

A large iceberg floats in a dark, starry space. The visible tip is a jagged, rocky peak. Below the waterline, a much larger, more complex structure is visible, representing the hidden part of the iceberg. A red diagonal shape is on the left side of the image.

► Shifting Perspectives

The role of service design
in business transformation

INSIGHTS

//01

Customers and employees expect integrated experiences, that imply a transition for companies from pure focus on products to a service-oriented approach for everything they do

//02

The role of design is evolving into the C-suite and center of corporate strategies, enabling a step change in business performance and long-term competitive advantage

//03

Service design is an practical approach how companies can operationalize the value of design from day one and initiate the way to become a human-centered organization as a whole

Design is mandatory for all organizations

We are experiencing a new life cycle of disruption. Companies across all industries are facing an unprecedented pace of innovation and increasing uncertainty, making business strategies more difficult to conceptualize and execute than in previous decades. As a result, design thinking entered the curriculum of MBA schools as a one-size-fits-all solution in an attempt to derive a competitive advantage from better understanding customer and user needs.



What matters in a world of overcrowded ideas is not to create more, but to understand which direction is meaningful.

// Roberto Verganti
Director, The Garden – Center for Design and Leadership¹

The benefits to organizations of using design to become more human-centered are evident. Without the right approach to operationalization, however, it is at risk of becoming just another buzzword. Regrettably, the gap between the statements of executives and the actions of their companies is stark: while the majority of corporations describe themselves as customer-centric, only 11 percent of their customers agree on this “fact”—as a representative Harvard Business Review study revealed.²

Just as digital transformation is more than moving away from analog processes, design is more than aesthetics. If the ultimate goal is to become a human-centered organization, the essential elements and ideas behind design, and service design in particular, can certainly lead the way. While design thinking focuses on applying design principles to individual applications, establishing design capabilities in an organization is supposed to be at the heart

of a holistic approach. Once the success of an innovation depends on human acceptance and adoption, in contrast to just creating a functional system, design should be an integral part. In our experience, this encompasses products and services, interfaces and channels, business processes, organizational transformations, and strategies. To become truly human-centered, however, requires a fundamental shift in mindsets, measurements, and daily practices across the organization.

How can you transform large, complex organizations to operate this way? This white paper aims to provide a useful guide for executives to understand the benefits of using service design in a broader organizational context. Furthermore, it offers actionable insights to reimagine current and future customer experiences, optimize customer lifetime value, or explore new business models based on our experience with clients in creating value through service design.

¹ Financial Times 2017, Ian Wylie, Design Thinking: Does it live up to the hype? | ² Harvard Business Review 2018, Denise Lee Yohn, Six ways to build a customer-centric culture

