



# Provinces & Serducts

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## Introduction

In 1996, Michael Schrage of MIT, in an article for Fast Company, wrote: “Product companies ... want to figure out ways to wrap new services around their products. