service: rethinking what service means because what is out there is unsustainable
3. Designing product-service ecologies: delivering service with multiple actors across the boundaries of firms
4. Becoming service-ready: *integrating front and back office in near real-time*

5. Evaluating services: *describing value created across the boundaries of organisations.*
This report identifies and describes key developments relating to changes in the ways organisations will go about designing and delivering services over the next 3-5 years. Its purpose is to provide an analysis of important developments in a wide range of contexts that are already shaping how service organisations engage with their end users, customers, stakeholders and partners within a wide ecology of organisations and individuals and against a backdrop of economic and ecological uncertainty. Like any such report it is necessarily cautious since the future is unknowable. However by combining recent academic research, commercial reports on trends in several markets and specially commissioned qualitative interviews, the report synthesizes evidence from a range of perspectives concerning service in contemporary, developed economies and societies including business, public service, technology, environmental and socio-cultural change.

**Who is this report for?**

It is for managers, designers and other professionals working in, with or for service organisations in the widest sense including those with specialisms in customer service, strategy, marketing, technology or operations.

**Who produced it?**

The report was commissioned by Engine Service Design. Engine specialises in service innovation, research and design and has a unique expertise in identifying when, where and how to improve the people, products and processes required for the efficient and effective delivery of a compelling customer experience. Engine takes a highly collaborative, holistic, user centred approach and works across many industries, channels and touchpoints, with multi-disciplinary client teams from operations, marketing, innovation, new ventures and research units. As a leading organisation in the emerging profession of service design consultancy, Engine has commissioned this report to understand the future challenges for its clients.

The report has been researched and written by Lucy Kimbell in close collaboration with Engine. Lucy is an independent researcher and an associate fellow of Said Business School, University of Oxford where she has been researching service design and innovation and teaching on the MBA since 2005.

**Research methodology**

The approach to research that informs how this report was created is based on the idea that the truth is not “out there” to be discovered but is something that we are involved in constructing. The analysis developed iteratively during the data gathering phases, during which the categories described below emerged. Primary research included 11 semi-structured interviews.
with individuals from different kinds of organisation. Secondary research included a wide range of commercial market reports, drawing on surveys, interviews and quantitative data. These were considered in relation to recent academic research on service, some of which is introduced below. The report does not focus on quantitative data. Where quantitative data are quoted, these are from secondary sources.

Scope
The geographical focus is primarily the UK and western Europe. Some of the reports consulted had a US focus, some had a European focus and where relevant these distinctions have been reported. Similarly the people interviewed were all based in the UK or western Europe, mostly working in or for large organisations operating in global markets.

Limitations
This report is shaped by the worldviews of its author and the other people involved in creating it. Although we have made efforts to think in broad terms about established concepts such as “service”, “design” and “organising” so as not to overdetermine how to think about future developments, nonetheless current terminology and practice have shaped the analysis. Secondly, the selection of the 11 interviewees and the reports read already provides a particular way of framing what it was that could be researched.

Thanks and acknowledgements
The author would like to thank Joe Heapy and colleagues at Engine for their input and guidance and the interviewees for making themselves available.
The idea of service being important to organisations is not new. Since the 1980s, talk of service industries, levels of customer service, and more recent questions about the role of the citizen in relation to public services, mean that professionals in different kinds of organisation already know that service design and delivery matter strategically and operationally.

However developments over the past decade have pushed ideas of service to the forefront of a number of fields – in contemporary businesses, public service and third sector organisations, and among professional service firms in technology and design. The context in which this report has been researched and written is not that the idea of service is new, but rather that what service means for customers, users and organisations has changed. It will continue to change over the next few years and this report suggests how.

Discussions of service are also increasingly evident within academic research including within management and information systems fields, although there is not space here to describe these developments in detail. An example is marketing researchers Steve Vargo and Bob Lusch who identify a shift to what they call a “service dominant logic”. Instead of a goods-dominant logic which sees firms as producers of value through selling “products” (or units of delivery) driven by value-in-exchange, sometimes with “service” as an additional variable, service-dominant logic sees the fundamental basis of market as relational and value created in use. Firms are seen as platforms of resources and competences, which offer service (in the singular) to one another, within which physical goods may play a role.

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A key idea here is that the production/consumption model associated with industrialisation has been replaced by one in which all kinds of firms are seen as co-creators of value as they integrate resources by creating service platforms in the pursuit of their goals. This shift to service sees firms as more tightly wrapped up with one another and with customers. Like other forms of academic research, management literature is describing what has already taken place and is therefore retrospective. But these concepts can help us understand current developments as we speculate about the near future.

So in a context in which the idea of service being important is not new, but what service means to organisations, individuals and society at large is changing, the aim of producing this report is to help stimulate thinking and discussion, by

- Surveying existing knowledge, both published work and knowledge accessed through interviewing key individuals;
- Analysing what has been changing; and
- Proposing what is likely to shape further change by identifying key “drivers of change” that interrelate with one another.
Section 4

Drivers of change facing organisations related to service

This section considers developments shaping the environment for all organisations in the UK, not just service organisations, in relation to service and services. The following section then focuses on organisations for which service is central to their strategy and operations, such as public and financial service organisations although this does not exclude firms more traditionally thought of as manufacturers.

Drivers:

4.1 Creating differentiation through service
Organisations move to service-centric marketing, including those manufacturing physical products or technologies. Non-product service firms and the public sector develop new models of service including developing platforms for self-service and keener differentiation between types of service. As people have got used to developing new skills from using the web, mobile phones, software and apps, this is changing what organisations expect from technology.