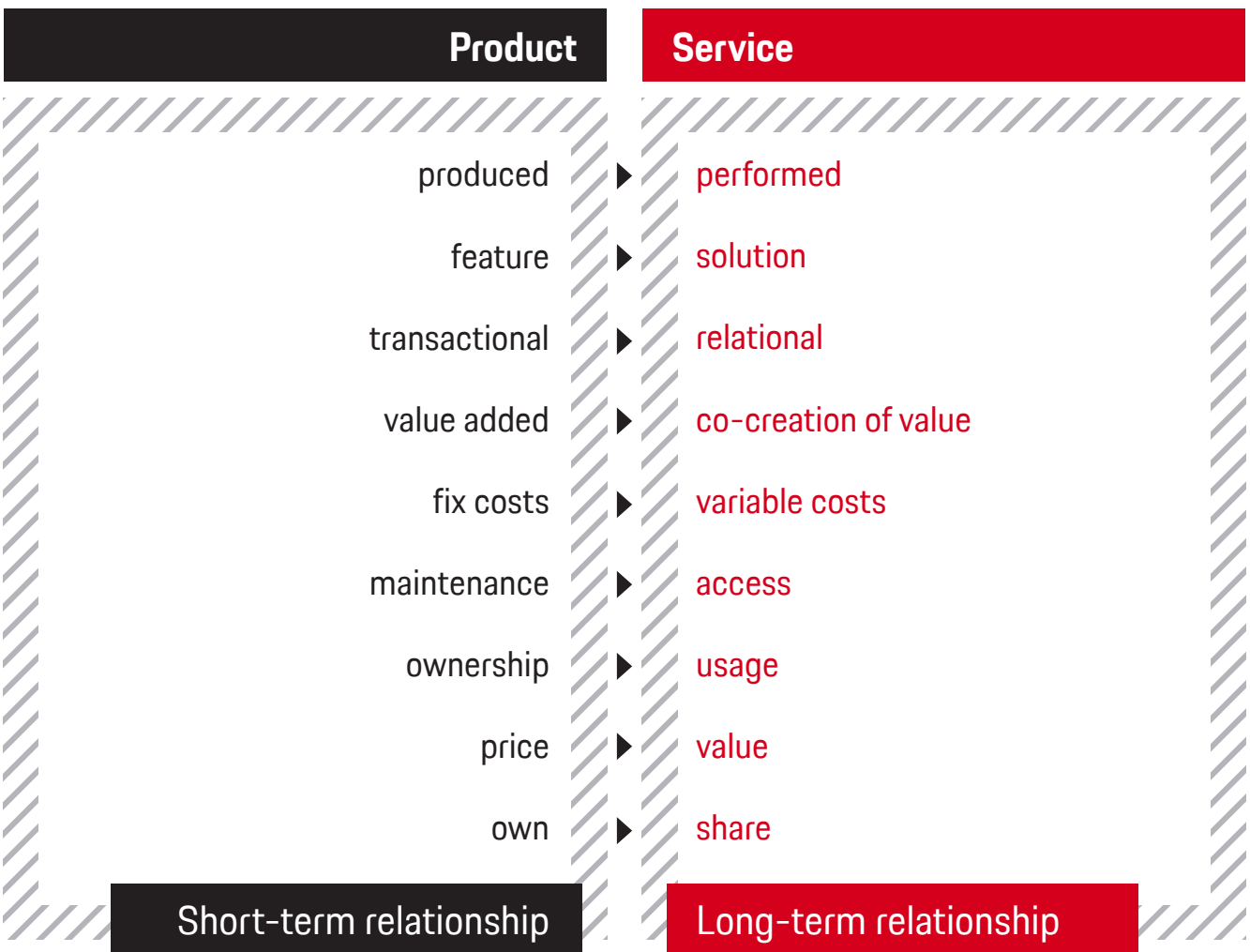
From short-term transaction to long-term growth

An increasing number of companies—irrespective of the industry they operate in—are learning to embrace the fact that today’s world is an experience economy in which usability, convenience, and connectivity ultimately win their customers’ hearts.

The paradigm shift happens across industries and value chains. Healthcare is moving toward a patient-centric ecosystem focused on outcome, thereby transforming care delivery. Manufacturing companies are climbing the value-chain ladder by integrating hardware, software, and services into new business models, addressing the underlying needs of plant operators such as performance, output, and quality. The

agriculture sector is experiencing deep changes as legacy suppliers and new companies offer data-driven solutions that automate watering, seeding, or harvesting decisions, instead of simply providing the hardware.

As demonstrated by these examples, the shift toward an experience economy implies a transition from a pure focus on products to a service-oriented offering that allows companies to be able to address their customer’s needs in a holistic manner. A service incorporates the need for a higher degree of interoperability to **merge single solutions into integrated experiences** that expands across organizations into ecosystems (figure 1).



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Figure 1. The economic evolution from products to services

While this seems easy to understand in theory, it is difficult to execute in practice. Most companies' biggest challenge is the level of transformation it requires, not just with regard to technologies and processes but especially for a company's culture and mindset—with lasting implications. In contrast to the product-centred approach, which focuses on one-off transactions involving produced goods sold at a certain price, the service-centred approach alters the perspective on access to intangible functionalities over the life cycle of each customer.

It implies the need to uncover real needs and pain points of the customers, instead searching for new products or features. Most companies, however, do not take time to conduct proper user research before generating their first design ideas or specifications. Only a fraction of these truly go beyond organizational boundaries when thinking about how to design and tailor their offerings to customers' needs. In some cases, companies even fall into the trap of selectively using individual tools, such as personas or customer journeys, to improve their products without talking to actual customers to validate their hypothesis.

