The commoditization of high-quality products is causing companies to look beyond the product itself for sources of differentiation and value. They are discovering that services are the front line in the face they present to customers.
Creating Value Beyond the Product Through Services
by Joe Heapy

The last 60 years have seen a phenomenal rise in fast and low-cost product design and manufacturing, the last 30 years of which have been fuelled by computer-aided design and manufacture and global production markets. This, coupled with the rise of the Internet, has fundamentally changed the ways in which people choose, select, and interact with products and brands.

Driven by the reduced barriers to entry and the speed and hyper-competitiveness of global markets for manufactured goods, product manufactures have turned to service and services to add value to their products beyond the capability and features of the product itself. What we are now typically seeing is an integration of manufactured products, software, and services into single product-centered service propositions.

The precedent for this approach can be seen in moves such as Xerox Corporation’s launch of the first plain-paper copier in 1958. This innovative and technological success story was at its launch perceived as an expensive risk by new buyers. Xerox learned to mitigate the risk by subsidizing the retail price of the machine and, instead, charging per copy made. As the machines proved their worth, more copies were made and more machines were leased. By the end of 1961, Xerox was showing revenues of almost $60 million. Xerox created value beyond the product, and in doing so shifted its relationship with customers from unit sales and support to ongoing relationships that grew in perceived value and in recurring revenue.

These kinds of approaches encourage innovative relationships between providers and consumers, and they have brought us to a position in...
which many companies once known solely for their product design and manufacturing expertise are blurring the boundaries of industry type, core competence, and business models to operate product-centered service businesses.

From goods to services
Since the 1980s and through management approaches such as Total Quality Management, manufacturing businesses have been supported in their shift from a goods-dominated logic, selling units of delivery driven by value-in-exchange, to a service-dominant logic that sees the market as relational and driven by value created in use, within which physical goods may play a role.¹

The growth of consumer services generally, and of smart devices in particular, is changing consumer expectations of product manufacturers. Contemporary consumers expect to have an ongoing relationship with a product and brand well beyond the point of sale.

These relationships and services include access to significant content through a variety of channels and while on the move, access to communities around products, and access to ongoing brand relationships. Recently, this has developed further, with new ways to be a customer. With products as platforms, consumers increasingly expect to become service creators.

Business models are growing in complexity to accommodate new relationships among product-services and users, and with other product-service providers.

Hybridization between product organizations has seen new partnerships that weave together consumer brands—such as the Nike-and-iPod “personal trainer” concept, in which running shoes and iPods are connected to track progress through workouts.

What is driving businesses with roots in manufacturing (or other commoditized products) to make the mind-set shift from product design thinking to service design thinking?²

The CAD boom of the 1980s made the development of complex consumer products faster and more affordable. As the barriers of entry to global markets were removed through low-cost manufacturing and labor, competition was heightened and a proliferation of choices emerged for the consumer.

Manufacturing costs were further reduced as super-products (and super-brands) started to attract a global audience; the mass scale of production continued to reduce costs, increasing consumption. Differentiation through product design alone has become more difficult as manufacturing cost, build quality, and reliability have reached parity, with other factors driving consumers’ purchase decisions.

Following on the heels of the revolution in globalized high-quality production, the information revolution and the Internet have changed the way people assess, buy, rate, and compare products. Not only does the Internet provide a means to buy a wider range of products than ever before, it also empowers the consumer to make a more informed purchasing decision and has become a powerful distribution channel. We can get anything anywhere, across geographic boundaries and on our terms. When the consumer is faced with such choice, and with so much competition, even super-brands can no longer rely on their brand identities and product design to win them over.

From this proliferation and commoditization of high-quality products comes the emergence of service design and total customer experience as a clear differentiator. At the same time, brands have moved beyond the emblematic to become a value-set that directs every touch-point and interaction within a product-service system.


²
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Through an understanding of users’ needs and requirements, products can be more strategically aimed at various demographics and tribes of consumers. Services offered around these products add an important element of differentiation. Super-brands are able to offer mass-market products, but connect with a range of specific consumer groups by wrapping a number of services around a core product. The successful players have all but eliminated opportunity for competitors, while retaining a strong drive for innovation to significantly differentiate products and their associated services.

An example of this significant shift from product to service provision is illustrated by our work with Philips Lighting.

**Light bulbs**

In 2010, our company, Engine Service Design, was approached by Philips Lighting to help them explore new ventures. Lighting products are developed to a point at which differentiation through the product alone is hard to achieve. Light bulbs and lighting products are so good—so reliable, convenient, cheap, and available—that Philips needed to look to innovation beyond the product. What could they do to differentiate and grow while increasing the appeal and sales of their core lighting products?