From product marketing to building relationships through service
The concept of service is changing. Firms in many different industries are rethinking the nature of their offering and using ideas of service to do this. For manufacturers, competing on cost is no longer sufficient to guarantee long-term survival which has implications not just for customers but for organisations and their partners and suppliers.
“You’d be very surprised who is moving to services when they are in a product business which is shampoo or margarine. There’s a huge aspiration in a lot of our clients to move to services. We have to work out how to configure our technology and to not just make the technology systems more efficient or greener, but to allow them to bolt on very different things including different business models and move into a service arena. It’s about configuring technology and it’s about educating people about what a service is and how to design for that.”

Customer Experience Consultant, technology firm

Consumer electronics firms, for example, are moving towards services including the provision of media content as are large software and hardware companies. Against the backdrop of the global recession, cost competitiveness, technological innovations and emerging markets are the key drivers of transformational growth in electronics and a shift to thinking about services. (Business Insights: The Top 10 Consumer Electronics Manufacturers, 2010).

“Manufacturing firms in developed economies can’t compete on cost. Therefore they have to compete on value added. So they have to innovate and one of the things they are coming up with is innovating in services. So they are saying if they can add services in some way to their product, they can provide a more valuable offering to their customers and won’t get caught up in a cost competition model and will be able to compete more easily with the low cost countries.”

Service Researcher

For other firms, the strategic reason to turn to services is as a result of market maturity, for example in complex engineered services. According to the service researcher: “Where the product has a long life cycle such as rolling stock that might last decades, and when the installed base is now quite large for their products, engineering firms are looking at the aftersales and support services, and seeing there’s a big market to go after and this is behind the shift to services.”

Many organisations try to put the customer at the centre of the organisation, but the focus on service brings new attention to the combination of people, process and technology backstage.

Changes in service for “pure” service organisations

Offering a high level of customer service is a differentiating tool in acquiring and retaining customers in markets where there is little product differentiation and prices are highly competitive. Many organisations try to put the customer at the centre of the organisation, but the focus on service brings new attention to the combination of people, process and technology backstage. (Business Insights: The Future Customer-Centric Organisation, 2008).

Within financial services, customer service is an important differentiator. According to the head of customer experience in a global bank: “In our industry the products that we deliver are commodities so it’s much more about differentiating at the service level not only in execution but also communication relative to other financial services firms. Not only against competitors but also the services we deliver across different segments. But many banks still do one size fits all.” However the difficulty of judging the standard of customer service offered by different firms is likely to be a major reason for consumers’ inertia (Mintel: Technology and the Internet in Financial Services, 2010).
One of the shifts in several industries, now appearing in the public sector, is thinking of public services as a platform for self-service, not simply to reduce costs but as part of supporting community development.

“The interesting question is what’s the role of technology in enabling people to help themselves, connecting people to people in ways that public service can take advantage of as part of community development in which people are helping each other in neighbourhoods.”

*Assistant Director, customer service, local authority*

**Technology as a consumerised service**

Within IT services, the rapid changes of the past two decades continue but the new focus is a shift in knowledge, expertise and user practices. Service is becoming an important concept in some IT firms with the shift to software as a service enabled by dispersed, multiple platforms serving applications rather than selling software products. A strategy consultant at a global software firm describes how his firm has moved from selling technology. “The core conversation is about how do we translate that technology into business impact so that we are not selling technology, but the promise of what it can do?”

With the consumerisation of technology, many employees owning multiple devices at home who bring some of them into work. This is raising questions about enterprise-scale technology. This has implications for how IT departments go about serving their internal and external customers, according to an interviewee who consults on technology strategy.

“Moore's law has been true for hardware but not for enterprise software. Software in corporate organisations costs more than computers it runs on but if you bring in consumer expectations who are used to seeing costs of software going down, with the shift to apps, for example, then this brings some questions for IT departments. Enterprise software is very powerful, very complex and hard to manage and scale but apps at the consumer level are free or low cost and are integrated with services. So all this is changing the way people are thinking about technology, changing the way the IT department works and it's going to result in a fundamental shift in organisation design as IT departments shrink in terms of size and costs.”

*Strategy Consultant, software firm*

**4.2 Relating and connecting**

As organisations focus on initiating and sustaining relationships rather than selling things, managing becomes a question of constructing meaningful dialogue. Gathering data and using it to support dialogue is central to organisational work. The types and amount of data, including data from the “internet of things”, creates opportunities to relate to end users and customers in new ways.

**Organising as dialogue**

The trend to building long-term customer relationships is accelerating, according to one technology consultant focused on customer experience. “The business model of
selling products is not sustainable because of commoditisation, churn, and disloyalty among customers. Almost every company I’m working for is building lifelong customer relationships. The whole effort among my clients – banks, supermarkets, or large product manufacturing organisations, is how to change business models to be more about loyalty and relationships. Social media is something they are grappling with, how to form a dialogue with customers so that they have a tool to have a relationship with them and for sustainable business.”

In order to engage in these dialogues and sustain relationships with customers, organisations are re-designing internal processes and technologies to get much more data about customers and use this data to drive what the organisation is delivering. Understanding what customers value or find meaningful within these relationships is key, using both quantitative and qualitative data, as is developing ways of constructing dialogue².

It is no longer just large organisations that are making investments in technologies and processes to relate differently to customers. Small and medium sized enterprises are increasingly investing in CRM solutions linking front and back office functions, although they are more likely to use off-the-shelf solutions which are cheaper and less complex. Spending by small and medium businesses on enterprise applications is expected to overtake investment by large organisations in 2010 (Business Insights: The Top Ten Enterprise Applications Vendors, 2008).

