Knowledge in the Service Oriented Enterprise™

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U. C. SANTA CRUZ ISM 101 LECTURE OCT 2008

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A Birds Eye View…

- Common language is required – defining terms
- Why is service important?
- How has Knowledge transformed services?
- How can leveraging knowledge create new value?
- Opportunities for knowledge systems
Let’s consider some definitions...

**Service (s)**
The application of skills and knowledge (operant resources) for the benefit of another party. (Vargo and Lusch 2004a; 2006), *Service Dominant Logic*

Or

Service is any transaction of economic value that can not be dropped on your foot. *IBM Research on Service Science Management and Engineering* -2006

**Knowledge Management** ('KM') comprises a range of practices used by organizations to identify, create, represent, distribute and enable adoption of what it knows, and how it knows it. Knowledge Management has a greater focus on the management of **knowledge as an asset** and the development and cultivation of the channels through which knowledge, information and signal flow.

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The World is Becoming One Big Service System

Top Ten Nations by Labor Force Size
(about 50% of world labor in just 10 nations)
A = Agriculture, G = Goods, S = Services

<table>
<thead>
<tr>
<th>Nation</th>
<th>% ww Labor</th>
<th>% A</th>
<th>% G</th>
<th>% S</th>
<th>25 yr % delta S</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>21.0</td>
<td>50</td>
<td>15</td>
<td>35</td>
<td>191</td>
</tr>
<tr>
<td>India</td>
<td>17.0</td>
<td>60</td>
<td>17</td>
<td>23</td>
<td>28</td>
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<tr>
<td>U.S.</td>
<td>4.8</td>
<td>3</td>
<td>27</td>
<td>70</td>
<td>21</td>
</tr>
<tr>
<td>Indonesia</td>
<td>3.9</td>
<td>45</td>
<td>16</td>
<td>39</td>
<td>35</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.0</td>
<td>23</td>
<td>24</td>
<td>53</td>
<td>20</td>
</tr>
<tr>
<td>Russia</td>
<td>2.5</td>
<td>12</td>
<td>23</td>
<td>65</td>
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</tr>
<tr>
<td>Japan</td>
<td>2.4</td>
<td>5</td>
<td>25</td>
<td>70</td>
<td>40</td>
</tr>
<tr>
<td>Nigeria</td>
<td>2.2</td>
<td>70</td>
<td>10</td>
<td>20</td>
<td>30</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>2.2</td>
<td>63</td>
<td>11</td>
<td>26</td>
<td>30</td>
</tr>
<tr>
<td>Germany</td>
<td>1.4</td>
<td>3</td>
<td>33</td>
<td>64</td>
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</tbody>
</table>

The largest shift of labor in human history is moving into service roles.

Service-providing industries are projected to account for most job growth, generating almost 19 million new jobs between 2004 and 2014. This is due, in part, to increased demand for services and the difficulty of automating service tasks.


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A Services Surplus

The U.S. trade deficit with China is such a hot political issue in Washington these days that it’s easy to forget the gains America reaps from doing business with China. So the latest trade data on services make for enlightening reading.

The Commerce Department’s Bureau of Economic Analysis calculates that America’s service sector had a $3.7 billion trade surplus with China last year. In 2005 the surplus was $2.4 billion, up from $515 million in 1992. U.S. service exports cover a wide range of economic activities, from parcel shipping to investment banking. Education is one of America’s top service exports (a $1 billion surplus). Advertising, technology, legal services, industrial engineering and other “business, professional and technical services” account for just over a third of the U.S. surplus, and financial services, for another $480 million.

China is now the ninth largest purchaser of American services. And the U.S. surplus could grow bigger if China meets all of its World Trade Organization commitments and opens its markets further. According to a study prepared late last year by Oxford Economics for the U.S.-China Business Council, America’s service-trade surplus could reach $15 billion a year by 2015.

Despite its continuing struggles to protect intellectual property, China is still paying for plenty of it. Chinese IP purchases, measured by payments of royalties and licensing fees, generate a U.S. surplus of $1.4 billion on their own. American service-trade deficits in areas such as passenger travel and goods’ transportation pale in comparison.

