S-Business: Defining the Services Industry

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Introduction

Why s-Business?

You might ask yourself how this s-business concept originated and why the name "s-business?" The story begins in sunny Southwest Florida. Dave Henault (former CEO of AFSMI), Pim Bonsel (vice president, EMEA, AFSMI), and I had gathered on Dave's lanai on a Sunday afternoon in June 2001. The three us were acting as thought leaders assembled to ponder the enormity of the services industry. How big is it? What does it encompass? How is it defined? Wow! These were big and tough questions to answer.

Services have become the heart of today's successful businesses—and not just high-tech businesses. Over the last 20 years, services has developed complexities that confuse even those of us in the industry. We find it difficult to define. What is high-tech? What is services? Can you imagine the difficulties that those outside of the services industry have in understanding it?

For example, most of us have experienced product-centric people (management, manufacturing, sales) who really don't understand the invisible nature of services. You can't touch services, but you certainly know when it's good and when it's bad. How is it sold, managed, and delivered? And what about the financial aspects? Those of us within this industry must agree that it's hard to explain high-technology services to our neighbors, our spouses, our friends, and our co-workers in other departments. What is the definition of high-technology services, and what comprises it?

In its early years (1960s to 1980s), services was primarily defined with computers. Essentially, it was the repair and support of hardware and software. It was simple in those days. That's the business we remember as high-tech services. Well, that has changed and changes continue at a rapid pace in the Internet world of today. The role of services in today's organizations is increasing, making the services industry broader than just the high-tech services industry—this is the basis of the s-business concept.

To continue my story, Dave, Pim, and I proceeded to dialogue the complexities of high-tech services, realizing its reach was far beyond what it was a decade ago. The next step was to come up with a common definition that could become an industry standard. What could we name it? I mentioned that e-business and m-business were in common usage these days, and then, suddenly, the term "s-business" just popped out of my mouth. It seemed the natural and logical choice. What is the meaning of the "s"? Services, support, you can take your pick, because in our minds, it means *all* services. S-business crosses all industries; this is services as we know it today.

So after I came up with the name s-business, the next big step was to put some teeth into the name. How could we do this? I determined that a white paper must be written to fully define it and give it credibility. At first I thought I wanted to find a single person to draft the paper. So I called several colleagues to judge their interest. I had to fully explain the concept to each person and define how it would fit into not only our industry but many other industries as well. Believe me, that took a lot of time.

The people I talked to were excited. They not only bought-in to the concept, they embraced it. I am so fortunate to have such great minds and such quality people in my network. Steve Brown, Ph.D., professor and director of the Center for Services Leadership at Arizona State University, is a member of our Education

Council and a leading authority in s-business marketing. Fred Van Bennekom, Dr. B.A., and Keith Goffin, Ph.D., long-term industry experts and scholars, have done extensive research in the area of designing products for s-business supportability. Al Hahn is recognized around the world for his work on the strategy, sales, and marketing of s-business. Jim Alexander, Ed.D., consulting director of professional services for AFSMI, possesses a massive depth of knowledge in professional services, e-business, and cultural and organizational change as it relates to s-business. Individually, each would have been an excellent choice to author this project, but amazingly they all wanted to be involved. Each saw the value of s-business and enthusiastically agreed to collaborate on this project.

The result is this white paper, which looks at the current and future trends of s-business from four distinct viewpoints. In the first section, by Steve Brown, you will see the big picture of s-business and how it encompasses all services organizations. Section two, by Fred Van Bennekom and Keith Goffin, will look at differentiating a company's products and services from its competitors to gain long-term competitive advantage. Al Hahn, in section three, explores the transition from product marketing to services marketing and the intricacies of doing so. And in the final section, Jim Alexander tackles the organizational change and cultural ramifications that need to be addressed in the new s-business world.

S-business is here to stay and will continue to influence businesses around the world with each passing day. You will see more companies moving from a product focus to a product-and-services focus. This ongoing transformation will move services into a more strategic role. In some instances, companies will become services-led. We will see s-business take the lead by "pulling through" products and additional services, not the reverse as it once was, where product sales came first with services playing the role of a mere tag-along. Today's IBM is a good example of this.

The Role of AFSMI in s-Business

The most exciting part is that s-business is defining the industry, and AFSMI is taking the lead by developing this concept and spreading the word. In coming months, you will see white papers, studies, and presentations that will expand the s-business concept. You also will see a new focus in our monthly publication, *S-Business*. In addition, the AFSM International board of directors and staff, as well as our industry's thought leaders, will travel the globe to deliver the s-business message.