Data everywhere, anytime

Technology developments including cloud computing, digital convergence, and the continued broadening of access to broadband and mobile are leading to changes for all organisations by enabling more frequent connections between customers and organisations, and between customers and others. The global uptake of mobile broadband is expected to overtake fixed subscriptions in 2011, and will grow from 152.1m in 2008 to 1.9bn by 2014 (Business Insights: The Future of Digital Home Entertainment, 2010). Digital content will no longer tethered to the home as sales of smartphones with bigger capacity and new features continue to rise. The popularity of mobile telephony is expected to continue to rise. By the end of 2013, there will be over 5.6bn mobile connections worldwide, a 68% increase over 2007 levels (Business Insights: The Future of Digital Home Entertainment, 2010). Mobile technology gives firms the chance to embed themselves in customers’ day-to-day lives (Mintel: Technology and the Internet in Financial Services, 2010).

Shaping this development is the new practices around information and search that people have already got used to. For the innovation consultant working in the construction sector, these changing practices result from people’s habits in one arena impacting on what they do in other areas of their life.

“There is the expectation about the ability to be able to access information which is one of these trends people have got used to. People are now used to using Google to get information, and now with smartphones, you can get information at any point in time. So it changes the way you expect to have access to resources.”

One of the new developments is not just access to others’ data but access to one’s own data as people move around in the their day-to-day lives. The “cloud” is the term given to the idea that users will access, store and retrieve data (including their own), or utilize software and services using multiple devices supported by many fixed and mobile platforms (Business Insights: Consumers and the Cloud, 2010).

Data from things too

The availability of digital data nearly everywhere is changing how people relate to the built environment and also what sorts of activities municipalities and urban service providers can offer. The construction sector innovation consultant describes the emergence of softer infrastructures in cities that his firm is researching in which data is gathered by sensors of different kinds and made available. “City officials are starting to understand that the ways that people are going to interact with the built environment are softer interactions. Previously they’ve talked about hard infrastructure like roads, water, electricity, gas, and utilities. Now with the development of the internet and the newer internet of things, you are getting people talking about experiences and services that people are having in the city. You are getting city officials wanting to explore the ways in which they can engage with citizens in the city in different ways, and that can be through providing them with new services and also trying to influence behavioural change such as reducing energy use and waste. All of this in some way is being driven by the fact that data is becoming available publicly.”

One interviewee points to IBM’s smarter planet initiative as a leader in this work 3. “The notion is that the world is becoming more instrumented, with more sensors collecting data at a much more disaggregated level, and increasingly connecting those with wider networks. If you can join that data up sensibly and get some insights from it then the world can become more intelligent. Those three ideas are at the heart of it - instrumented, interconnected, and intelligent.”

Touchpoints – more and more, or fewer and fewer?

As digital, human and material touchpoints with which customers connect to organisations proliferate, and the number and type of devices and technologies they use increases, and frequency of contact increases, customer engagement becomes more complicated. There are many more data points to be monitored and assessed and different interactions to be designed to leverage particular technologies. The head of customer experience in a bank said that service organisations are still not clear which kinds of service work best for which touchpoints.

“As technology plays more part in people’s lives I think that financial services and other firms need to understand how to deliver service through different platforms. Although some have social media strategy, it’s not clear what types of services you can deliver best through those channels. When you think about a touchscreen iPad, for example, how do you deliver the service component leveraging that technology? That’s something many firms are not tackling well yet.”

Head of Customer Experience, private bank

Similarly the expected growth in implementations of CRM and other technologies results in many more processes within and at the boundaries of organisations. This move towards complexity has implications internally, for example for IT and support systems, and for customers who have to navigate the expanded boundaries of firms. Moves to simplifying the interfaces with organisations have become important initiatives.

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This expansion of touchpoints allowing consumers to engage with organisations and with one another is not a clear case of customer empowerment. Research suggests that a key downside of the new connectivity is confusion. For example, three in ten UK consumers find it confusing to search online for the best deals and special offers, whilst 12.9 million admit that they sometimes get bogged down in research and many people rely still on face-to-face advice from friends and family (Mintel: Empowered Consumer, 2010).

Even this growing attention paid to customer journeys across organisational touchpoints delivered by multiple platforms is not a fixed horizon but is itself a shifting ground. The brand director described new developments she saw in her group: “The big trend I’m seeing is that whereas before we mapped a customer journey through touchpoints in our organisation, that’s needing to happen less and less. Those touchpoints tend to be managed by different silos which makes customer journey planning so difficult. What we are seeing now is that some of the teams are creating apps that can work on smartphones which can almost take you through the whole customer journey, if we get that app right.”

The growth in touchpoints and multiple, dispersed connections with customers over time and space is leading to challenges between teams within organisations. One interviewee who helps clients develop social media platforms said that the distinction that exists in many organisations between branding teams and service teams will change. “Brands and services should live hand in hand. The brand promised should be the service delivered. People are doubly disappointed when the service doesn’t deliver.”

4.3 Opening up

The boundaries of organisations are redefined as they open up to design and co-production. Engaging with users, customers, stakeholders, regulators, citizens and many others reinforces how many actors play roles in co-creating value in service. Powerful customers drive what firms offer. Self-organising citizens build new structures for sharing and service.

Get to know me, get to know us

Closer interactions with and knowledge about the wider ecology of service mean that organisational boundaries are redefined. Organisations are opening up to end users, customers and others, and vice versa as both become co-creators of value in service contexts. Even industries which have not had to think about the end user are beginning to want to understand how users – who are not the customer – engage with the work they produce, for example in the construction industry, according to an innovation consultant working in that sector. “The reality is that we are designing spaces that are inhabited. We are getting more aware of this and trying to go back into the environments we create and capture information about how they have performed and that is so we can design the experiences better.”

