Key elements from Essentials of Service Design and Innovation Chapters 4 & 5

(preparation for completing Analysis Exercises 4&5)
Key elements of chapter 4: Identifying the Value Proposition

Dr. Scott E. Sampson
Thorsell Professor of Service Operations Management
Brigham Young University
Provo, Utah, USA
© 2014, 2020 SES
Key concepts from Chapter 4

• What is value to different entities?
  • Specific beneficiaries
  • Generic beneficiaries

• How is value manifest?
  • Value potential
  • Value realization
What is value?
Principle of “value”

- All participants in a process relationship do so because of perceived benefits (value), which is the satisfaction of some need (a condition of happiness).
- Some entities participate because of benefits inherent in the system. These “specific beneficiaries” are often called “customers.”
- Other entities participate in order to attain benefits through other systems. They access the other systems through monetary means. These “providers” are “generic beneficiaries” because the benefits they seek are not inherent in the given system.
- The point is, all entities, customers and providers, participate because of perceived benefits.
Roles

What is a provider?

A generic beneficiary

An entity with:
- generic needs ($ money)
- specific resources (competencies).

What is a customer?

A specific beneficiary

An entity with:
- specific needs
- generic resources ($)
- and competencies!
What is value?

to the provider?

to the customer?

Value is meeting needs

“meeting generic needs”

“meeting specific needs”
Elemental concepts

What is value?
- satisfaction of needs

What are needs?
- conditions of happiness and well being

What is happiness (well being, quality of life, etc.)?
- “the object and design of our existence”
  - Joseph Smith

- Ultimately, increasing happiness is the object and design of all organizations and relationships.
The two manifestations of value
Two values

value potential
• a state of nature that has the potential to satisfy needs

value realization
• the actual satisfaction of needs, improving happiness (well being, etc.)
Where is customer value?

- **not co-productive**
  - Toyota process domain
  - Independent processing
  - produce car

- **interactive co-production**
  - interaction
  - sell car

- **not co-productive**
  - Driver process domain
  - Independent processing
  - drive car

"speculative production" "value potential"
"service" facilitating value realization
"consumption" "value realization"

Identifying the Value Proposition
Principles of PCN Analysis

- Customer value is always realized in the customers’ process domain.
- Therefore, it is important to understand what goes on in customers’ process domain.
- The primary purpose of service interaction is to facilitate value realization.
Distinguishing between value potential and value realization
Value? Psychological benefit?

Value Potential

Should we come skiing again?

I love watching Bobby crash

Value Realization

Is there Value Realization on the lift? How much?
Would Bobby be willing to pay $130 per day to ride the lift all day and not ski?
Differences between the two concepts

Value Potential
- Seeded by provider
- Speculative
- Contingent
- Depends on the future
- May or may not be realized
- Gets power from belief
- Belief is perpetuated or destroyed by value realization!

Value Realization
- Customer idiosyncratic
- Real!
- Independent
- Depends on nothing
- Transitory – real but fleeting
- Persistent – change of state
- Warp Realization!
Time value of value

(Four optional slides.)
Two values

value potential

• a state of nature that has the potential to satisfy needs

value realization

• the actual satisfaction of needs, improving happiness (well being, etc.)
Net Present Value

\[ NPV = \sum_{t=0}^{N} \frac{R_t - C_t}{(1+i)^t} \]

- \( R_t = \text{expected revenue at time } t \)
- \( C_t = \text{expected cost at time } t \)
- \( i = \text{discount rate (bias toward near cash flows)} \)

Net Present Happiness

\[ NP\,\smiley = \sum_{t=0}^{N} \frac{\smiley_t - \frown_t}{(1+i)^t} \]

- \( \smiley_t = \text{estimated happiness at time } t \)
- \( \frown_t = \text{estimated unhappiness at time } t \)
- \( i = \text{discount rate (bias toward present } \smiley \text{ and } \frown, i=1-F) \)
Happiness flows 😊😊

Identifying the Value Proposition
Happiness flows 😊😊
PCN Analysis

Representing the value proposition
Representing value on a PCN Diagram

Costs and benefits to specific beneficiary (customer) are usually psychological…
• put 😞 for cost steps (waiting, inconvenience, etc.)
• put 😊 by psychological benefit steps (happiness inducing)

Costs and benefits to generic beneficiaries (providers) are usually monetary…
• put -$ by cost steps
• put +$ by revenue steps
Representing a value proposition

Identifying the Value Proposition
see Analysis Exercise 4
Key elements of chapter 5: Strategic Process Positioning

Dr. Scott E. Sampson
Thorsell Professor of Service Operations Management
Brigham Young University
Provo, Utah, USA
© 2014 SES
Strategic Process Positioning

