ABB, 104

Academic research: impact of, on sectors of economy, 226n2; lack of, on services sector, 192–195, 226nn5–6, 227nn7–8, 228nn10–12; services sector vertical silos and, 197–198, 200. See also Research and development (R&D)

Accelovation, 141

Action, bias for, 100–101, 216n10

Adrià, Ferran, 46, 47

Agriculture: academic research related to, 194, 197; history of innovation in, 189–190; specialization in, 72

Alstom, 92, 199

Amazon: economy of scale of, 79; openness of, 84, 91, 214n16; platform creation by, 162–168, 224n2

Amie Street, 66

Apple: cell phone developed by, 12, 15; platforms built by, 13, 81–82, 106–107, 205n9, 212n11, 213n12; retail stores, 95, 216n8

Apte, Uday, 203

ArtistShare, 65

Asian Paints, 170–177, 183, 184, 185, 186, 187, 224n7, 225n9

Assets: converting fixed, into variable expense, to transform business model, 91–92; utilization differential of, 38–40

AT&T Bell Laboratories, 69

Automobile companies: product-focused business model view of, 34; service-focused business model view of, 35–38; utilization differential of, 38–39

Baggett, Steve, 86

Baumol, William, 192

Baumol’s disease, 192

Beating the Commodity Trap (D’Aveni), 204n3

Best Buy, 158–159, 198–199

Bezos, Jeff, 163, 164
Index

BIG, 145
Bitner, Mary Jo, 59
Blunt, James, 63
BMAT, 65
Borges, 47
Brazil, 8
Breakout businesses: example of services innovation by, 140–143; lessons on innovation by, 143–144; overview of, 135, 140
British Broadcasting Corporation (BBC), 24
Broadjam.com, 66
Brynjolfsson, Eric, 199–200
Business models: changed by services innovation, 89; commodity, 105; component, 97–98; defined, 90, 214n1; dominant logic and, 93–94, 215n4; inertia of successful, 94–96; product-focused, 14–15, 25, 26, 33–34, 43–44; recorded music industry, 67; semiconductor industry, 48–52; service-focused, 14–15, 25, 26, 35–38, 44–45; typology of, 105. See also Transforming business models
Businesses. See Companies
Caryn, Ignaas, 121–123, 124–125
Cell phones: Motorola, 11–12, 204n7; Nokia, 12–13; service-focused innovation, 12, 13–14, 205n9; short product life cycle, 10
Chang, Morris, 49–50
Charles Schwab, 126, 128
China: economic growth in, 8, 204n1; ShaanGu, 179–183, 184, 185, 186, 187; Shanghai Silicon IP Exchange (SSIPEX), 177–179, 183–185, 186, 187. See also Taiwan Semiconductor Manufacturing Corporation (TSMC)
Closed innovation paradigm, 69
Coase, Ronald, 73, 77, 212n6
Co-creation, 53–67; at Amazon, 164; changing customer role and, 53–54, 209n1; experience points and, 58–61; in FedEx online package tracking system, 15–16; FedEx online package tracking system as example of, 55, 56; in iTunes App Store, 205n9; Lego’s use of, 57–58, 210n5; in music industry, 61–67, 210n8; overview of, 17, 18, 21–23; as principle for services innovation, 4; to recover cost of fixed asset, 91; in semiconductor industry, 50; in services innovation in developing economies, 183, 184; in services innovation in large companies, 130–131; tacit knowledge and, 54–57; as way to build platform, 161–162
Coldplay, 63
Collaborations: between large and small companies, 151, 152, 222n13; managing, 151, 221n11
Commoditization: as condition
creating commodity trap, 1, 2, 9;
defined, 9
Commodity business model, 105
Commodity trap: conditions
creating, 9–10; described, 2,
204n3; Open Services Innovation
to overcome, 27–28
Companies: approach to innovation
and growth by, 11; challenges for,
shifting from product to service
focus, 14–15; start-up, 100–101.
See also Large companies;
Product-focused businesses;
Services businesses; Small
companies
Compaq, 144
Competition: global, 7, 200;
learning from your, 160
Competitive advantage: from core
processes, 77, 85–87; from
products, 33–34; from services
innovation, 3, 13–14, 125; from
tacit knowledge, 55–57, 206n13
Competitive Advantage (Porter), 33
Component business modeling,
97–98
Computers and Structures, Inc.
(CSI), 145–147, 148–149
Consumers. See Customers
Cook, Scott, 22–23, 206n15
Core processes: defined, 77, 85;
outsourcing, 77–78; sharing, with
other firms, 85–87
Countries. See Economies, ad-
vanced; Economies, developing
Customer relationship
management, 9, 19
Customers: changing target, 92;
observering, 157–160, 223n1; role
in product- vs. service-focused
businesses, 53–54, 209n1;
technology-gathered information
on, 56–57, 79; traditional market
research on, 155–156. See also
Co-creation
Customization, standardization vs.,
19–20, 103–104, 216n12
Darwin, Charles, 101
D’Aveni, Richard, 204n3
DEC, 144
Defense Advanced Research
Projects Agency, 195
Dell, 94, 95, 96
Dillman, Linda, 56
Disk drives, 10
Disruptive technologies, 170, 215n7,
224n2
Division of labor. See Specialization
Dominant logic: defined, 93, 215n4;
of Dell, 94, 96; and lack of
research on services sector, 193,
226n6, 227n7; of Xerox, 93–94
Dominant services businesses:
example of services innovation by,
149–150; lessons on innovation
by, 150–151; overview of, 135, 149
Drucker, Peter, 34
e-business, 95, 215n6
Economic downturn of 2008. See
Great Recession
Index