But opening up organisations to end users and seeing them as participants requires organisational change including the development of new competencies. This is producing opportunities for firms who are delivering technology to B2B clients who are ahead in understanding the transition from customer-centred product organisations to delivering services that are co-created, according to the customer experience director of a technology firm. “Over the past 10 years, the role of the customer has become much more powerful in terms of driving innovation, not just levels of service. Now they have to redraw what the service architecture is. The issue is what’s the organisational change they have to make in order to deliver services? We talk about collaboration, getting people to work
efficiently, cross organisation working, cross disciplinary working, and these are mostly new for most of the large companies we work for."

**Share the risk and don’t let me down – or else**

The traditional distinctions between end users, customers and other influencers are breaking down as what matters more is how different actors participate in service. In some contexts, individual organisational customers remain important. For example, the services researcher makes a distinction between large, powerful customers in B2B contexts and consumers.

“Some of the shift towards services is led by organisations, some of it is led by powerful, large customers. For example in aerospace, customers are now saying to the aerospace companies they deal with, we don’t want to buy equipment from you any more, we want to buy a capability that equipment delivers. You must own it, maintain it, you must make it available for us to use when we want to use it. And therefore the manufacturers are saying we no longer hand over a bit of kit and we’re done, now have to provide the service and support of this kit as it is used for its life. I’m less convinced about consumers. Individual consumers may come up with interesting ways in which they would like to do things, but they rarely have the ability to influence the ways large organisations do things.”

*Service Researcher*

But outside of B2B, informal self-organised groups such as mumsnet, a website for mothers, are already having an impact on public and consumer services. The brand consultant argues: “Customers have much more power and they can get on the internet and can broadcast what matters to them much more quickly. People can shop around for an alternative and firms can be held to ransom.”

**Sharing and using, not owning**

There is a growing shift towards modes of usage that are not based on ownership. For some people, reassessment of their personal values, desire to feel part of an expanded community of likeminded-people and reduce carbon impact is part of their shift to sharing. For example, research into collaborative consumption is seeing growing numbers of people using peer-to-peer websites to make available assets such as cars and homes available to others, evidence of a shift to “collaborative consumption”. For others, the motivations are partly economic and partly cultural. For example, research on trends in car ownership suggests that younger people are less concerned with owning cars but are more concerned with expressing fashion and glorifying transience by renting (Mintel: *Motoring Through the Lifestages, 2009*). Social enterprise models develop in response to these developments and aim to construct new kinds of value.

For others, ownership becomes less important as long as access to what they value is assured. For example, the brand director sees some consumers as less bothered about owning music and movies on a hard-drive at home as long as they have access through the network wherever they are. “There’s a trend in which the mobile device is even more of a limb to people. The way they interact with information will be platform and device agnostic. … You’ll be able to access information and content at any point through any of those systems. People are not going to worry about owning music and movies, it’s all

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going to be cloud and access based. The focus will be how quickly I can get access to what I want, not what have I got on file at home. That no longer matters to be because I can get hold of anything anywhere.

4.4 Scrutiny and dialogue
Informal and formal supervision and oversight increases, from regulators to groups of citizens. With many individuals and organisations making and publishing media, many more stories and accounts are made public, commented on and shared. Organisations and customers engage in near real time and in public.

Someone is looking

Within several industries, including financial services, utilities and telecoms, regulatory pressure has already shaped customer service alongside shifts in public opinion in response to the financial crisis of 2008 (Mintel Technology and the Internet in Financial Services, 2010).

“Because of the financial crisis, not only are financial services clients demanding more transparency in a service but also regulators are as well and increasingly so. That means transparency around fees, risks, and benefits associated with a service. This becoming more and more complex, and as you look at different client segments, some are demanding more than others as you move up wealth spectrum. In addition corporates are demanding more transparency around the services they receive as they have additional regulators on their back requiring more paperwork.”

Head of customer experience, private bank

In healthcare, too, negative public perceptions of health insurers, pharmaceutical companies and healthcare providers are fueling a push for transparency and honesty (EMarketer Online Healthcare Empowers Consumers, 2010). However the regulatory and consumer pressures should be seen as part of a large context in which there is continuing trend to hold people and organisations to account, and for people to also do this within informal settings too, what academic Mike Power calls the “audit society” 5. It is not only regulators who are looking at what organisations are doing. Informal structures such as the website wikileaks are also now actors within the culture of accounting for and to one another.

One of the implications of the new openness forced on or taken up by organisations is having relations with customers in public. One interviewee gave the example of the help service provided by the US firm BestBuy using twitter 6. “This involves pushing customers to tweet their issues and then the twelp team pick it up, with around 2500 people in this team. Their response time is two minutes to each tweet from a customer. I thought that was the most insane customer promise I have heard and a long way from where my firm is. But it’s a really interesting example of a social media channel having a big role to play. Your customer journey is no longer between you and the customer, it’s all out there in the open for everyone to see.”

Everyone makes media now

There will be further changes to the ways media are created, stored and engaged with. For

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6 http://twitter.com/TWELPFORCE
non-traditional media organisations, digital technologies and social networks have already provided new ways of relating to customers, but in addition to these connections there are a range of organisations producing and supporting media. One way of thinking about this development is to distinguish between media types. Paid media is advertising inserted next to another’s content; owned media is brand-created content; and earned media is getting someone else to provide content about a brand (EMarketer Brand Marketing Online: Paid, Owned, Earned, 2010). Organisations will increasingly blend ingredients from the three kinds of media: paid, owned and earned, whether they are traditional media players or not.

