



# Leading the way:

## Why services companies have co-opted product leadership as a key value

Companies can no longer sustain success simply by offering a good service. Innovation has become a cultural leitmotiv in some successful service companies, whose leaders are encouraging top-to-bottom ingenuity to stay ahead of competitors.

Business leaders must lead by example – applying individual perspicacity internally and externally, so that their companies are sufficiently agile and resourced to capitalize on innovation. Those organizations strive to provide a service of outstanding reliability and superior quality, or deliver an experience that will compel customers to return again and again.

Innovation is an underutilized weapon in services industries. Product leading service companies win and protect business by leaving customers feeling:

- > ‘These services have never been offered before’
- > ‘The company anticipates and solves challenges and problems in its market’
- > ‘The service is so good that price is rarely a top consideration’

To sustain long-term success, service companies must aspire to emulate the kind of ‘anticipation’ that product companies generate amongst consumers. That requires more than just innovation in service design – creative client-facing and marketing colleagues are just as critical. Granted, decision-makers in companies needing management consultancy, web design or insurance services are unlikely to be distracted from routine by wondering what their suppliers will come up with next. But providing the capacity, freedom and encouragement to innovate is the hallmark of companies that deliver services of such a consistently high quality that their customers instinctively trust them to anticipate and address their needs.

Innovation amongst service companies revolves around:

- > Developing improved services
- > Introducing new service offerings
- > Creating new business models
- > Adding new solutions alongside core service offerings

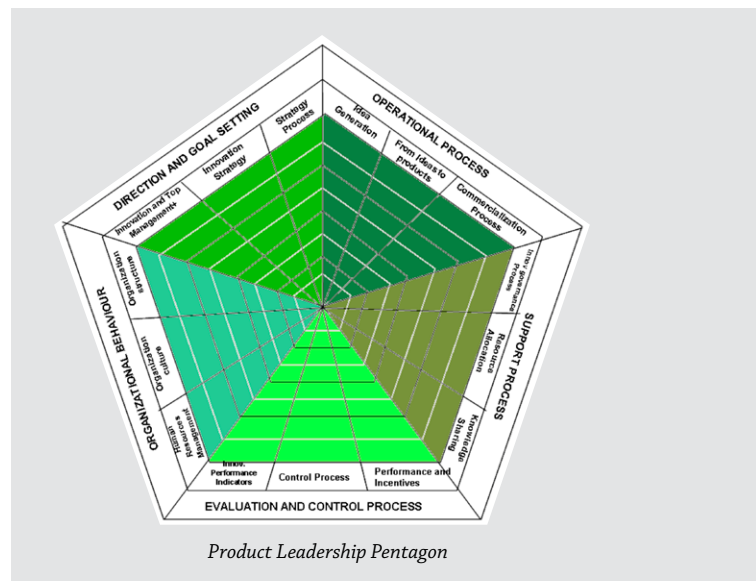
Product leaders focus on new and improved services – but what defines a product leader?

## AN INTEGRATED APPROACH: The Product Leadership Pentagon

It’s not enough to simply have the right strategy in place. The appropriate business model – bringing together people, processes and resources – must be in place to implement that strategy, in order for competitive advantage to be so overwhelming that it can be sustained.

Professor dr Kurt Verweire and Judith Escalier Revollo of Vlerick Leuven Gent Management School have identified and refined five critical dimensions for a framework to promote strategy implementation. Subsequent work conducted by the school’s Flanders DC Knowledge Centre has resulted in a practical online

tool, the Product Leadership Pentagon (<http://tools.vlerick.com/en/product-leadership-tool>), which helps companies benchmark their product leadership capacity against the most successful product leaders from various industries.



The Pentagon focuses on:

1. Direction and goal-setting
2. Operational processes
3. Support processes
4. Evaluation and control processes
5. Organizational behavior

## DIRECTION AND GOAL-SETTING: Start at the top, but don’t forget the bottom

Product leaders embed innovation in corporate culture. Yet innovation must amount to more than catchy phrases at management rallies. Top managers must ‘live’ the innovation culture; otherwise, that culture becomes tricky to create and virtually impossible to sustain.