Progress toward greater openness has been slow and often inconsistent, but that’s hurting China as much, or more, as it hurts the U.S. By opening its doors to American expertise, China could boost the productivity of its own workers and businesses. The result would be a 1.2% increase in GDP by 2015, according to the business council study.

We’ve long argued that the bilateral trade statistics are meaningless as a sign of economic strength or weakness. They can be harmful if politicians use them to justify protectionist policies. The real meaning of the U.S.-China trade figures is that millions of consenting adults are doing a booming business—in services as well as goods.

U.S. exports $480 Billion in Services and represents 20% of all global trade.

If trade barriers were lifted there is a potential $1.7 Trillion in global benefit with $466 Billion for the U.S.
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Services Transformation— from your hometown to the world

• In the beginning, all services are local
  • Local craftsman, reputation and handshake important
  • Value based on product and leveraging local relationship
  • Knowledge is local

• World becomes flatter, backing up what you sell remotely becomes differentiator
  • Warranty Service - quality guarantee
  • Products become commodity – mass produced
  • Service is part of Manufacturing dept. – cost center
  • Becomes “regional” and “international”
  • Distribution channel becomes local face of service
  • Knowledge is distributed and internally focused
Bridging the Manufacturing Economy to the Services Economy

- Product “Value Add” adjacent services – heterogeneous
  - Margin pressures on commodity products
  - Service becomes a profit center
  - Leverage Infrastructure and knowledge to service adjacent products
  - Customer values reduced vendor complexities

- Customer “Added Value Solutions” – professional services
  - Focus on time to value or total cost of ownership
  - Leverages expert knowledge & infrastructure
  - Remove barriers to sale. (HDTV)
  - Creates industry specialized solutions
  - Knowledge gained from greater customer intimacy
Evolution, Evolution, Revolution

- **The Service Oriented Enterprise**
  - Focused on optimizing the customer, not internal process
  - Instrumenting the edge - we live in a connected world
  - Focus on customer value and sharing in customers success
  - Aligns the enterprise to interests of customer success
    - Holistic and seamless processes between front office and back office
    - Products designed and engineered to be delivered as a service
    - Remove division of labor in organizations

- **Service becomes the product**
  - Product value is based on the outcomes derived from ownership experience
  - Valuations of corporations are changed
    - Service oriented companies show greater profits
  - Customer Values are changing
    - Show me the money innovative products are not good enough
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What do these have in common?
These are all Knowledge Service Systems

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Services are Driving Revenue and Profits in Product Companies

Relative Customer Value for Customer Centric Models

- Basic Warranty
- Multi Vendor
- Value Add
- Added Value
- Soulutions
- True SOE
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How does this work?

= Instant Global News

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Context is important

“The World is Flat”
Knowledge is Transient

“The most dangerous thing in the world is to try to leap a chasm in two jumps.” David Lloyd George

From Geoffrey Moore, “Crossing the Chasm”
Consider the alternatives

- Wikipedia
- Google
- Twitter
- Second Life
- HiveLive

Virtual Communities
Problem-solving method used by Nepal Airlines. This is from Reuters:

Officials at Nepal’s state-run airline have sacrificed two goats to appease Akash Bhairab, the Hindu sky god, following technical problems with one of its Boeing 757 aircraft, the carrier said Tuesday. The goats were sacrificed in front of the troublesome aircraft Sunday at Nepal’s only international airport in Kathmandu in accordance with Hindu traditions, an official said.

We recommend this technique be used outdoors only, preferably at night.
Additional resources:

The Service Research and Innovation Initiative:  www.thesrii.org
The Service and Support Professionals Association  www.thesspa.com
ASU – Center for Services Leadership  http://wpcarey.asu.edu/csl/
Univ. of Maryland – Frontiers in Service
http://www.rhsmith.umd.edu/ces/frontiersconference.html
CITRIS – University of California  www.citris-uc.org/research/services_science

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