Since 1975, AFSM International has taken the lead in delivering relevant research, information, and education to its corporate and individual members. And we continue to do just that. We feel this s-business awareness positions us at the leading edge across multiple industries that recognize services as the undeniable key to future success and survival.

John Schoenewald
CEO
AFSM International

All Organizations are Becoming s-Businesses

by Stephen W. Brown, Ph.D.

Despite all the attention to e-business and even m-business, *all* organizations are having an increasing share of their offerings in services, or *s-business*. Both customer demand and business opportunity are driving this revolution. One may ask, what company is the world's largest service business? Disney? Citibank? American Express? Based on several measures, the answer is actually IBM or General Electric (GE)—two corporations far better known for their products than their services.

When we discuss s-businesses, the general public typically focuses on the Marriotts, the FedEx's and the AT&Ts. Yet, the perception of what defines a services business is changing—and changing dramatically—especially in IT business-to-business markets.

IBM has built a recognized brand in IBM Global Services. S-business generates more than $33 billion in annual revenue and employs over half the corporation's work force. Ten years ago, services were provided strictly to support IBM products. Then in the mid-1990s, services were deployed to maintain account control. Today, IBM regards services as a business in its own right. Outsourced IT operations, systems integration, networking, consulting, education, and product support are just some of IBM Global Services' offerings. Some of its services build an annuity-like revenue stream since they are, by nature, relationship-based and are more likely to be purchased "for the future." IBM has amassed a backlog of service deals of more than $95 billion. Increasingly, services pump the heart of IBM.

Yet, this transformation of companies from being goods-dominant to being goods-and-services firms is not limited to Big Blue. The General Electric of today is much more than light bulbs and power transformers. Jack Welsh aggressively led GE into engineering, media, medical, financial, and consulting services. GE's vision is to be a global service company that also sells high-quality products.

Healthcare is yet another setting where this shift is under way. Manufacturers and suppliers like Johnson & Johnson (J&J), Becton Dickinson (B-D), and McKessonHBOC are striving to help hospitals become more cost-effective. By offering consulting services, they are creating broader, deeper, and more strategic relationships with customers. Such intimacy supports services expansion and helps these firms become a preferred vendor with hospitals for their traditional products.

Becton Dickinson, a Fortune 500 company, initiated its s-business expansion by sending its best account executives to call on senior hospital administrators. In making the calls, the account execs were instructed not to promote or sell anything, but instead to ask these healthcare leaders what was keeping them awake at night.

"Instead of touting the benefits of our medical syringes and other products, the execs listened and learned, and the gold mine of information bowled us over," according to Dave Pulsifer, president of B-D Health Care Consulting and Services. "What they heard were detailed insights not fully understood before about the tremendous pressure brought on by changes in medical reimbursement to reduce operating costs."

Becton Dickinson used this feedback as the foundation for developing consultative s-business offerings to address its customers' challenges, thus tapping a built-in market. Adding this service dimension has enabled B-D to become a solutions provider for its customers. In turn, their bonds with customers are becoming tighter, with both parties benefiting.
When the Center for Services Leadership (CSL) was launched in the mid-1980s at Arizona State University, the potential of involving firms like IBM or Ford didn't blip on the radar screen. Not until the mid-1990s did the CSL fully realize the significance of services in these and many other goods-dominant companies. Today, much of the ASU Center's applied research and management education activities are with these enterprises, and IBM, Hewlett-Packard, and Ford Motor Company are some of the firms most active in recruiting ASU M.B.A.s skilled in services marketing and management.

Why the Transformation?

Why is this dramatic transformation happening now in advanced economies? Though manufacturers have always provided customer service, the "new service" reflects a much broader form of offering that generates revenues and profits.

Customer demand is one major reason for the metamorphosis. Global competition and leaps in technology are propelling firms to focus on their core competencies and outsource many of their other business activities. Pitney Bowes has long been the market leader in mailroom equipment for business customers. Yet, few of these customers would consider their mailroom operations to be a core competency. So, over 1,000 businesses have hired Pitney Bowes to run their mail operations. The complex and rapid changes in IT are leading more and more businesses to contract with IBM Global Services and others to take over varying degrees of their information technology services. In many of these cases, the firms do not even use IBM hardware or software. Yet, as a true "solutions provider," Global Services provides unbiased counsel on its clients' future IT purchases.