Senior management must:

- > Reassure everyone that creativity is valued, and follow through on commitments
- > Support people who can drive innovation projects to completion
- > Communicate and *listen* regularly, paying attention to client-facing staff with first-hand knowledge of customers’ issues
- > Accept risk, so that staff feel that disappointments or mistakes will be tolerated as part of the journey to innovation successes
- > Instill a sense of entrepreneurship, encouraging people to challenge the status quo

Senior management must give a sense of purpose, direction and focus, so that corporate objectives can be linked back into innovation initiatives. This should be more than a marketing exercise; product leaders regard innovation as essential for gaining competitive advantage. Its full value can only be realized when everyone is free to innovate.

While it's important to recognize the role those at the 'coalface' play in innovating, this does not mean a free-for-all for mavericks. Senior management must publicize the broad remit within which staff can be creative, informed by information gleaned from face-to-face meetings in the field, via staff intranet forums, at external networking events and through general awareness of relevant economic and business factors.

### Case study

#### **Google: a non-stop search to innovate**

Staff at the world's leading internet search engine are left in no doubt about how central innovation is to corporate success – on joining, every employee receives a welcome letter from the company's founders, which includes the need to 'engage in activities that are related to innovation'. Top management champion a suggestion box that's regularly reviewed, and staff who come up with innovative ideas are recognized and rewarded. Technical employees are not only encouraged to innovate – they're required to spend 20 per cent of their time on new ideas, which have resulted in many of Google's most successful and well-known products.

### **OPERATIONAL PROCESSES: Innovation as a core, company-wide function**

Systems to encourage ideas needn't be rocket science. The humblest suggestion box may contain the germ of a service innovation that will delight the most demanding customer. The key is visibility – people need reassurance that their ideas will be considered, not stockpiled. That means publicizing ideas that are explored and followed up. Those being considered more seriously should involve top management across the company (even where specific 'innovation teams' or 'development teams' exist, heads of all departments are stakeholders in innovation). Management must also encourage people to monitor competitors, suppliers and external markets to fuel the idea production line.

Once initiatives are approved and underway, project management must be systematic, and typically might feature:

- > Definition of each stage's activities and anticipated (or desired) outcomes

- > Definition of time deemed reasonable to execute each stages to sufficient quality
- > Roles of key stakeholders (including boardroom champions)
- > Criteria against which decisions to continue or abandon project work can be made

Before going into full swing, management must also consider key commercialization factors, such as the economic viability, target customers, market-leading features, brand 'fit', resources required and the cost to customers. Product-leading companies often involve their customers – test-bedding ideas or organizing focus groups, so that activity remains relevant, and doesn't become an outlet for over-ambitious or outlandish ideas that bear little ultimate value.

### Case study

#### **TRENTE Restaurant: where innovation tastes good**

The owner-chef of TRENTE invites employees to continually feed him suggestions, setting aside money to try out new dishes three months in advance of appearing on the dinner menu. Testing is as an automatic part of the process; new ideas are piloted at lunchtimes, with ingredients or flavors tweaked before dishes are finally served at dinner. Interestingly, the owner-chef ascribes his success partly to the diversity of his workforce, many of whom have been deliberately recruited from outside cooking circles, such as science, philosophy and history.

### **SUPPORT PROCESSES: Transparently backing up innovation**

Service companies that wish to be product leaders ignore support services at their peril.

As a process, innovation ought to be auditable, in much the same way expected of purchasing, accounting or marketing processes. Consistency, ownership and resource availability are just aspects of innovation that should be traceable; as time, effort and money are being made available, scrutiny of finances and personnel is critical. For instance, the rationale for selecting projects for development should be transparent, with senior management accountable for their decisions. More broadly, employees should have a degree of time built into their job specifications for investing in innovation, alongside core responsibilities.

The further-reaching consequences of project decisions must also be subject to audit – including how information acquired or generated over the course of the project is disseminated amongst key people (who may not necessarily be major players).