Economic growth: future location of, 170; as way out of Great Recession, 11, 188–189
Economies, advanced: current status of, 7, 8–9, 188; services innovation in developing economies vs., 185–187. See also Economy, U.S.
Economies, developing: context in, 169; current status of, 7, 8, 188; manufacturing moving to, 9–10; reverse innovation by, 201; services innovation in advanced economies vs., 185–187. See also China; India; Services innovation in developing economies
Economies of scale: at Amazon, 166, 167; openness for, 85–87; in R&D, 71, 211n4; specialization with, 78–80
Economies of scope: at Amazon, 165, 167; openness for, 83–84, 213n15; service platforms from, 81–82, 212n11, 213n12; specialization with, 78, 80–82, 212n10
Economy, global: forces transforming, 7–9; services portion of, 2–3, 11, 191. See also Economies, advanced; Economies, developing
Economy, U.S.: growth of knowledge-intensive services in, 3, 203n2; services portion of, 2–3, 11, 191
Effectuation, 216n10

El Bulli, 45–48
Elsevier, 143
Emerging economies. See Economies, developing
Enterprise Rent-a-Car, 36, 37
Ericsson, 104, 217n13
E-Trade, 128
Experience points, 206n16; defined, 58; in restaurants, 58–59; service blueprinting to improve, 59–61
Experimentation: with business models, 99–100; resource on, 216n9; with setting prices, 61–63, 210n8
Facebook, 142, 144, 160
Farming. See Agriculture
Fasnacht, Daniel, 126, 218n7
FedEx, online package tracking system, 15–16, 55, 56
Financial services, 14, 126, 196, 197, 218nn7–8. See also Merrill Lynch
Food and Drug Administration, 10
Food industry: overview of, 40–41; platform in, 45–48; product- vs. service-focused business models in, 43–45; product-focused business in, 41–42; service-focused business in, 42–43, 208n9
Foster-Wheeler, 147
Gassman, Oliver, 133n
Geek Squad, 158–159

235
Index

General Electric (GE) Aviation, 92, 118–120, 130, 131, 132, 217n5
Goldman Sachs, 218n8
Google, 12, 13
Gordon, Robert, 199
Government: debt load in advanced economies, 7, 8, 188; funding for research on services sector, 195, 228n12
Grateful Dead, 63
Great Recession: forces disrupting global economy and, 7–9; growth as way out of, 188–189
Grocery businesses, 41–42, 43, 44, 45
Growth. See Economic growth
Habibullah, Ashraf, 146, 149
Haier, 10
Hasanain, Syed, 145, 146, 148
Health care, 192, 196, 197
Horn, Paul, 1, 5, 200
Howard, Dominic, 63
Huawei, 10
Hyundai, 9
IBM: component business modeling concept of, 97–98; growth of services portion of, 5, 195–196; open innovation R&D model of, 70; organizational structure for services business model at, 103–104, 217n13; service-focused research by, 1; services innovation by, 5, 40, 203n3
IDEO, 223n1
iFund, 107
India: Asian Paints, 170–177, 183, 184, 185, 186, 187, 224n7, 225n9; economic growth in, 8
Information: global distribution of, 7, 9; sharing, to build platform, 161; technology-gathered, on customer behavior, 56–57. See also Knowledge
InnoCentive, 145
Innovation: in agriculture, 189–190; limits of product-focused, 11–13, 204nn7–8; in manufacturing, 190–191; need for changed approach to, 11, 189; reverse, 201. See also Open Innovation; Open Services Innovation; Services innovation entries
Innovation service providers, 144–145
InnovationXchange, 145
In-Q-Tel, 145
Integrated device manufacturer (IDM) model, semiconductor industry, 48, 49
Intel, 48, 50, 70, 143
Intellectual property (IP): Chinese company focusing on exchange of, 177–179, 183–185, 186, 187; service businesses and, 51–52; small company managing, 141; weak protection for, 127, 139–140
Intuit, 22–23, 157–158
Jepson, Richard, 136
Jobs, Steve, 205n9
Johnson & Johnson, 26, 37
### Index