Unique competitive challenges are a second reason goods-dominant firms are becoming s-businesses. Product commoditization is a reality in many industries. Manufacturers are finding it difficult to differentiate their goods, pressuring their profit margins. S-business, however, often offers sustainable forms of differentiation, enabling enterprises to achieve more significant margins. Goods-dominant firms are even finding that services can be more profitable.

This profitability feature is especially true when a firm's intellectual capital maps out tailored services for clients. Knowledge workers become a firm's service products, and their abilities and experiences enable the firm to benefit from above-market professional fees.

Expanding a goods-based company into s-business is more difficult than it may seem. European-based consumer food giant Unilever recently launched a business of consulting on food safety—an issue of growing concern to the public. In a public speech, Serhan Teodoresco, vice president, DiverseyLever Consulting, The Netherlands, said, "My biggest challenge is educating the product-dominant board members of Unilever on the differences between investing in goods versus services businesses." Goods typically require a large up-front investment to realize future financial returns. By contrast, in s-businesses, the initial investment is comparatively small, but ongoing funding is required to grow the business, often in the form of additional personnel. But the ongoing rewards to be returned are immense.

Designing Products for s-Business Supportability

by Fred Van Bennekom, Dr. B.A. and Keith Goffin, Ph.D.

Long-term competitive advantage is achieved by clearly differentiating a company's products from its competitors. This differentiation should allow a higher price to be charged because of the greater value delivered. The differentiated product also may create a switching cost, which will help lock the customer in for repeat purchases. In the search for differentiation, marketers who think strategically recognize that customers don't just concentrate on the tangible product; they also take a critical look at the services that augment the product, such as financing and support services. Thus, the entire product-service bundle should be scrutinized to find the best opportunities for differentiation. Typically, features of the tangible product have often been the first place to look, but the *augmenting services* in the overall product-service bundle—the s-business—may prove more fertile ground. In fact, as companies move to s-business models, we may speak of the tangible product as augmenting the services.

Traditionally, the strategic potential of the customer service function in delivering differentiation has been overlooked. Customer service, in fact, has been treated with neglect, or even disdain, in many companies. Many have viewed support services as a "necessary evil" to deal with "complaining customers" and that service's only role is to rectify customer problems with the product—that is, repair and service the product, which is a very limited view of s-business. Like well-mannered children, customer service should be seen doing its job, but not heard from otherwise within the corporation. However, at leading companies, attitudes have been changing for three reasons:

1. **Service revenue and profit potential**. Customer service has become a key source of revenue and profit. In fact, service margins typically exceed those made on the products themselves. Service contracts also generate a subscription type of revenue stream that can offset the more cyclical revenue stream from hardware or software sales. The profit potential of customer support services has long been recognized by many companies, although in some industry segments, service marketers find customers unwilling to pay for some aspects of support, such as telephone support.

2. **Customer retention through satisfaction**. In many markets, service plays a key role in achieving customer satisfaction and strongly influences repeat purchasing behavior. Bad customer service may yield highly negative press, lose current customers, and discourage potential customers. The constant customer interaction gives customer service the ability to bond customers to a company, helping to achieve *account control.* As companies have matured and the importance of repeat sales has increased, customer service also has become increasingly valued for this account-control potential. Customer relationship marketing is one of the current management buzzwords, but it is often forgotten that customer service is in the best position to actually achieve CRM.

3. **Focus on total net benefit of ownership**. New technologies have changed many aspects of service. Today's products are more reliable, and this has reduced the relative importance of maintenance and repair. On the other hand, the complexity of equipment and their operating environment has increased. Many aspects of service, such as product integration, user training, and telephone support, are now fundamental to business models. Product complexity has increased support costs for both the product vendor and the

customer. These costs include time spent learning how to apply the product to a business need and the opportunity cost of lost time when the product fails. Customers increasingly focus on the total cost of ownership, comparing that to the benefit stream from use of a product, which highlights the importance of services during product ownership.

These three factors have led companies to regard s-business opportunities as a source of competitive advantage. To establish the potential, four questions need to be addressed:

1. What are **customer's needs**? Customer needs must be known for all aspects of the support cycle, from installation to user training, maintenance, and repair. Companies should be on the lookout for services customers would like but are not yet on their own radar screen—latent or emerging needs. How customers perceive the value of support services to their own operation must be understood. In some markets, customers are more self-sufficient. That is, they may be willing and able to do some support tasks themselves. Finally, companies should check for different segments in the support market. Some groups of customers may require different levels and types of services.

2. How are **competitors positioning s-business** within their competitive framework? Benchmarking competitors' services and prices is essential. Surprisingly, however, many high-tech companies forget to do this. Benchmarking outside a company's specific industry segment should be done. Leading companies in other markets may have developed s-business models that are relevant to markets other than their own.

3. What role does product **distribution channel** play in the delivery of s-business? What role could it play? Using channel partners for particular services may help deliver high-quality support at lower cost. However, companies need to decide how much control they want to have over their service distribution channel. Service delivered by a channel partner will likely reflect back on the OEM, even if the OEM has nothing to do with the channel partner's service operation. In many channels, services are the key product of distributors, and they may resist any relationship with the OEM in regard to services other than buying spare parts.

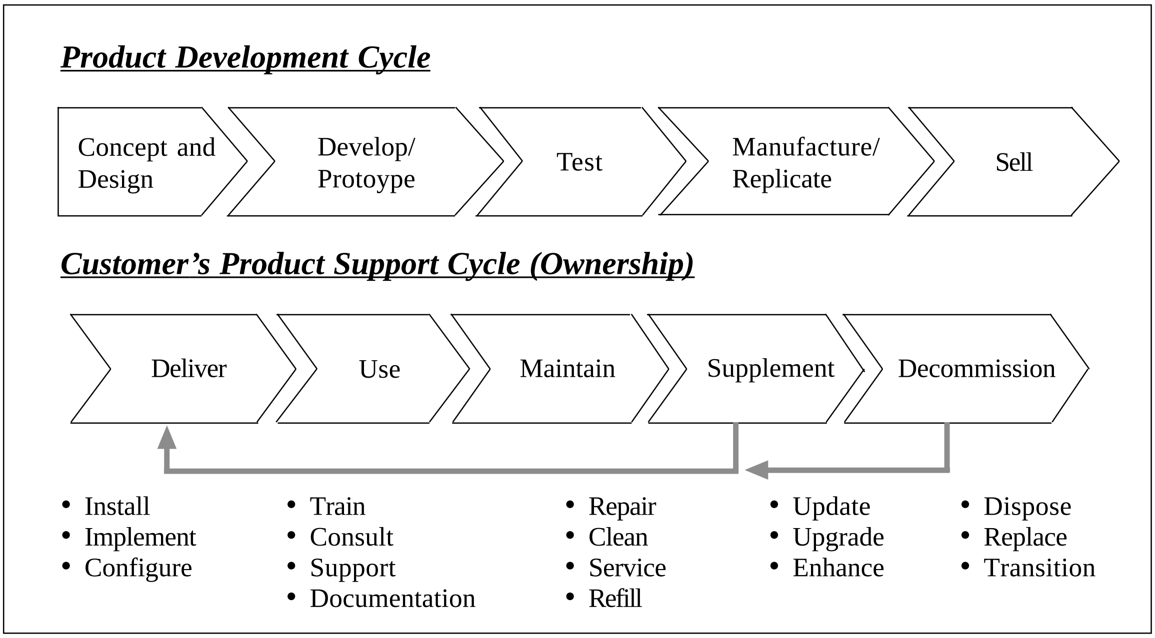
4. How can increased **supportability** help a customer achieve the promised benefits of a company's product? Design for Supportability (DFS) is the consideration and implementation of support requirements during product design. Companies often forget this, yet it is key to delivering a higher total net benefit of ownership. Improved product supportability often will show a much better ROI than many bells and whistles planned as product features.

The first three categories pose questions critical to customer service in meeting the potential for profit and account control. The last category, though, addresses customer service's role within the broader corporation, particularly in the product design process, which has typically been a prime area in the search for competitive advantage.

Traditionally, product design for competitive advantage has focused on features, functions, and performance of the product. Some years ago, design for manufacturability became a new criterion as designers began to think beyond the product development cycle. With the new emphasis on total cost of ownership and the associated benefits stream, product designers now need to take a full life-cycle view of product ownership. This places customer services in the strategic crosshairs, and with this mindset, customer service should no longer be an afterthought to product development. Instead, the supportability characteristics of the product and the vendor become vital to a positive product ownership experience.