For organisations that are media specialists, this presents new competitors alongside the challenges of understanding the value of media when data is increasingly available everywhere. The creative director at a media organisation says: “The availability of all media, and the ability to consume media everywhere in some senses devalues media. One of the key things the media industry has to deal with is how to bring the value proposition back to media. Why download media from your website or read your newspaper. “ And since broadcasters have lost their privileged position as shapers of culture, this raises a challenge for traditional media organisations. He adds: “The person to person social aspects are shaping media so it’s no longer broadcasters who are dominant - they have lost control. Broadcasters used to be very careful about what they put out there and guided everyone’s consumption. With social media the broadcasters and media organisations are no longer driving everyone’s consumption, it’s more about the crowd and social networks.”

4.5 Time matters more, but whose idea of time?

Gathering data from and about customers, and responding in near real time requires new ways of organising. Different ways of perceiving time between and among organisational functions and teams leads to conflict.

Real time data driving fast feedback to customers

Things continue to change, fast. The brand manager points out how fast things are changing in developed, competitive markets which is putting pressure on organisations to respond quickly. “Think about how much life has changed in the last five years. The big brands are now Apple, Facebook and Google and maybe Twitter and few of them existed 10 years ago.”

An example of the near real-time nature of the way some organisations respond to customer complaints supported by networked technology came from one of the interviewees giving an example of an airline.

“When customers get onboard and find they’ve got an issue that needs addressing, such as not having the seat or meal they want, because there’s wifi onboard, they tweet that. The resolutions teams pick that up and resolve it back to the aircraft. Sometimes they tell the customer that they might want to ring the call bell to get help from the staff onboard. But sometimes they will speak to the crew on board and the customer can be blown away, and it’s all happening in real time.”

Group Brand Director
Drivers for change for service organisations | © Engine Service Design and Lucy Kimbell 2012

Faster feedback requiring agile organising

As the organisational environment changes, so too do organisations who have to develop new competences to be able to develop and sustain their relations with other actors within a service ecology and respond much faster to customers and others.

“In the past when the world was about push, the granular understanding about consumers’ requirements was less of a priority. But now it’s all about dialogue, and that dialogue happens in much faster time, service delivery needs to be much more agile and flexible in the manner in which it delivers for the consumer and recognising that insight needs to be more to the forefront in responding to the needs of the customer.”

Customer relationship and marketing lead, global business consultancy

Conflicts about different understandings of time

Although many organisations move to build and sustain relationships with customers, different parts of the organisation may not understand or be ready for this change. An important development here is how different temporalities play out within the existing competences and practices within organisational silos. One interviewee in a media organisation described how what he called “product thinking” was dominant in his division, with business managers focussed on short-term objectives and adding features to media “products”, rather than thinking about what the organisation was offering to audiences and users within their own contexts over longer time frames evident in other parts of the organisation.

4.6 Sustaining what matters

The purposes of organisations continue to be questioned as they find ways to relate to key social and public questions about sustaining community, place, well-being and the ecosystem in a context in which economic growth is far from certain.

Sustaining community

With the emergence of corporate social responsibility in the last decade, and recent discussions about the role of the state, the meaning of community and citizenship are being rethought, with room for a wide number of organisations, groups and individuals to participate. Public service organisations are challenged by expectations resulting form the legacy of the ideas of the welfare state, at a time when economic growth is unsure and recent government cuts are forcing significant change. Current patterns of social demand could see public spending rise to over 50 per cent of GDP by 2030 (quoted in 2020 Public Services Trust, 2010). These estimates suggest that meeting the costs of the UK’s ageing society and abolishing child poverty would alone require an extra four to six per cent of GDP to be spent on public services over the next two decades. But recent investment in such activities have not brought the social returns expected which is leading to rethinking the basis of public services in the medium term (2020 Public Services Trust, 2010). The UK government’s Big Society agenda is one approach to rethinking some of these questions, and commercial and third sector organisations are able to play a bigger role in sustaining community.

“The UK will continue to offer the market opportunities of a rich, developed country but... this will be diminished by... relatively high unemployment and fiscal austerity.”
Sustaining place

The idea of undifferentiated globalisation is being challenged as people connect more deeply to the places and communities they are part of or want to be engaged with. One aspect of this is the continued importance of the home and the changing role of media technologies within it. The amount of time people spend in front of computers, watching TV, using videogames and mobile devices continues to grow although some of people’s involvement with others is increasingly mediated by touchscreens or buttons and screens (Mintel Home Lifestyles, 2010). With geolocative media embedded in electronic devices, place is seen to matter more. Within public service, place-based commissioning will become a new focus, engaging cross-organisational teams in planning, scoping and designing public services in relation to and in the context of specific geographically-based communities rather than determined by top-down central government priorities (2020 Public Services Trust, 2010).

Sustaining well-being

Growing interest among individuals, families and the media in well-being is matched by public sector organisations and among private providers in disease management wanting to control long-term costs of treating chronic diseases. To manage increasing medical costs, private providers will explore the use of new tools such as population assessments to identify risk factors among patients and customers (Business Insights: The Private Health Insurance Market in Europe, 2010). The recent strong emphasis on providing patients with better customer service levels, is leading to organisations trying to free up healthcare-related staff as outsourcers take on all periphery customer-facing roles (Business Insights: The Future Customer-Centric Organisation, 2008). But it is not just traditional providers that are involved in healthcare. Increasingly, wireless and mobile platforms provide new ways to access information, driving a new generation of healthcare communications, devices and services (EMarketer Online Healthcare Empowers Consumers, 2010). In the future, “patient-centric” will refer to the fact that instead of patients going to the doctor for care, patients will pick when and where they want to access healthcare services that is convenient for them, whether that is in the office, through online video conferencing or email or via self-service. Online solutions increase access, improve quality, decrease costs and empower patients (Ovum: The Internet is for Healthcare, 2009).

Sustaining economic growth

Over the next few years, after more than a decade of growth which ended abruptly with 2008-2009 financial crisis, economic uncertainty will remain an important issue. There will continue to be cost pressures and limited economic growth in the UK and Europe while the economies of the emerging markets and BRIC countries will be stronger than Europe (Economist Intelligence Unit 2010).