Karmarkar, Uday, 203
Kleiner Perkins, 107
KLM, 120–125, 130–131
Knowledge: cornering market on, 83, 213n15; economies of scale based on, 79; global distribution of, 7, 9. See also Tacit knowledge

Large companies: becoming platforms, 151, 152, 222n14; collaboration between small companies and, 151, 152, 222n13; leadership for changing business model in, 101–102; R&D spending by, 71, 133–134. See also Services innovation in large companies

Last.fm, 63, 65
Lego, 57–58, 91, 210n5
Lenovo, 10
Levitt, Ted, 34
LG, 9
Lin, Lei, 225n12
Long-tail phenomenon, 118, 217n4
Lusch, Robert, 193, 226n6, 227n7

Management: of collaborations, 151, 221n11; in companies with product-focused vs. services-focused business models, 26; for transforming business models, 101–102

Manufacturing: academic research related to, 194, 197; innovation’s impact on, 190–191; moving to developing countries, 9–10

Market research: netography for, 142–143, 159–160; through observing customers, 157–160, 223n1; traditional methods for, 155–156

Merrill Lynch, 125–129, 131, 132, 219n11, 220n12
Microsoft, 12, 13, 162
MIPS, 143–144
Motorola, 11–12, 204n7
MTV Networks, 149–151

Music industry: co-creation in, 61–67, 91, 210n8; patronage model, 65, 67; price-setting experiment, 62–63, 210n8; traditional model, 63–64, 67; trend setter model, 65–66, 67

MySpace, 65, 144

Nath, Hiranya, 203
National Academy of Engineering, 195, 226n2
National Science Foundation, 228n12
NetBase, 140–143, 159–160
Netflix, 144
NetJets, 40
Netnography, 142–143, 159–160
NH Hoteles, 47

Niche businesses: example of services innovation by, 136–139; lessons on innovation by, 139–140; overview of, 135

Ninesigma, 145
Nokia, 12–13, 104, 204n8

237
North American Product
Classification System (NAPCS), 32, 208n4

Ocean Tomo, 145

Olympic Circle Sailing Club
(OCSC), 136–140, 220n3

Open Business Models
(Chesbrough), 83, 105

Open Innovation, 68–87;
advantages for small companies, 152–154; closed innovation vs., 69–70; defined, 68–69; for
economies of scale, 78–80, 85–87; for economies of scope, 78, 80–82, 83–84, 212n10; open
source software vs., 211n2; openness and, 82–87, 213n15; overview of, 17, 18, 23–25, 68–72,
207n17; platform in semiconductor industry, 49, 50–52, 108–109; as principle for
services innovation, 4; services as set of processes and, 75–78; services innovation and, 87; by
small vs. large firms, 71, 211n4; through specialization, 72–75, 87, 212n5. See also Openness

Open Innovation (Chesbrough), 68, 83

Open Innovation in the Financial
Services Industry (Fasnacht), 126,
218n7

Open Services Innovation: concept
map, 18, 110; concepts creating,
17, 18, 109–111; to overcome
commodity trap, 27–28. See also

Co-creation; Open Innovation;
Services innovation entries;
Thinking of business as services
business; Transforming business
models

Open source software, 211n2

Openness: for building platforms,
107–109; defined, 82–83;
inside-out, 85–87; outside-in,
83–84, 213n15; in services
innovation in developing
economies, 184, 185; in services
innovation in large companies,
131–132; specialization and,
82–87. See also Open Innovation