Supportability concerns more than repair and maintenance. Five stages exist in the support and product ownership cycles—deliver, use, maintain, supplement, and decommission (see *Figure 1*). Each stage should be examined for s-business opportunities to deliver increased benefits to customers and reduced costs for the company and for customers. DFS techniques incorporate factors from all these stages into the product design process to minimize or simplify support requirements and help maximize the customer's net benefit of product ownership. That is, applying a DFS perspective ensures that the s-business initiative truly adds value to a customer's operation. If it doesn't, then a strategic weakness has been created that others could exploit.

Figure 1



Customer service's unique relationship with its customers provides the opportunity to identify areas for improved supportability across all five stages. Every customer service interaction creates data as a by-product about what the customers are trying to accomplish, issues they are confronting, symptoms of those issues, and how resolutions are delivered. Service engineers are exposed to these data whether it is captured or not, but when DFS is a recognized source of competitive advantage, collecting these data becomes a chartered strategic activity. Accordingly, enlightened companies acknowledge that the true core competency of customer service lies not in simply fixing problems, but in its knowledge and wisdom about customers and product usage.

But how does customer service become empowered in this strategic role to foster s-business? Implementing DFS techniques successfully requires a major commitment, not just from the customer service organization but from the company as a whole. To convince product engineering to adopt DFS approaches, customer service needs to enhance its standing within the company and build a solid business case for the value of improved product supportability complemented with s-business offerings. This is not simple, as it challenges cultural norms and the traditional views of customer service in a company's organizational structure.

Further, investing in DFS as an s-business initiative is really a strategic marketing decision. Once enacted, DFS considerations will redefine the product-service bundle. The value of service, previously delivered through augmenting services, is now partially embedded in the product, but new s-business opportunities will be created as companies and customers focus on true value-adding services. Service marketing and product marketing will have to reconsider their value propositions. The core product is now more valuable due to higher net benefit of ownership, so value-based marketing techniques must be applied to harvest this added value in the core product price. This is not a simple task—for marketing, sales, or the customers. However, these innovative business practices with a focus on a company’s s-business deliverables provide the opportunity to redefine the competitive landscape.

Selling Services: Realizing the Potential of s-Business

by Al Hahn

Some of the trends in s-business have been visible in the high-technology sector for quite some time now. Professional services such as technology consulting, systems integration, disaster planning, and implementation of enterprisewide software applications like customer relationship management (CRM) have been growing at double-digit rates for the past several years. Generally speaking, services have grown faster than product markets over the past five years, and today they represent over 35 percent of total high-tech revenues. It can be difficult for product-centric companies to make the transition to pushing services, however.

Engineers, technical marketing staff, and even salespeople may be so product-focused that they just can't accept the s-business potential. Sellers often must face the need to change sales techniques and spend much more time analyzing customer needs and less time pitching product features. Intangible services require a more relationship-driven approach to sales and marketing, which can be challenging to those with strong technical backgrounds.

High-Tech Executives Get the s-Business Model

Although the industry has been extremely product-focused in the past, top executives are getting on the s-business bandwagon. Two years ago, Michael Dell, of Dell Computer, acknowledged that the company was product-centric at that time, with only 10 percent of its revenues coming from services. He envisioned that in a few years, however, services would contribute 50 percent of total revenues.

HP and Compaq, now trying to solve their problems by merging, both failed at earlier attempts to acquire their way into s-business. Compaq acquired Digital Equipment Corporation to get their services business and then botched the integration of the companies. HP tried valiantly to acquire PricewaterhouseCoopers last fall for their consulting business, but they couldn't pull the deal off. If either had succeeded, they might not be merging today. Both Michael Capellas and Carly Fiorina, CEOs of Compaq and HP, respectively, have frequently stated their intentions to become stronger in services. Scott McNealy, chairman of Sun Microsystems, has made similar statements and is investing in growing Sun's service staff and resources. These executives have seen the strong growth of professional services continue in the face of recent dismal product markets.

A Services-Led Business Wins Strategically

With the significant crash of most high-tech businesses in 2001, we are now seeing the strategic side of the services contribution more clearly. While many former highfliers were reporting alarming first quarters in this year, IBM had no problem meeting its corporate forecasts and actually increased its services backlog from $85 billion to $87 billion. In the second quarter of 2001, $16 billion in new business catapulted the backlog to an astounding $95 billion in signed contracts. Chairman Lou Gerstner and the company's 2000 annual report both refer to IBM as "services-led." As evidence, services revenues surpassed other revenues within IBM's mix for the first time in Q2 this year, with $8.7 billion vs. $8.6 billion for hardware sales.

