

How To Think About Turning Your Products Into Services



Services already make up 75% of the global economy. Here's how you can tap into the growing market.

By Soren Kaplan

Eking out profits from products alone isn't what it used to be. Thanks to the Internet and global distribution, consumers have access to lots of choices. That's good for them but not so good for the folks selling those goods.

Some companies know that products only get you so far, that services are the future—in fact, services already account for 75% of the global economy. The most innovative companies know that even when they're selling a product, they're actually selling the function that it provides. But it's one thing to know that; it's quite another to transform that understanding into a real service-based business model.

So how do you turn your product-based company into one that provides services? Here are three simple principles you can use to escape the commodity market and turn anything you do into a valuable service:

1. Servicize it

Reinventing how you charge for what you do can propel your offering into a whole new market category. The goal is simple: Redefine your existing products in ways that shift the financial model away from selling a good to selling a service. Ask yourself: What problem am I really solving? What deeper need am I really addressing?

Provide Access: Convert the financial model from selling a “good” to selling on-demand access.

- Rent the Runway delivers high-end couture fashion—by mail. Rather than selling \$5,000 dresses, they rent them for the weekend. They're not selling dresses but rather providing access to luxury fashion experiences that feel good and impress friends.



Tap Into Time: Shift the financial model away from selling a “good” to selling “time”—uptime, time savings, speed of delivery, or anything else that taps into the value of time to create something new and compelling for your customers.

- Rolls Royce sells more than cars; they also sell airplane engines. When they revised their sales model and started charging service fees based on “uptime” (the actual time the engines are flying in the air), their airline customers were thrilled. Airlines prefer to pay as their own cash comes in from their passengers and cargo instead of buying an engine up-front. Rolls Royce sells “hot air out of the back of the engine,” not the actual engines.

Expand it

Customers usually buy and use products within a broader context to solve complex problems or meet broader needs. The goal is simple: Create new services that complement what you’re already successfully doing and that extend the value you provide. Ask yourself: What else can I do that reinforces what I’m selling? What can I help my customers do, learn, or experience that ties to what I’m already doing?

Elevate the Experience: Add educational or other interactive experiences that reinforce the core business while further addressing customer needs.

- Cafeotheque isn’t just ranked the #1 coffee spot in Paris out of 35,000 bistros and cafés due to its outstanding coffee. It also offers unique events like coffee tastings (just like wine tastings) and courses on “cafeology” that teach budding baristas to make world-class cappuccinos and start their own businesses.

Meet the Bigger Need: Pull together a more holistic set of products and services using a broader view of the customers’ needs and desires, including how the offering is priced and financed.

- Solar City provides an “all in one service” that allows homeowners to fully outfit their houses with solar at no up-front cost. It’s not pushing panels but rather promoting a single service that integrates and handles all financing, rebates, installation, and ongoing energy management in one fell swoop.

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3. Digitize it

Most companies have already embraced digital channels for marketing. But when it comes to service innovation, it’s still an open playing field. The goal: Transform taken-for-granted manual processes, physical products, or traditional services into mobile or web-based offerings. Ask yourself: How can I digitize products and processes to reinforce what I already provide or create a completely new offering?

Monitor and Aggregate: Use mobile devices to collect and interpret data to provide knowledge, information, and service offerings.

- T-Medical digitally monitors vital signs and other data when patients are on the go. Alerts are sent to family members and health care providers when danger signs arise, and the aggregated data across patients is sold to companies conducting clinical trials.

Leverage the Network: Use the power of the network to automate business processes in ways that make life easier for customers while locking them into new services.

- Coca-Cola recently introduced a new self-serve restaurant soda dispenser with over 100 flavors that's networked to their central office. Monthly rental fees are combined with flavor concentrates that are refilled when the machines signal they're getting low. To top it off, every time a customer selects a custom soda, the information is sent to Coke's market research group to fuel their next big idea.



More and more startups and big companies alike view services as the strategic answer for increasing margins and setting themselves apart from the crowd. Creating competitive differentiation isn't about what you sell but rather what customer needs you address, how you do it, and how you charge for it. That's the simple starting point of the service innovation economy.



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