Design cannot be degraded to a set of templates that instill the promise of better products, services, or experiences. Instead, design principles become a driver for innovation by

being integrated into the corporate culture and championed on a daily basis. Top-quartile companies like Netflix, Google, Disney, Airbnb, and Apple but also traditional companies such as KONE, Nike, BBVA, and Carl Zeiss are publicly known for incorporating design into their strategy, operations, and culture. They set quantified company-wide targets for design and customer experience that are just as clear as targets for revenue and costs. Moreover, they use new metrics for portfolio decisions and integrate qualitative and quantitative feedback into development processes. These organizations have managed not only to design great experiences for their customers, but to create a lasting competitive advantage by integrating customer-centricity in their corporate DNA. A successful transformation on all these levels takes years, but experience has shown that it is worth the effort. Data from a Forrester report confirms that the revenue of experience-driven businesses grows 1.4 times faster and customer lifetime value increases 1.6 times more than in other companies.³

The next chapter will guide you through Porsche Consulting's understanding of service design and how to use it as a practical approach for innovation.

³ Forrester Consulting, 2018, The Business Impact of Investing in Experience

Service design for practice

Perspectives are important in every situation and context that depends on user, customer or stakeholder acceptance and is not about simply creating functional systems. With diverse skills that can include strategic innovation, behavioral science, customer analytics, ideation, and prototyping, designers ensure that desired short-term quarterly earnings do not

overshadow long-term customer satisfaction, relationships and loyalty. Accordingly, service design is not a clearly defined single discipline and service designers have very different backgrounds and skills compared to those found in traditional organizations.

Service design is commonly defined as a human-centered, proactive approach to designing holistic experiences of services and systems using collaborative, analytical, and creative methods.

Human-centered

▶ means the subject or object in focus (e.g., a system, product, service, or entire business ecosystem) is viewed from the perspective of the target group—mostly human beings with their everyday troubles, goals, values, and jobs to be done.

Analytical and creative

▶ methods enhance and accelerate the learning process. Analytical methods can be, for example, the quantitative simulation of scenarios to derive performance indicators. Creative methods encompass everything from ethnographic user research to ideation methods and experience prototyping.

Holistic

▶ means that solutions are designed to deal with challenges to key stakeholders who are part of a system and therefore create maximum value for all parties.

Proactive

▶ means that cross-functional teams strive to “fail fast” and learn early on in the process, with little investment. The goal is to achieve a validated value proposition to avoid costlier changes later in the development and commercializing phases.

Collaborative

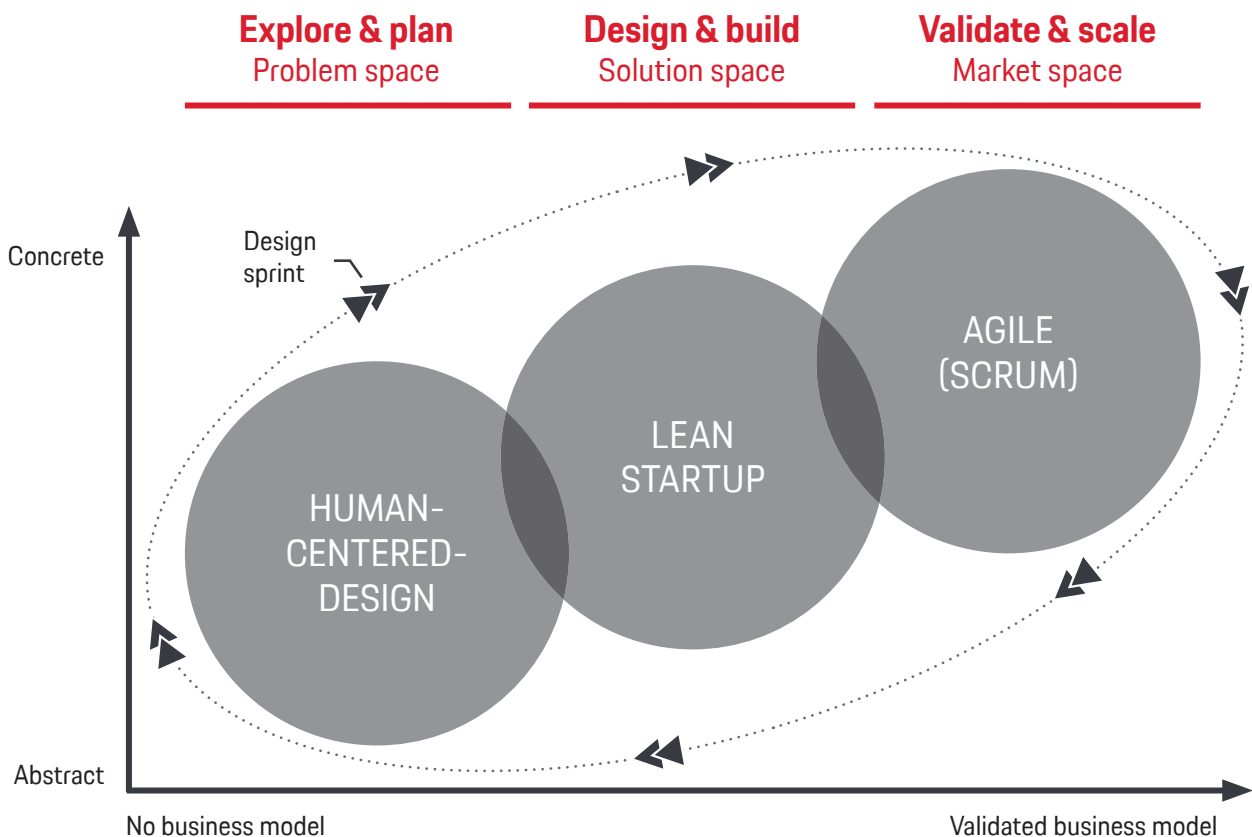
▶ means that learning happens together with key stakeholders who are knowledge experts or decision makers for the project. Value is created by multidisciplinary teamwork instead of working in silos.