Engine’s solution—to innovate with services—used capacity already available to Philips. As a huge global brand across technology, healthcare, and a range of other sectors, Philips had the scope to innovate using a joined-up approach. They could capitalize on what they already offered to breathe new life, a sense of innovation, and room for expansion into the lighting market.

At the heart of the service design is a technology solution—a new software and service platform that will help retailers manage a wide range of lighting and media assets across their retail premises. This platform (see photo below) enables retailers to design smart equipment solutions that offer dynamic control of their retail environments—effectively allowing retailers, designers, and store managers to orchestrate a performance throughout the retail day, week, or year. The smart equipment includes instrumentation that monitors patterns of behaviors in stores and replays this back into the performance.
instrumentation that monitors patterns of behaviors in stores and re-plays this back into the performance. Essentially, Philips is bolstering brand identity for its manufactured products through service differentiation. The simple light bulb (and wide range of lighting equipment) became the product at the heart of a differenti-ated and unique system. For Philips, this solution is about driving product sales, but new business models also operate around product sales. The system, and the deeper customer relationships that the services allow, provide valuable information for Philips.

Where Philips had before seen its customers as retailers, we helped the company visual-ize the entirety of the consumer journey. The result? Solutions that Philips could offer retailers to increase sales, satisfaction, and reten-tion within this new product service system.

**The dance of products and services**

How do consumer services differentiate and add value to consumer goods?

The Philips story teaches us that our relationship with products has reached a point at which value must be created through use—beyond the point of sale. Starting with the product, and by adding services that enhance the utility of products, inherent value is increased for users.

In addition to adding to perceived value for the consumer, product service systems can logically offer an enormous opportunity for profit-ability through customer retention, as users become locked into products through investments of time and the user’s own content.

The product-service relationship also works in reverse, with services inspiring new product categories. Starting with a service, music stream-

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ing such as Spotify has helped to grow a new category of wireless products: loudspeakers, controllers, and apps for the home. Brands that manage these types of service-led relationships with their customers are able to monitor patterns of use, as well as sales. Successful players—for example, Dell and Symantec—have adapted their operational structure to iterate and improve response time and responsiveness to users’ concerns, complaints, and feedback. This data provides important information for designing or re-designing services to improve, innovate, and meet changing needs, and to drive retention, loyalty, and advocacy.

Through these technological advancements, a single mass-market offering can be sufficiently differenti-ated to offer thousands of unique user experiences through different combinations of product and service. The consumer feels empowered and able to make a choice, while still remaining loyal to a brand.

What models of product-service systems really work for consumers and manufacturers?

Engine’s clients from across sectors do have common defining challenges, such as an increasingly empowered customer base, opportunities and threats offered by technological convergence, and an increasingly commoditized product or service. These, in turn, lead toward a series of common opportunities for product-service innovation. The following are five common areas for strategic product-service innovation.

1. **Mass customization of core products and services**

As mass outsourced production has resulted in the commoditization of products, technology has made it possible to offer mass customization of products, and the services associ-
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Customization can be both deliberate, responding to explicit customer requests and part of the sales experience, or happen dynamically “in life,” using new means of information capture about patterns of use and behavior. These distinct services and service features give generic or mass-produced products the ability to become unique to the user. Product customization has become a customer value proposition in its own right and a valued adjunct to the physical product, tying into people’s lifestyles and their conscious and subconscious choices.

The “Internet of things”

The early twenty-first century has seen a logarithmic rise in a global network of interconnected devices and consumer products connected to the web. Though Raymond Kurzweil’s singularity may still seem a long way off, the consumer, knowingly or unknowingly, already uses many connected devices, and is a hub for data flow to and from both traditional and nontraditional information technologies. Beyond PCs, tablets, and smartphones, through technologies such as RFID and WIFI, cars, washing machines, training shoes, toys, and books form a complex system—an Internet of things.

These products and services are conjoined across organizations and companies, with the potential to provide a wealth of data through smart products that track patterns of behavior, relaying information across the Internet.

As well as providing information on people and objects, location and behaviors, the Internet of things can supply remote diagnostics, upgrades, and repairs for even mundane consumer products, from a distance. With information pouring in, organizations can choose to sell that information to other companies or to consumers themselves.

Designing for too much choice

As any visitor to the detergent aisle in a supermarket is aware, a frequent issue in the product market is the proliferation of choices. Consumers need more help than ever to choose products that are relevant for them. They need new ways to be connected, to feel they have made an informed choice, or to be part of a service or brand that takes away the need to make such choices.

Designing a product-centered service system that encompasses various ways to attract and retain customers is one solution. The vendor can demonstrate its consideration for its customers, an interest in their opinions, and the promise of a community. A service response attached to this is seen in new emerging intermediaries based on social tools. With options to rate, offer feedback, and comment on open forums, the opinions of peers and social networks increasingly drive consumer choice.