Formalizing the process of sharing ideas and discoveries outside the organization may also reap benefits. However free the company is with new insights, a degree of post-project introspection, formal or otherwise, is advisable, so that, going forward, employees will continue their innovate efforts, armed with all available information.

## EVALUATION AND CONTROL PROCESSES: More than a numbers game

Performance management has become a major focus for service organizations. But measuring effectiveness of innovation is not as straightforward as, say, sales or productivity. Product leaders in the service sector, however, see beyond those confines; they link innovation success to corporate strategy, implementing relevant metrics that emphasize output over input. These might include:

- > Revenue/profit growth, proportion of sales and/or increase in market share due to new services
- > Customer satisfaction with new services
- > Volume of ideas under development (along with number of personnel dedicated to idea development)

Thorough measurement entails a breakdown of the innovation process for tracking purposes – for instance, separating input measures (resources, such as spend, people and projects), process measures (such as cost performance and schedule performance indicators) and output measures (such as revenue or profit).

However, restraint is called for – innovation by its very nature may yield returns only in the long term, while senior management must bear in mind that failure and uncertainty are part and parcel of the innovation process, and that reflection and experimentation are necessary ‘evils’. The rejection of projects that don’t promise immediate bottom-line results should not be an automated response to disappointing measurements. Similarly, innovators need to be rewarded for their efforts, even if profitable outcomes remain on the distant horizon.

### Case study

#### **Netlog: widening networks, measure by measure**

Europe’s leading social networking site takes full advantage of the fact that, as an internet company, its managers have reams of statistics at their fingertips. In a highly competitive field, Netlog has to get new innovations to market fast to stay one step ahead. It measures everything, tracking the impact of new products so that popular ones can be capitalized upon or improved, and those less successful can be ditched.

## ORGANIZATIONAL BEHAVIOR: Structured for success

Finally, how companies are organized can, and usually does, play an important role in innovation.

Targeted talent management – covering attraction, selection, development and retention – is essential. Product leaders who demonstrate creativity, lateral thinking and finely-tuned focus, and an alertness to customer needs, will try to hire like-minded people, at all levels. However, companies must not recruit ‘clones’ – people must exhibit characteristics relevant to their specific role, and which will complement the qualities of colleagues with whom they will integrate. With that in mind, diverse recruitment policies provide organizations with the widest possible creative input. Once the right people are on board, employers must continue to develop them, enhancing existing ability and broadening skill-sets, engendering motivation and loyalty. Employee wellbeing should be a priority, and need not be costly. Improving the working environment and encouraging social and sports activities are small touches that result in happier, healthier people, more likely to come up with product leading ideas.

An innovative organizational culture encourages curiosity, creativity and entrepreneurship amongst employees, rewarding ‘can-do’ types who try out new ideas. Such a culture will feature open communication, which might include a degree of challenging norms, constructive criticism and occasional disagreement. Product leading companies have usually developed their innovative culture over several years; their employees are less afraid to make suggestions or take risks than in other organizations.

Strict hierarchies and centralization stifle innovation – companies with informal structures, where employees are empowered to make decisions, are more likely to benefit from their people’s creative input. Project teams drawn from different departments work together, without interference from heads of functions. Overall, hierarchies are flatter, more flexible and less bureaucratic (although leaders are still essential).

## A BLUEPRINT FOR PRODUCT LEADERSHIP?

Clearly, innovation is the watchword for product leaders. But employees and customers will quickly spot if innovation is a veneer. Management must ‘live’ the innovation culture, making resources available so that people want to contribute their ideas.

Putting structures and processes in place takes time. However, by using Flanders DC Knowledge Centre’s Product Leadership Pentagon, organizations can readily identify those areas requiring most attention – and start to develop their own reputation as a product leader in their service sector.

### Reference:

*Sustaining Competitive Advantage through Product Innovation: How To Achieve Product Leadership In Service Companies;*  
Prof. dr. Kurt Verweire & Judith Escalier Revollo, Vlerick Leuven Gent Management School, November 2009