Sandwiches and Investment analysis
Sandwich example from the chapter

**Sandwich Supplier**
- **Supplier’s Process Domain**
  - **Independent processing**
    - assemble sandwich
  - **Surrogate interaction**
    - assemble sandwich in a factory for sale at grocery store

**Sandwich Consumer**
- **Consumer’s Process Domain**
  - **Independent processing**
    - assemble sandwich
  - **Surrogate interaction**
    - assemble sandwich at home using ingredients from the refrigerator

**Surrogate interaction**
- assemble sandwich
- assemble sandwich
- assemble sandwich at a buffet restaurant

**Direct interaction**
- assemble sandwich
- assemble sandwich to order in restaurant kitchen
- assemble sandwich at a Subway sandwich as customer selects orders

**Strategic Process Positioning**
- simple quiz

---

- Has dagwood found a vending machine that sells sandwiches? Not yet.
- Chips
- What’s the smoke for?
- Didn’t you order a smoked chicken sandwich?
- One sandwich with ice cream, bananas, and syrup please!
- I love a good buffet!
- Dagwood, don’t forget to clean up your mess.
Your assignment…
1. Describe what it would mean for the “analyze investments” step to be in regions 1 through 5.

2. Which of the alternatives is superior in terms of 🔄 🔄 🔄
   • economies of scale?
   • customization potential?
   • efficiency?
Thinking about Process Positioning

**Provider's Process Domain**
- **Option 1:** analyze investments for printing in a newsletter
- **Option 2:** centrally analyze client investor's investment portfolio
- **Option 3:** discuss client investor's financial needs and help client analyze investment alternatives
- **Option 4:** analyze own investments using provider's online tools
- **Option 5:** analyze own investments using a spreadsheet

**Investor's Process Domain**
- **Option 1:** analyze investments for printing in a newsletter
- **Option 2:** centrally analyze client investor's investment portfolio
- **Option 3:** discuss client investor's financial needs and help client analyze investment alternatives
- **Option 4:** analyze own investments using provider's online tools
- **Option 5:** analyze own investments using a spreadsheet

---

Your assignment…

1. Describe what it would mean for the “analyze investments” step to be in regions 1 through 5.
2. Which of the alternatives is superior in terms of...
Thinking about Process Positioning

Option 1: analyze investments for printing in a newsletter

Option 2: centrally analyze client investor’s investment portfolio

Option 3: discuss client investor’s financial needs and help client analyze investment alternatives

Option 4: analyze own investments using provider’s online tools

Option 5: analyze own investments using a spreadsheet

2. Which alternative is superior in terms of...
- economies of scale
- customization potential
- efficiency

The most common economy of scale is the acquisition of expertise.
Principles of process positioning

Invest firm

Provider's Process Domain

Independent processing

Surrogate interaction

Option 1: analyze investments for printing in a newsletter

Option 2: centrally analyze client investor's investment portfolio

Option 3: discuss client investor's financial needs and help client analyze investment alternatives

Option 4: analyze own investments using provider's online tools

Option 5: analyze own investments using a spreadsheet

Client

Investor's Process Domain

Direct interaction

Surrogate interaction

Direct interaction

Independent processing

Why would you ever want to position a process in direct interaction?

greater scale and expertise

lowest operating efficiency

greater customization potential
Principles of process positioning

Invest firm

Provider's Process Domain

- Independent processing
- Surrogate interaction

- Option 1: analyze investments for printing in a newsletter
- Option 2: centrally analyze client investor’s investment portfolio

Investor's Process Domain

- Direct interaction
- Surrogate interaction

- Option 3: “skillful customization”
- Option 4: analyze own investments using provider’s online tools
- Option 5: analyze own investments using a spreadsheet

Client

- Direct interaction
- Independent processing

greater scale and expertise

lowest operating efficiency

greater customization potential

Process positioning decision...

- process requires specialized skills/assets
- process requires both
- process requires customized attention

or low-cost labor and provider wants control
back to assembling sandwiches
Principles of process positioning

Sandwich Supplier
Supplier’s Process Domain

Surrogate interaction
assemble prepackaged sandwich in a factory for sale at grocery store

Independent processing
assemble sandwich to order in restaurant kitchen

Direct interaction
assemble sandwich at a Subway sandwich as customer selects orders

Sandwich Consumer
Consumer’s Process Domain

Surrogate interaction
assemble sandwich at a buffet restaurant

Independent processing
assemble sandwich at home using ingredients from the refrigerator

Surrogate interaction

Which option provides the best...?