Designing for impact inherently means designing for implementation. In the past, the majority of design projects focused on the first phases of understanding the problem space and creating ideas. Only a minor share focused on the actual implementation. Working together with our clients, we have learned that service design should not be restricted to the early stages but leveraged as a practical approach for the entire innovation life cycle (figure 2). Top companies treat it as a continuum, which in turn encompasses the problem, solution, and market space. Along the path, design sprints can be used as an effective tool for creative problem-solving and accelerated decision-making at the most difficult crossways.

Design flourishes best in environments that encourage learning, testing, and iterating. However, common practices in many organizations still focus on discrete and irreversible

design phases in product development, which increases the risk of losing the customer's voice or relying too heavily on singular iterations. Companies require the right space, methods, and talents to boost the odds of creating breakthrough products and services while simultaneously reducing the risk of big, costly mistakes.

Concerning methods, we are convinced that the best results come from consistently blending user research—quantitative, such as conjoint analysis, and qualitative, such as ethnographic interviews—with available reports from the market-analytics group on the actions of competitors, patent scans to monitor emerging technologies, business concerns flagged by the finance team, and other data generation methods.



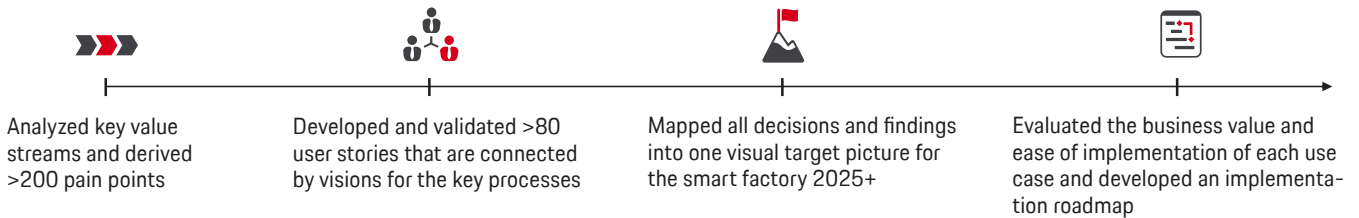
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Figure 2. Service Design Development Framework: Applying design sprints from exploration to the scale-up phase