How can this be in the world of glamorous, ever-changing high-tech? How can services overshadow such wonderful products? The key is in the ever-changing and complex nature of products today. High-tech has always had incredible promise. Products can produce revolutionary changes in productivity, efficiency, cost reduction, customer service, quality, and the like. Companies have found, however, that they typically don't ever seem to arrive in this promised land of benefits. These complex products change and evolve before they live up to their promises. Workers simply can't keep up.

Another problem is that most high-tech companies have promised "solutions" for years but really delivered kits. To get the over-hyped results, buyers had to either integrate sophisticated products themselves or hire IT consulting firms like EDS to do it for them. In February of this year, AMR warned in its Report Card on CRM that "Only 24 percent of the cost of CRM is represented by the applications; users should plan for at least a three to four times multiple for infrastructure and services." Understanding their customers' dilemma, and their own opportunity, IBM is selling and delivering complete turnkey solutions, with a particular emphasis on e-commerce. This is the primary driver of their building backlog of s-business.

IBM leads their sales with services, selling its high-powered consultants into accounts first, before products. This is very different from most product manufacturers. IBM's consultants design solutions for their customers that are not focused on IBM products, but on customers' total needs. The benefits to IBM are two-fold. The first is access to more of their customers' money. Complete solutions can bring 50 percent to *10 times more total dollars* than just selling a few pieces of hardware and software. Despite being the largest IT services provider in the world as well as a significant maker of hardware and software products, IBM frequently cannot deliver all parts of a solution, but it gets first choice and can select which worthy partner it wants to pass along some of the spoils to. IBM increases its total revenues and margins by pulling-through its products and traditional product-support services. Second, IBM has much more account influence and control by providing consultant-led solutions. Unfortunately for them, IBM partners, such as Cisco, do not possess IBM's thousands of consultants and cannot capture this strategic high ground.

Too Much s-Business?

Another company that has been successful with s-business is Oracle. Despite being best known as the second-largest software company, Oracle actually derived approximately 56 percent of its total 2000 and 2001 revenues from services. This is not new for Oracle, and in some quarters over the past few years, we have seen service contributions generate over 60 percent of corporate funds. Unlike IBM, however, Oracle does not tout the success of its s-business. Perhaps it is worried that stock analysts will consider its strong financial contribution from services as a sign of weakness in its product business.

Indeed, many analysts do not yet understand or accept the new s-business paradigm described by IBM. In its 2001 annual report, Oracle listed its considerable support (telephone help to software users) revenues as a subcategory of its product revenues, perhaps to shore up flagging license sales and reduce the apparent dominance of s-business in its portfolio. The double-digit growth of support in both 2000 and 2001 does, in fact, substantially outperform Oracle's sluggish license sales during those years.

Strategic Contribution in Down Markets

In a tough year, when competitors are scrapping for their lives and are pulling out all stops to make sales, another service benefit has become noticeable. Customers tend to be more loyal to those who serve them well. With fewer dollars to spend, buyers have tightly prioritized their budgets. Only crucially important projects will remain funded. Certainly, buyers understand their leverage on prices in a tight market, but they also are prioritizing their vendors based on past performance. Thus, a company that has provided services to bail companies out of past problems is more likely to get scarce dollars today. Those that have made empty promises are less likely to survive. Again, this trend is not new, just newly noticed.

High-tech studies have noted for years that even mundane traditional services like hardware repair and software telephone support produce higher levels of customer loyalty. It is possible to buy business with low product prices, but only strong service providers tend to keep customers. When this trait of buying behavior is added to the growth potential of professional services, s-business has become a survival imperative in the struggling high-technology business of today.

Will It Last?

This may all add up in today's brutally difficult economy, but what will happen when things turn around? Certainly, product sales will recover. How important will s-business be then? IBM's second quarter 2001 earnings report makes this comment: "Some pundits in the industry seem to think that the piece-part makers who fared so well during the dot-com mania will return to leadership simply because the economy will turn around. Nothing could be further from the truth. The short-term, cyclical problems of the industry are totally unrelated to the fundamental shift in customer buying behavior that foretells an industry driven by services…. We believe we are uniquely positioned to lead in this new environment, regardless of economic conditions."