To accommodate this trend, product-service systems and service design aim to design in hallmark experiences—those that most exemplify the product or brand and that will be remembered. These are the details of service and interaction design people will love and tell their friends about—and mention on the Web.

The “service wrap”—designing great product service and support

The leading consumer product brands routinely and systematically analyze their wider end-to-end
customer journeys so that they can influence the decisions made prior to purchase, during the life of the product, and importantly, the service experiences that keep customers loyal to a brand. What happens, for instance, when a customer’s warranty expires or when he or she is no longer covered by product support can be critical to retaining that customer for the long term. Organizations that consider these issues explore the views of a wider range of customers, including extreme users, anticipating the mainstreaming of niche behavior. They engage with product evangelists and experts from the customer community.

**Cradle-to-cradle as a customer value proposition**

Even with the best intentions of manufacturers and investment in extending the operational life of products, the rate of contemporary technological change means that obsolescence typically occurs well in advance of product failure. Manufacturers can use start-of-life and end-of-life services to support and motivate consumers to use but not own consumer goods, and to reuse and recycle. We typically describe service design as a holistic discipline, a terminology that can easily be defined by new cradle-to-cradle service propositions that provide increased value for customer and vendor.

What does it mean to be a service organization? What is the difference between the product-design mindset and the service-design mindset?

**Think about recurring revenue**

For much of the twentieth century, manufacturing economies could measure growth by sales, in terms of both outdoing competitors and engaging in new markets.

**Service-ready organizations think in terms of recurring revenue through developing relationships.**

Service-ready organizations think in terms of recurring revenue through developing relationships. They have changed their organizational and management structures, and set new financial targets based on this.

For some, this means enhancing products with services; for others, it connotes making service offerings into products, or developing new service strategies to connect with consumers. For some, even those we think of as unstoppable super-brands, such as HP and IBM, it means fresh thinking and challenging the market, as services and recurring revenue grow in significance as part of overall business performance.

**Manage a portfolio of business models.** Moving from unit sales to a more holistic set of business metrics necessitates the ability to manage a portfolio of business models surrounding production, aftercare, support, consultancy, and other services, each tailored to the requirements of customer type and journey stage. The brands consumers think of as offering innovative products and services have upgraded their business models to encompass a portfolio of interrelated and differentiated offerings, often in conjunction with partners.

**Become the platform.** Brands look to make themselves useful, to become “sticky” by making themselves invaluable. A familiar approach has been to shift from a product mind-set that says, “Our product offers a fixed set of features that we’ve developed and believe are exactly the things our customers need,” to a service-platform mindset that asks, “How can we provide the best place, device, environment, and platform through which our customers can have the best possible experience of all the other services they value?” Technology business, and Internet business in particular, battle daily to become the single point of access for consumers in their lives.

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Product brands look to grow consumers’ perception of them as service providers as a way to draw consumers in. Consumer-goods brands wrap health and well-being management services around food products. Sports fashion brands link themselves in a similar way.

Know your end users. Successful manufacturing brands now manage accounts directly with millions of their end users, not just with their distributors. Cutting out the middleman has been rewarded in many cases with more-fruitful two-way relationships with customers that give brands more control and greater knowledge of their customers.

Add services to new product development. Successful manufacturers extend the life of products, drive engagement, and maintain consumer interest through offering services that help them to continue to connect with the customer. If new “hard” products are still under development, service and services can augment and refine the positioning of a product in the market before it is ready to be replaced. This opportunity for recurring revenue from relationships is built on information—on customers’ preferences and needs.

Apply the rigor of manufacturing quality assurance to services. Many great service organizations have grown out of product-centered organizations. It is the way in which these quality assurance skills are applied that makes the difference. To enable high quality and consistent customer interactions across the entire lifecycle of a product service system, the same quality assurance and design rigor understood by manufacturers has to be applied to services. The user-centeredness of product design must be applied to improve the customer experience, service development, and management.

Conclusions

Service design replicates those parts of other design disciplines that go before the product: the user-centeredness, the sense of innovation, and the challenge to make things better, simpler, and more connected to the values and needs of the user.

It makes sense that companies with a manufacturing heritage, that are already design-led in their approach to product development, find it easier to translate the working practices of user-centered design, quality management, and design thinking into the development of new business and service models.

Conversely, businesses with roots in the service sector—for example, in financial services, leisure, hospitality, and telecommunications—have a pre-existing understanding of service and customer experience. Just as manufacturers have added services, traditional service businesses are increasingly adopting a product-centered approach to drive differentiation (for example, the union between Amazon and Kindle, and Virgin Media’s adoption of TiVo in the UK). The Amazon-Kindle and Virgin-TiVo partnerships both offer product service systems that entwine the tangibility of a product with the fluidity, personalization, and sense of ownership that services give to users.

As service designers, we help businesses get better, systematically, at meeting customer needs.