“There are people are saying they can use services to change the nature of the relationship between the provider and customer and in doing so have an impact on environmental performance.”

“...this will be diminished by consumers’ weakened spending power, as highly indebted households seek to repair their balance sheets against a backdrop of relatively high unemployment and fiscal austerity. Ageing demography will support demand for healthcare, transport and leisure. Rising inequality and changing consumption patterns mean that the best opportunities are at the lower and upper ends of the consumer market.”

Economist Intelligence Unit, June 2010
On a UK level, the recent government spending review with its aim to cut spending, increase efficiency and reduce reliance on the state has only just begun to be digested. Fiscal constraint is likely to remain an important shaper of economic activity by cutting national and local government spending, with unknown impacts on the UK economy (2020 Public Services Trust, 2010). Meanwhile public service organisations as well as commercial firms will increasingly take note of and engage with the UK demographic shifts to an older population and increasing numbers of people with chronic illness. (2020 Public Services Trust, 2010).

**Sustaining ecological systems**

Although the scientific consensus is broadly clear about developments within the timescale of this report⁷, the ways that individuals and organisations of different kinds will respond is not. The UK is committed to reducing carbon emissions by 29 per cent by 2020 and all greenhouse gases by 80 per cent over the next 40 years (quoted in 2020 Public Services Trust, 2010). But it is not clear how proposed public and private investment, research and experimentation will lead to meeting these goals. Discussion about new business models and services is increasingly linked to new behaviours and ways of doing things. The intersection between the wider environment and services is in two areas. Firstly, the idea of “ecosystem services” and secondly how organisations are thinking about services as a way to respond to climate change. Ecosystem services is a term that tries to capture the economic and social value of ecological resources which, until recently were not accounted for using conventional economic models for which they were considered externalities⁸.

From an organisational perspective, climate change is one reason why some firms are shifting towards a particular way of thinking about services.

“There are people saying they can use services to change the nature of the relationship between the provider and customer and in doing so have an impact on environmental performance. If you take the answering machine, we used to all have them in our homes. But now telecoms companies are providing an answering service which eliminates the need for the bit of kit called the answering machine, which consumes less resources. Various organisations are thinking about how they might change the nature of their offer.”

Service Researcher

However the growth in luxury services to some extent counters these developments, suggesting that service is not necessarily a way to reduce carbon impact. The convenient service provided by online retailers may drive consumption of goods.

Some brands are already finding heightened consumer expectations about what firms are doing to reduce their carbon impact. One interviewee responsible for a global brand said that getting sustainability right was now an important component of what customers expect from the organisation. “As a company you are supposed to get the basics right and not just the basics but also the sustainability. You won’t even get to basecamp unless you have got those things right.”

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Section 5

Drivers of change facing service-centric organisations

What good service means changes and it means different things for different people. Organisations shift to being platforms for service co-creation and have to work harder to engage customers.

Drivers:

5.1 Redefining value through redesigning service

Service has become a key way to enable firms to differentiate and innovate, but what good or excellent service means is undergoing change as knowledge about customers becomes more nuanced. For consumer brands, for example, service has for some time been understood as a differentiator but what customers expect from organisations is changing. The consumer brand director explains how the bar has been raised for what service firms are expected to offer.

“We have had the years of excess and mass consumerism and now gone through recession and now people are worried about the future of the planet. The way people are consuming and interacting with brands has sharpened up. So there isn’t that level of engagement any more. Five or 10 years ago when we asked what good customer experience was, people used to say to us, ‘I like to feel special and be treated with respect and a company that’s friendly.’ Now they say, ‘Just get it right first time and if you don’t, fix it first time.’ They are disengaged so their expectations are higher but the rewards are lower.”

Group Brand Director

But these changes are not just facing consumer brands. They are also evident in B2B
context in which there is a shift to seeing organisations as platforms for service.

“This is the idea of organisations and services as platforms over which suppliers and buyers find one another to co-create value. This already exists in for example credit cards but now we are seeing it with apps on different platforms such as the iPhone and android. … Value co-creation points to the need to bring resources together at key touchpoints and understand the capabilities, work routines, technologies, processes and people that come together.”

Service Innovation Consultant

For public service organisations, which in many cases are serving customers or users who do not have a choice about providers, these changes in consumer services are resulting in higher expectations at a time when they are cutting costs. “You can't move in public services without taking account of the cost implications. For local government any investment in customer service has to show a financial return as well. The other drivers around customer service are for those things where the customer can self serve to make that as sharp, as quick and as easy to be very clear where you are encouraging the customer to self-serve and where we can put the extra resource to wrap services around the customer.”

5.2 Cost-cutting as an opportunity to improve and innovate in service

Organisations facing significant cost pressures can rethink service design and delivery since what happens at the moment is unsustainable.

Given the current economic uncertainties, there are cost pressures on many organisations, although in the public sector this is most acute. But going forward, for some organisations these cost constraints can be an opportunity to rethink and redesign service. However only the most innovative organisations are likely to take this up. The assistant director responsible for service at a London borough council presents it as follows:

“The opportunity is to say, we simply can't operate in the new financial regime in the same way that we have in the past. We can't take out a quarter of the budget and deliver the same sort of services. You have to fundamentally redesign things. That's the logic of where we are but the pressure of where we are, is just to cut costs. Investing in a redesign of services is an investment, it does cost in terms of time and resources and risk and it's not self-evident what the return is or what the timescale is. So the political pressure is not to redesign but cut bits off what you do and stop doing some things.”