Market research firm IDC currently forecasts 12 percent yearly growth in high-tech services, reaching $700 billion by 2005. The future would appear bright for those who embrace the s-business phenomena. Given their history, some high-tech manufacturers probably will forget about these issues as soon as they have a good quarter. Others have developed a new business model that they intend to carry forward. The smart money is on the latter.

Transitioning from Today's Business-as-Usual to Tomorrow's s-Business

by James Alexander, Ed.D.

"Yes!" you say, "I am now a believer." The evidence is overwhelming and now you want to transform your product-centric organization to a high-performance s-business. What are the benchmarks? What are the best practices? What are the steps to successfully transitioning from today's business-as-usual to tomorrow's s-business?

Cold, Hard Reality

Not so fast…. The troubling truth of the matter is that about three out of four major change efforts fail to achieve and sustain the desired objectives. My own experience in advising organizations confirms this, and probably your personal experiences do, as well. Think back over the last few years during times you experienced the launching of initiatives such as Total Quality, Process Improvement, or Balanced Scorecard. How many of those efforts have brought about the *lasting* value intended at the time of announcement?

Obstacles to Change

Shortly, I will introduce the best practices of s-business change implementation. However, before talking about what to do, it is important to ponder what not to do. Ten common obstacles that pop up time and again when organizations (and the people who compose them) attempt to do things differently can be seen in *Figure 1* (Ulrich, 1997):

Figure 1

Why Changes Don't Produce Change

1. They're not tied to strategy.
2. They're seen as a fad or quick fix.
3. Short-term perspective.
4. Political realities undermine change.
5. Grandiose expectations vs. simple successes.
6. Inflexible change designs.
7. Lack of leadership regarding change.
8. Lack of measurable, tangible results.
9. Fear of the unknown.
10. Inability to mobilize commitment to sustain change.

Recognize any of these? I don't believe further elaboration is required. Needless to say, all must be recognized, and steps need to be put in place to deal with each of them. However, in addition to these 10 obstacles, there are some special challenges to transitioning to s-business that must be considered before embarking on the journey of change.

Special Challenges of s-Change

As already noted, big-time change (targeted at making major improvements in organization performance) is tough. Yet, making the transition to s-business is often on a more difficult order of magnitude. Two factors drive this.

The first factor is the extreme difference between the two types of products of traditional business and s-businesses. First of all, in most cases, the goods produced by traditional organizations easily can be seen, felt, and described. However, the products of s-business (services and professional services) are intangible. Evert Gummesson probably said it the most eloquently, stating that "services are something that can be bought and sold but can't be dropped on your foot." The challenge of dealing with the added complexity of intangibility alone raises the bar. In addition, some other major differences between the two types of products, as shown in *Figure* 2, are worth noting:

Figure 2

Product Comparison: Goods vs. Services

GOODS	SERVICES
Goods are produced.	Services are performed.
The goal of producing goods is uniformity.	The goal of performing services is uniqueness.
The customer is not involved in production.	The customer often is involved in the service performance.
Internal quality control compares outputs to specifications. If improperly produced, the product can be recalled.	Customers conduct quality control by comparing expectations to experience. If improperly performed, apologies and reparation are the only means of recourse.
The morale and skill of the production workers is important.	The morale and skill of service providers is critical.

These distinctions have a fundamental impact on how one produces, markets, sells, delivers, services, and measures the performance of s-business products and the success of the s-business itself. What may have worked extremely well in managing a traditional goods-based organization will be ineffective in the world of s-business. Hence, different characteristics and competencies in people must be sought, different management support systems created, and different metrics evaluated to reward performance and guide the enterprise. All of this is further complicated because, in most cases, s-businesses still produce and sell the goods of their former existence. This is a significant management challenge.

The second factor compounding the difficulty of s-business transition deals with organization culture. Whether a management consultancy, a bank, a software producer, or a heavy machine manufacturer, the principles and practices of Total Quality or Process Improvement ring true—there is a strong element of common sense built into these models that people can readily relate to. Who can be against quality? Who would not want to eliminate waste? And though it is difficult, people inside the organization at all levels can accept the tenets of the proposed new way of doing things over time. Furthermore, with some modifications to the management system, the organization eventually can integrate these types of initiatives into the culture.