Organization for Economic
Cooperation and Development
(OECD), 3, 8, 11

Organizational structure:
reorganizing, for services business
model, 102–104, 216nn11–12,
217n13; for services innovation,
20–21, 205n12

Ososky, Michael, 140–142

Osterwalder, Alex, 96–97

 Outsourcing, 2, 77–78

Palm, 12, 13, 222n14

Pandora, 64–65

Patronage model, recorded music
industry, 65, 67

Paychex, 74–75

Peoplesoft, 77

Pharmaceutical industry, product
life span, 10

Philips, 70

Pioneer innovations, 127, 219n10
Index

Pittman, Robert, 149

Platforms: built by Amazon, 162–168, 224n2; built by Apple, 13, 81–82, 106–107, 205n9, 212n11, 213n12; from economies of scope, 81–82, 212n11, 213n12; large companies becoming, 151, 152, 222n14; Open Innovation Platform model, 49, 50–52, 108–109; openness for building, 107–109; overview of, 105–106; restaurant as, 45–48; ways to build, 160–162

Popcuts, 65–66

Porter, Michael, 33–34

Pricing: changing, to transform business model, 92–93, 214n3; experimenting with, 62–63, 210n8

Processes: as assets, 199–200; core, 77–78, 85–87; services as set of, 75–77; for transforming business models, 99–102, 216nn9–10

Procter & Gamble (P&G), 70, 85–87, 142

Product-focused business model: of automobile companies, 34; conflicts in companies shifting away from, 14–15; in food industry, 43–44; management in companies with, 26; metrics used in, 25; Porter’s value chain as, 33–34

Product-focused businesses: customer role in, 53–54, 209n1; in food industry, 41–42

Productivity, 192

Products: cell phone innovation focused on, 11–13, 204nn7–8; limits of innovation focused on, 11–13, 204nn7–8; research focused on, 1; shortened life cycle of, 1–2, 10

Pump Audio, 66

Radiohead, 62–63, 210n8

Rae, Jeneanne, 223n1

Reid, L. A., 210n8

Research and development (R&D): economies of scale in, 71, 211n4; open vs. closed innovation paradigms of, 69–70; on products vs. services, 1; spending on, by small vs. large companies, 71, 133–134. See also Academic research

Restaurants: experience points and service blueprints for, 58–61; as platforms, 45–48; as service-focused businesses, 42–43, 44–45, 208n9

Restructuring, 102–104, 216nn11–12, 217n13

Reverse innovation, 201

Romer, Paul, 79

Rosenbloom, Richard, 90

Rust, Roland, 194

Ryanair, 92–93, 214n5

Salesforce.com, 77

Samsung, 9

Sandberg, Anthony, 136–137, 139, 140
Index

SAP, 77, 108, 161–162
Segal, M., 151
Sellaband, 65
Sensemaking, 215n5
Service blueprinting, 59–61
Service-focused business model: of automobile companies, 35–38; conflicts in companies shifting to, 14–15; in food industry, 44–45; management in companies with, 26; metrics used in, 25
Service-focused businesses. See Services businesses
Services: defined, 31–32, 191, 208n4; growth of knowledge-intensive, 3, 203n2; integration in, 198–200; portion of economy represented by, 2–3, 11, 191; as set of processes, 75–77
Services businesses: building platform out of services, 160–162; customer role in, 54; in food industry, 42–43, 45–48, 208n9; intellectual property (IP) and, 51–52; observing customers of, 157–160, 223n1; in semiconductor industry, 48–52; traditional market research on customers of, 155–156. See also Thinking of business as services business
Services innovation: business model changed by, 89; cell phones, 12, 13–14, 205n9; customization vs. standardization in, 19–20; financial services, 14; future of, 200–202; lack of academic research on, 194–195, 227n8, 228n10–12; Open Innovation and, 87; organizational structure for, 20–21, 205n12; principles underlying, 4; in services sector, 15–16; users as source of, 152, 222n15; venture capitalists looking for, 14. See also Open Services Innovation
Services innovation in developing economies, 169–187; vs. in advanced economies, 185–187; Asian Paints, 170–177, 183, 184, 185, 186, 187, 224n7, 225n9; implications for advanced economies, 170; lessons from, 183–185; ShaanGu, 179–183, 184, 185, 186, 187; Shanghai Silicon IP Exchange (SSIPex), 177–179, 183–185, 186, 187
Services innovation in large companies, 115–132; GE Aviation, 118–120, 217n5; KLM, 120–125; lessons from, 129–132; Merrill Lynch, 125–129, 219n11, 220n12; Xerox, 115–118
Services innovation in small companies, 133–154; breakout businesses, 135, 140–144; dominant services businesses, 135, 149–151; niche businesses, 135–140; specialist service businesses, 135, 144–149. See also Asian Paints