- economies of scale
- customization
- potential
- efficiency
**Principles of process positioning**

**Sandwich Supplier**
- **Supplier's Process Domain**
  - Independent processing
    - Assemble prepackaged sandwich in a factory for sale at grocery store
  - Surrogate interaction
    - Assemble sandwich to order in restaurant kitchen

**Sandwich Consumer**
- **Consumer's Process Domain**
  - Direct interaction
    - Assemble sandwich at a buffet restaurant
  - Surrogate interaction
    - Assemble sandwich at home using ingredients from the refrigerator

---

**Process positioning decision…**

- **Process requires specialized skills/assets**
- **Process requires both**
- **Process requires customized attention**

**or low-cost labor and provider wants control**

---

**“skillful customization”**

- **greater scale including expertise**
- **lowest operating efficiency**
- **greater customization potential**
Principles of PCN Analysis

• Process positioning has strategic implications.
• Process positioning defines your value proposition.
• You can change and improve your value proposition by repositioning process steps.
Enabling Innovations and Relieving Innovations

Take and bake pizza case study
Take-and-bake pizza

**“Supplier”**
- Pizza Restaurant
  - Independent processing
  - Surrogate interaction
  - Direct interaction
  - Assemble pizza
  - Wrap pizza
  - Pay for pizza
  - Cook pizza

**“Customer”**
- Pizza Consumer
  - Independent processing
  - Surrogate interaction
  - Direct interaction
  - Develop appetite
  - Eat leftovers
  - Eat pizza

**Value? 😊**
- Call restaurant
- Discuss options and specials
- Place order
- Travel to store
- Travel home

**Customer costs? 😞**
- Work
- Play
Enabling innovation?

Pizza Restaurant

- Independent processing
- Surrogate interaction
- Direct interaction

1. maintain supplies
2. prepare components
3. wrap pizza
4. assemble pizza
5. preheat ovens

Pizza Consumer

- Independent processing
- Surrogate interaction
- Direct interaction

1. travel to store
2. eat leftovers
3. eat pizza
4. cook pizza
5. travel home

Develop appetite
- work
- play

Discuss options and specials
- place order

Pay for pizza
- travel home
- work
- play

Call restaurant
- develop appetite

Strategy Process Positioning
Enabling innovation?

“enabling” innovations move process steps towards customers

Pizza Restaurant

“Supplier”

“Customer”

Independent processing
Surrogate interaction
Direct interaction
Direct interaction
Surrogate interaction
Independent processing

develop recipes
preheat ovens
prepare components
maintain supplies

assemble pizza
wrap pizza

pay for pizza
place order
discuss options and specials
call restaurant

travel to store
eat leftovers
travel home
cook pizza
eat pizza
work
play

Strategic Process Positioning
Enabling innovation

“enabling” innovations move process steps towards customers

Pizza Restaurant
- Independent processing
  - develop recipes
  - preheat ovens
  - prepare components
  - maintain supplies
  - assemble pizza
  - wrap pizza

Pizza Consumer
- Independent processing
  - place order
  - travel to store
  - pay for pizza
- Surrogate interaction
  - place order on mobile phone app
  - discuss options and specials
  - call restaurant
- Direct interaction
  - travel to store
  - cook pizza
  - eat pizza
  - eat leftovers

The NEW Pizza Hut iPhone App

Improved value proposition

Strategic Process Positioning
Relieving innovation?

“relieving” innovations move process steps away from customers

Pizza Restaurant
- Independent processing
- Surrogate interaction
- Direct interaction
- Surrogate interaction
- Independent processing

Pizza Consumer
- Surrogate interaction
- Direct interaction
- Direct interaction
- Surrogate interaction
- Independent processing

- develop recipes
- preheat ovens
- prepare components
- maintain supplies
- assemble pizza
- wrap pizza
- pay for pizza
- call restaurant
- discuss options and specials
- place order
- travel to store
- eat leftovers
- eat pizza
- cook pizza
- travel home

Strategic Process Positioning
“relieving” innovations move process steps away from customers

Pizza Restaurant
- Independent processing
- Surrogate interaction
  - assemble pizza
  - wrap pizza
  - pay for pizza
  - place pizza in customer’s porch box
  - maintain supplies
  - prepare components
  - preheat ovens
- develop recipes

Pizza Consumer
- Independent processing
- Surrogate interaction
- Direct interaction
  - discussion options and specials
  - pay for pizza
  - place order
  - travel to store
- travel leftovers

“Supplier”
- develop appetite

“Customer”
- eat leftovers
- eat pizza
- travel home
- maintain supplies
- deduct from customer account

Strategic Process Positioning
Principles of PCN Analysis

• Service innovation comes from process repositioning…
  • *Enabling innovations* move process steps toward customers.
  • *Relieving innovations* move process steps away from customers.

• Optimal positioning depends on *customer segment* requirements.
see Analysis Exercise 5