Assistant Director, customer service, local authority

5.3 Designing product-service ecologies

A new focus on delivering quality service requires designing complex product-service ecologies in which many actors are involved.
One of the emerging competences is in assembling partnerships and suppliers in order to deliver a complex service across diverse platforms. Organisations with skills in supply-chain management have some of these competences. Ideas such as service platforms, co-creation and fast feedback loops suggest new ways to organize. The academic services researcher says that the design of the product-service system is often not well done in B2B contexts.

“In engineering firms, they are making very sophisticated technology-intensive products and they have engineers who are good at designing products but the service system often seems to be a bit of a bolt on. It’s a responsive system but not particularly in a positive way, not systematically designed or deployed. They scramble around to make sure the service works in a way they would never dream of doing when it comes to designing the actual product. The design of the service-system is not that good particularly in the B2B context. And one of the reasons is there hasn’t been much work on how you design complex service systems. If you look at the academic literature there is a lot of work on the design of service in the B2C world such as hotels and hospitals but relatively speaking in the B2B world there has not been enough research done.”

Service Researcher

5.4 Becoming service-ready

Designing for service and sustaining customer relationships in near real time requires organisations to integrate back and front office.

A shift in thinking, operations and culture is required to join up what happens at the boundaries of organisations with customers, and what happens inside. Recent communications campaigns in the UK media suggest that some organisations want to put customers at the heart of what they do, but organisations that have closely coupled the front and back offices are rare.

“Most organisations even in the old world don’t use data as well as they could. How to take them to a place to use it in a dynamic way. Most organisations don’t have a performance management framework that helps you understand where you are creating value for the customer and how you are delivering service where you are connect the customer interface into the operation processes. Are you using your people to people to deliver and use the tools and insights available? Are you building a technology architecture that is more dynamic and freer to respond to changing environments? The challenge in design is connecting those aspects not just identifying new tools you can deploy.”

Customer Relationship and Marketing Lead, global business consultancy

How organisations can go about designing services in a context in which there is lots of data, and the surrounding environment is changing fast, presents organisations with operational challenges as they go about developing and testing their ideas.
“A useful idea is bringing ideas of prototyping to service design. For example the work of Steve Blank on customer development and Eric Ries studying start-ups has shown that no business plan survives the first encounter with a customer. Organisations need to validate assumptions in front of real customers and then change things fast. There are questions about how to value and manage that. All of my work for example is in 100-day increments. For each step I have to learn to take the next step, using real options analysis.”

Service Innovation Consultant

However although organisations are shifting towards services, these present challenges that many are not yet ready for, and do not have competences within. This presents an opportunity for professional services firms to deliver that competence in the short term and help clients develop it internally.

“Ultimately organisations are going to have to develop in house capability and that is probably very different from what we have now. The model of most service over the last few years has been get new data, understand the customer to some extent and drive down cost. As we need to understand softer stuff, how they live their lives, that’s a different type of person. We need a different skills set wanting to engage customers and understand things from their point of view and it will take time to develop that capability.”

Assistant Director, Customer Service, local authority

5.5 Evaluating services

Service-centric organisations develop new ways to understand and describe the value they create which is created across the boundaries of firms.

Approaches to understanding service value vary from sector to sector but as user experience becomes a more important factor in service, and customers and end users are increasingly seen as co-creating value in service, approaches and methods will move from consumer sectors to B2B firms. The head of customer experience in a private bank has a clear focus for understanding the value of service and his team’s work. “The team’s mandate is to have a measurable impact on overall client satisfaction and loyalty and on an annual basis we do go out to clients of the firm and measure those two metrics.” In the public sector, in contrast, often end users or customers do not have a choice about using a service, so researching loyalty is harder. Instead such providers are trying to find novel ways to understand customers, according to the assistant director in a public sector organisation. “For us it’s about trying to understand what drives people’s satisfaction with the services we provide by having more qualitative conversations with them than we get from just the standard survey.”

As organisations understand their role as designing and delivering platforms within which different kinds of service is co-created with customers, they are presented with difficulties in understanding, describing and evaluating the performance of services. One of the limitations is not just “product thinking” but firm-centred thinking.

“Too much of the work on metrics is oriented within the boundaries of the firm and the challenge that gives in a service context is that you
are thinking about the service that is delivered to your customers or consumers and that crosses the boundaries of your firm. When you have networks of firms coming together and multiple partners involved in delivering that service, it’s not good focusing just on metrics within your firm, you need to know how the entire network performs to assess how well the service as a whole is being delivered.”

Service Researcher
Appendices

A. Interviewees

People interviewed especially for this report remain anonymous but their roles and types of organisations are:

1. Professor of service research, global top 10 university
2. Assistant director, customer service, London borough council
3. Director of customer experience, innovation team, global network equipment manufacturer
4. Director, customer experience team, private bank, large global banking group
5. Senior product manager, consultancy team, global top 10 software company
6. Group brand director, global consumer brand
7. Service innovation consultant, independent
8. Associate director, innovation team, large built environment consultancy
9. Creative director, large global multi-channel media organisation
10. Marketing and technology consultant, large global business consultancy
11. Head of social media, large UK PR and advertising agency

B. Resources accessed

Business Insights The Business Process Outsourcing Market Outlook, August 2006
Business Insights Top 10 consumer electronics manufacturers, September 2010
Business Insights Top 10 telecoms service providers, May 2008
Business Insights Consumers and the Cloud, September 2010
Business Insights The Top Ten Enterprise Applications Vendors November 2008
Business Insights The Private Health Insurance Market in Europe, April 2010
Business Insights The Future of Digital Home Entertainment, April 2010

CBI 2008 Excellence in service innovation: CBI/QinetiQ report on innovation in UK service sector businesses