But not so with s-business. Culture abhors attempts to change it and will do whatever it can to maintain the status quo. S-business is a full frontal attack on the existing culture, and the defensive mechanisms of the organization will resist any way it can. The fundamental problem is that, in most cases, the people running the show got there by being exceptionally good at making, marketing, selling, delivering, and servicing goods. Goods are their expertise, and this expertise got them promoted. Their past successes (built around goods) helped create, develop, and nurture the culture—a culture that lives, breathes, and reinforces goods-related success while shunning other alternatives to business.

In this setting, services were necessary evils that were tolerated because they were a requirement in supporting goods. Service was traditionally a cost center and services were things negotiated and often given away either to make a sale or to keep a customer happy. S-business requires a serious flip-flop in thinking. Services now must be viewed as the principal products of the organization, the true value-adders, the potential differentiators in the marketplace, and the keys to profitable revenue. Executives now must view goods as customers have for a long time—as commodities that take a secondary role in a total solutions package. This is not an easy transition to make, as it flies directly in the face of the tried and true.

So the truth of the matter is that the very things that made you successful yesterday are the same things that hinder your success today. Bringing about this s-business mindshift is a leadership challenge of the highest order.

10 Steps to Implementing s-Change

Hundreds of organizations, however, have made the successful transition to s-business. Just as we know the things that thwart the movement to s-business, we also know the best practices to follow in making the transition successful. Here are the 10 steps that can smooth and ease a successful implementation:

1. **Determine your organization's current s-performance and s-readiness**. This is the most important and most demanding step. Here you need to look outside at your strengths and weaknesses in the services you already provide, comparing this performance to customer expectations, needs, and competitive positions.

Next, you must look inside and perform an organization-wide evaluation to determine the size of the s-gap and the realistic probability of your ability to close that gap. Included in this audit should be a review of the management systems, people capabilities, and culture analysis. This step reveals the investment required in time, money, and pain.

2. **Adjust the business strategy to support the new focus**. The shift to s-business will have anywhere from a major to a profound impact on the business. The strategy must be reconsidered to reflect this change and to better align with marketplace realities.

3. **Develop and articulate a clear purpose and rationale**. The need for this transition will not be understood immediately nor quickly bought into by many in the organization. People must be sold on the concept, and a succinct purpose and well-expressed rationale are necessary first steps.

4. **Fully commit senior management to s-sponsorship and ownership**. Easily said, very difficult to do, yet a necessity. These are the same people who achieved their success and power through the system you are trying to dramatically alter. Remember that it is rare for the ruling class to support the revolutionaries, so the case for change must be seen as the only choice for organizational survival.

5. **Inform and involve all key stakeholders**. If there is a secret to successful change, this is it. Everyone who is a stakeholder (those who have something to gain or lose because of the s-change) must have all relevant information in a way that demonstrates what is being done, why it is being done, and the potential benefits to stakeholders. Furthermore, there is a direct relationship between an individual's involvement with an issue and that person's commitment level to the final outcome.

6. **Change the people management systems to support new ways of doing s-business**. The shift to s-business requires different expectations, different objectives, different tools, different processes and procedures, different reward systems, different everything. All the elements of people management have to be rethought before implementation begins.

7. **Provide adequate resources**. Don't do it on the cheap. Bring in some outside experts who have done it before. Invest heavily in training, as there is a host of new knowledge and skills that must be acquired. You owe it to the people to provide everyone the chance to make the change; however, the reality is that a certain percentage of the organization won't make the necessary adjustments.

8. **Monitor progress**. Set up some milestones and review success and failures on a regular basis. Your well-thought-out change plan will need to be altered as you tailor actions to align with what works and avoid what doesn't.

9. **Think holistically**. Remember that everything is interrelated. Making a change in one part of the system has an impact on another. So although it is smart to look for low-hanging fruit to gain some quick successes, think through how it affects everything else, and plan for it.

10. **Create a sense of urgency**. The logical facts and figures demonstrating the rationale for the transition to s-business are important. However, if one is not careful, the move to s-business may be put off until next month, next quarter, or next year as more analysis is requested and more time to "think things through" is sought. Yes, information is vital, a solid plan must be developed, and a core group of converts must be formed. However, change is time-sensitive, and prolonged hesitation only makes things more difficult. Leadership is needed to trumpet the cause and build the emotional momentum needed to break the status quo and get things rolling.

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