

What Business Leaders Need to Know About Open Services Innovation

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Payrolls were up nearly 300,000 jobs in December, according to unofficial data from ADP. These numbers provide some encouragement that job growth may be returning to the US economy.

Not surprisingly, most of these new jobs were in services. The Department of Commerce estimates that – just like in most advanced economies around the world – more than 70 percent of employment in the US comes from service firms. The most recent jobs data simply confirms that our economy will be even more service-focused as the economic recovery produces more jobs.

Unfortunately, business leaders know a lot more about innovating new products and new technologies than they do about innovating services. This was a problem that Paul Horn, IBM's head of research, had to confront back in 2004. Although half of IBM's revenues were coming from its services, his 3,000 researchers were all focused on making new products and new technologies.

For our service-driven economy to grow and America to maintain its competitive edge globally, it is critical that business leaders learn how to innovate in a service economy. The first step toward successful services innovation is recognizing that the customer is at the heart of service innovation. A service is intangible – something that has value that you can't drop on your foot. That value is the experience for the customer who receives it. Since experience is subjective by its very nature, two people may perceive the same service quite differently. Therefore, innovating in services requires different tactics than innovating products. For example, inviting the customer to participate as a co-innovator is a powerful method for business leaders to harness this subjectivity and differentiate their companies from competitors, all the while creating more value for customers. Lego reached an entirely new market of teachers when it allowed its customers to modify its Mindstorms software to manipulate its robotics for kids, and the teachers realized they could use the service to construct a curriculum to teach robotics to middle school students.

Business leaders also need to realize that since service businesses often are people-intensive, in order to grow one profitably it is critical to focus on core strengths on the one hand, while providing a wide variety of choice to customers on the other. The only way to do that is to open up the business, turning it into a platform for others to work alongside or build on top of. Opening up the business to others allows companies to provide one-stop shopping to customers, while leveraging their core activities that comprise the structure of the platform. Amazon allows merchants to use its internal tools to build web pages on Amazon to offer merchandise to Amazon customers, who cannot tell whether the item they purchase is from Amazon (such as books) or somewhere else (such as jewelry).

Finally, focusing on service innovation, making customers central to the process, and opening up to other companies requires embracing a good deal of internal change for most companies. This means opening service innovation will change your business model. The business model is the predominant

way a business creates value for its customers and captures some piece of that value for itself. Open service innovation will require companies to charge customers in new ways, use different mechanisms for payment, and perhaps find additional revenue streams to support the business. Opening up to outsiders will often require sharing financial risks and rewards with them. Traditional competitors may become customers or partners in the new business model. IBM's Global Services business supports competitors' products at its customer locations, and shares technical information with competitors who support its products as well.

Managing this change will not be easy, but the ADP data remind us that this is the most likely source of economic growth for the US economy going forward. Mastering the subtleties of open services innovation will provide a way to sustain competitive advantage against competitors while delighting customers.