Case studies

01 | Using human-centered methods to develop a smart factory target picture

Project journey – 4 weeks



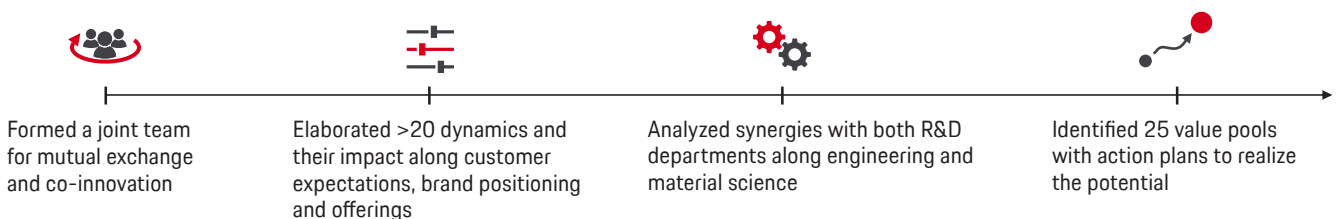
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A multinational medical technology company leveraged design sprints for the development of a target picture for its greenfield smart factory. While building a new factory is a very complex task by itself, the company aimed for more. The new campus should integrate two—formerly separated—production facilities and strengthen the end-to-end processes by bringing R&D, Production, and Customer Services closer together. It should also improve the overall targets of quality, time to market, and production costs. During

several sprint sessions with more than 20 executives, the company created one visual identity of the ambition and several target pictures of the core processes. The approach not only helped the client to achieve a shared vision with relevant use cases in a very short amount of time, but also revealed previously unnoticed barriers between functional departments. This insight allowed the company to align and motivate the departments to work together toward a common goal.

02 | Drive innovation and co-creation outside the boundaries

Project journey – 2 days design sprint



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At a manufacturer of luxury mechanical watches, blending sources of inspiration meant discussing with Formula E engineers about engine design and lightweight concepts and with brand managers of a sports car company about changing customer expectations and brand positioning. The mutual exchange helped the watchmaker to incorporate new ideas into their decision and engineering processes. Furthermore, potential areas of collaboration

beyond anything expectable were identified, both companies can now leverage as a platform to drive further collaboration and innovation. Without these tensions and interactions, development efforts may be limited by the boundaries of the existing knowledge, producing excellent improvements but missing huge opportunities of radical new thinking or are simply not a feature that the customer is ultimately willing to pay for.

03 | Leveraging service design to co-develop and launch a new service platform business

Project journey – few months



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A multinational automotive company was interested in entering a service platform business. While it was relatively easy to recognize the opportunity and evaluate the potential, the responsible team was doubtful that they could be effective within this segment. Traditionally, entering a new product field requires high fixed costs for product development and months or even years of sunken costs merely to assess whether the product fits the market. Utilizing service design and an agile work environment, the company dissected the challenge into three categories: desirability, or whether the service solved a customer need; feasibility, or whether it could be technologically implemented; and via-

bility, or whether it could be sustainably profitable. Within weeks, the project developed a service landing page where customer interest could be measured and an initial indication of the customer acquisition costs could be calculated, both of which confirmed customer desirability and business viability. Next, the project team used the landing page to offer the service before the technical infrastructure existed. The team was thus able to reaffirm business viability by accepting customer pricing. Finally, the technical infrastructure was developed to a minimal feature set and released to an existing customer base that ultimately validated the operations cost through automated platform matchmaking.

Don't just add customer-centricity. Become human-centered.

//Creating an environment for co-creation

Bringing ideas to life requires the appropriate physical space that provides inspiration and fosters out-of-the-box thinking beyond daily routines—a condition that has led to the emergence of numerous innovation labs. In recent years, these labs have mushroomed in digital hubs all over the world, with differing levels of success. The most common pitfalls faced by corporate innovation labs include a lack of vision or purpose (“why”), an unaligned portfolio between short-term quick wins and long-term disruptive bets (“what”), and political battles or culture clashes with the parent organization due to different incentive structures or operating models (“how”). As it is the case with all aspects of digital trans-

formation, innovation labs only add value for corporations if their purpose fits the company's overall strategy and goals and if their why, what, and how are clearly defined.

We applied these findings when setting up our own Porsche Consulting Innovation Lab. Our goal was to create a space where we help clients to apply design-driven methods in order to learn from customer insights and speed up decision-making. In the process, we experienced that collaboration and real-time customer insights, enabled by digital tools and platforms, add tremendous value to co-creating with our clients and their customers.