Appendices

EMarketer Online Healthcare Empowers Consumers, July 2010
EMarketer Brand Marketing Online: Paid, Owned, Earned, September 2010
EMarketer Seven Key Trends in Mobile Usage, September 2010

Keynote Business services and training Market assessment 2008
Keynote C2DE Consumer Market Assessment 2010
Keynote ABC1 Consumer Market Assessment 2010
Keynote Customer Services in Financial Organisations 2010
Keynote Utilities Market Assessment 2010
Keynote Business services and training Market assessment 2008
Keynote Customer Relationship Management Market Assessment 2008
Keynote Local government services Market review 2010
Keynote Transport, Travel and Tourism Market Assessment 2009
Keynote IT, Telecommunications and Security Market Assessment 2009
Keynote Customer Relationship Management Market Assessment 2008
Keynote Management consultants Market report 2003
Keynote Advertising Agencies Market Assessment 2007
Keynote Contracted-Out Services Market Review 2007
Keynote Design Consultancies Market Report 2000

Mintel Motoring Through the Lifestages, UK, April 2009
Mintel Empowered Consumer, UK, September 2010
Mintel Technology and the Internet in Financial Services, UK, August 2010
Mintel Home Lifestyles, UK, September 2010
Mintel Sport and Exercise: Ten Year Trends, UK, July 2010
Mintel Customer Service Expectations in Financial Services, UK, 2010
Mintel Technology and the Internet in Financial Services, UK, 2010

Ovum Offshoring of Professional Service, November 2008, by Tom Kucharvy
Ovum Industry Dynamics: 2010 Guide to European Healthcare for Technology Providers, August 2010
Ovum The Internet is for Healthcare (Strategic Focus), April 2009

C. Approach to understanding drivers of change

One of the ways this report is unusual is the way it thinks about drivers of change. This section describes why this approach has been taken and what it means for the analysis.

Among practitioners involved in futures and strategy work, a driver of change is usually defined as any factor that directly or indirectly causes a change in a system. Often these drivers are categorised using the model used within many organisations that distinguishes between Political, Economic, Social, Technological, Legal and Environmental (PESTLE) factors. The conventional approach is to say decision-makers such as managers are able to influence some drivers and are influenced by others.

While the PESTLE models and its variants are familiar and their use is widespread, once you look at these categories more closely, they present some important problems which include:

- Not acknowledging the roles that actors such as managers and organisations play in shaping drivers indirectly through their activities and also their language, values and culture.
- Treating the individual components as separate and not connected and hiding interdependencies.
- Specific temporal, spatial, and organisational scale dependencies of some drivers.

Examples of the difficulties that emerge from describing drivers in the conventional way comes from the interviews conducted for this report. Many of the interviewees indentified technology as an important driver of change facing service organisations. As the T in the PESTLE model, technology is generally understood to be an important factor shaping the world we live in. However what technology is harder to define. When pressed to explore what they meant, several interviewees talked about how people use technology, how organisations deployed technology and what users brought to technology through their practices and expectations. So in their descriptions of the factor “technology”, these interviewees were not talking about a well-defined thing, but rather a bundle of activities, knowledge, and structures revealing technology to be social (the S in PESTLE) as well.

To avoid these problems, in this report we adopt a slightly different way of talking about the drivers of change shaping service organisations. Instead of discrete factors that are “out there” that can be neatly categorised within a
PESTLE framework, we will describe the bundles of activities, knowledge and structures which responds more closely to how the interviewees made sense of the world.

This way of thinking about future developments does two things:

• It emphasizes the dual nature of these factors: they are both bundles of activities, knowledge, and structures that shape and are shaped by the ways things will be in the future.

• It highlights how our language is also involved in shaping how we think about things and what we do.

By moving to a different way of thinking about drivers of change, we hope to understand in a more nuanced way the nature of the developments shaping how organisations go about designing and delivering services.

Other organisations working on futures have also been trying to think differently about drivers of change. For example the UK government's Department for International Development created an approach to developing its strategy and plans to support the reduction of poverty outside the UK by making a distinction between three aspects: agents (individuals or organisations making change), institutions (routines, rules, whether spoken or unspoken, ways of going about things and political investments) and structures (including factors such as natural and human resources and culture). We have adopted a modified version of this analysis underlying drivers of change, shown in Figure 1.

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Appendices

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Appendices

In this report, we introduce a way of thinking about the future for service organisations that looks at how different actors, practices and structures shape and are shaped by each other and acknowledges interdependencies between them. The differences between the approach used here and the conventional approach are shown in Figure 2.

<table>
<thead>
<tr>
<th>Ways of looking at the world</th>
<th>PESTLE approach</th>
<th>Approach used in this report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying metaphor</td>
<td>Mechanics</td>
<td>Ecology</td>
</tr>
<tr>
<td>Direction of change</td>
<td>The driver changes things in the system</td>
<td>The driver changes things and is changed too</td>
</tr>
<tr>
<td>Level of analysis of driver</td>
<td>The driver is a self-contained blackbox</td>
<td>The driver is a bundle of things to be analysed</td>
</tr>
</tbody>
</table>

Figure 2 Differences in approaches to describing drivers of change

By analysing drivers in this way, it becomes possible to separate the roles that actors, practices and structures play in driving change including human agency but also institutional incentives, routines and unspoken rules and also deep structures like organisational culture. The aim is to come to an understanding of the processes through which interests are mediated, decisions made and resources are allocated. This way of looking at drivers of change therefore takes account of the roles these different aspects have in shaping reality, rather than looking for discrete drivers shaping the world “out there”. This is not a narrative, then, about drivers as external direct or indirect “factors” that impact on organisations, but rather an analysis of drivers of change that acknowledges the structural and institutional intersections between actors, practices and structures inside and outside the boundaries of organisations.