240
Index

Services sector: productivity gap in, 192; service-focused innovation in, 15–16; vertical silos in, 196–198, 200
ShaanGu, 179–183, 184, 185, 186, 187
Shanghai Silicon IP Exchange (SSIPEX), 177–179, 183–185, 186, 187
Six Sigma, 9, 19
Slowinski, G., 151
Small and medium-sized firms (SMEs). See Small companies
Small companies: advantages of open innovation for, 152–154; collaborations between large companies and, 151, 152, 222n13; leadership for changing business model in, 101; R&D spending by, 71, 133–134; types of, 134–135.
See also Services innovation in small companies
Sonicbids, 66
Specialist service businesses: example of services innovation by, 145–147; lessons on innovation by, 147–149; overview of, 135, 144–145
Specialization: with economies of scale, 78–80; with economies of scope, 78, 80–82, 212n10; to grow markets, 72–73, 212n5; openness and, 82–87; payroll processing companies as, 73–75; in services innovation in developing economies, 183–185
Spier, Jonathan, 140–142
Spohrer, Jim, 164
Standardization, customization vs., 19–20, 103–104, 216n12
Start-up companies, 100–101
Stigler, George, 72, 212n5
Sun Microsystems, 103
Supply chain management, 9, 19
Suurge, 66
Tacit knowledge: co-creation and, 22–23, 206nn13, 16; defined, 22, 54; examples of, 45, 54–55; in services innovation in large companies, 130; strategic advantage of, 55–57
Taiwan Semiconductor Manufacturing Corporation (TSMC): foundry model, 48–50; Open Innovation Platform model, 49, 50–52, 108–109; organizational structure for services business model at, 104; role in development of Taiwan, 209n12
TD Waterhouse, 128
Technology: disruptive, 170, 215n7224, 224n2; gathering information on customer behavior, 56–57, 79; global distribution of, 7; observing customers online, 142–143, 159–160, 223n1
Tekes, 228n12
Thinking of business as services business, 31–52; defining services, 31–32, 208n4; defining your
Index

business, 33–38; food industry, 40–48; overview of, 17–21; as principle for services innovation, 4; semiconductor industry, 48–52; utilization differential of assets when, 38–40
This, Hervé, 46
Thomke, Stefan, 99, 216n9
Threadless.com, 22
Total Quality Management, 9, 19
Transactions costs, 73, 75
Transforming business models, 89–109; building platforms when, 105–109; business model defined, 90, 214n1; challenges for companies, 14–15; dominant logic when, 93–94, 215n4; inertia of successful business model when, 94–96, 215nn5–7; mapping tools for, 96–99; methods of, 91–93; overview of, 17, 18, 25–26; as principle for services innovation, 4; processes for, 99–102, 216nn9–10; reorganization when, 102–105, 216nn11–12, 217nn13; in services innovation in developing economies, 184, 185; in services innovation in large companies, 131
Transportation services: product-focused business model view of, 34; service-focused business model of, 35–38; utilization differential of, 38–39
Trend setter model, recorded music industry, 62–63, 65–66, 67
Twitter, 142, 144, 160
Universities. See Academic research
UPS, 25–26, 77
User toolkits, 210n5
Users, as source of service innovations, 152, 222n15
Utilization differential, 38–40
Value chains: business models as defining, 90; product-driven business model, 33–34; service-focused business model, 35–38; transforming business model by redesigning, 92
Vanhaverbeke, Wim, 133n
Vargo, Stephen, 193, 226n6, 227n7
Velcade (cancer drug), 26
Venture capitalists, 14, 107, 145
Von Hippel, Eric, 210n5, 222n15
Walker, Jim, 50
Walmart, 56–57, 79, 199–200
Weedman, Jeff, 85–86
Weick, Karl, 215n5
Williamson, Oliver, 77, 212n6
Xerox: dominant logic of, 93–94; services innovation in, 40, 92, 115–118, 130, 131, 132
Yang, S., 199–200
YourEncore, 145
Zipcar, 36, 37