Service design will become a war for talent as well, as its application requires new skills, such as those for research methods or data interpretation and visualization, which are not part of traditional organizations today. The sense of urgency behind acquiring talents has led to an increase in M&A activity, as exemplified by large incumbents and consulting companies acquiring (service) design agencies. While this approach is certainly a way to scale, companies need to be careful not to set up ivory towers or alienate a part of the workforce, creating even more cultural and organizational discrepancies. If the ultimate goal is to become a more design-led organization, mechanisms need to be established to ensure that design capabilities translate for the entire organization.

//Embracing service design as tactical element of the digital transformation journey

In short, the potential for design-driven growth is enormous in both product- and service-based sectors. How well you turn design into value depends on how well you orchestrate the big changes needed. That can be uncomfortable, as change usually is. It means pushing yourself to set bold aspirations, transform your culture, and build new capabilities and ways of working. The good news is that there are more opportunities than ever to pursue human-centered, analytically informed design today.

Customers can feed opinions back to companies in real time, allowing design to be measured by customers themselves—whether or not companies want to accept it. Lean startups have demonstrated how to make better decisions through prototyping and iterative learning, infused by constant customer feedback loops. Vast repositories of user data and the advance of artificial intelligence (AI) have created powerful new sources of insight. All of these developments should place the user at the heart of business decisions in a way that design leaders have long craved. Companies that embrace service design as tactical element and practical approach boost their odds of becoming a human-centered organization that realizes great innovation.

//Porsche Consulting Innovation Lab

Our innovation lab is a center of expertise. It not only embodies Porsche's principles, but also function like sports cars. Every detail has its purpose, is delightful functional, and enables teams to peak performance and agility. The application areas extend well beyond business models, products, and services to processes, operating models, and corporate strategies.

▶ Proven approach

We combine our consulting experience with expertise in design and technology as well as our strength in putting ideas into practice. How do we do this? With design sprints of two to five days. Individual in their workflow and methods but with unique characteristics: interdisciplinary teams, design methods, rapid iterations, and tangible prototypes with direct customer feedback.

▶ High-performance environment

We are convinced that team creativity and performance depend on their environments. We have therefore designed our innovation labs for optimal collaboration, creating spaces in which "thinking outside the box" becomes reality.

▶ Real expertise

We are an experienced team of entrepreneurs, strategists, and technology experts as well as designers and consultants - supplemented by a network of experts who give direct answers to critical questions. Together we create a platform for creative collaboration and accelerated decision-making.

IN BRIEF

01 Today's world is an experience economy that implies a shift from pure focus on products to service-oriented offerings centered on humans and their everyday needs

02 Companies that embrace human-centered design can create lasting competitive advantage and grow their revenue and shareholder value faster than their peers

03 The realization requires senior leaders to understand the integrated, system-level role the design must possess to influence strategy at the right time at the highest level

04 Service design is a practical approach to operationalize human-centered design across the organization and build a company's key capabilities of the digital age

05 A good first step is to conduct design sprints for important business challenges, also to let leaders experience the benefits at first hand and understand their powerful role

Further reading



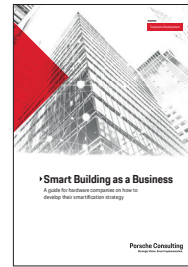
The Rise of
Digital Health



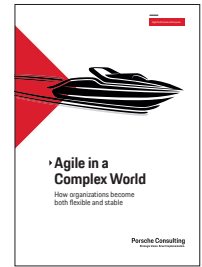
Thinking from the
customer's point
of view



Innovative
Working
Atmosphere



Smart Building
as a Business



Agile in a
Complex
World

Authors



Dirk
Pfitzer
Senior Partner



Sven
Rossmann
Manager



Sajeel
Shiromani
Manager



Benjamin
Bartoli
Manager



Ines
Stoegerer
Consultant

Contact
+ 49 170 911 3376

Porsche Consulting

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Strategic Vision. Smart Implementation.

As a leading consultancy for putting strategies into practice, we have a clear mission: we generate competitive advantage on the basis of measurable results. We think strategically and act pragmatically. We always focus on people—out of principle. This is because success comes from working together with our clients and their employees. We can only reach our aim if we trigger enthusiasm for necessary changes in everyone involved.

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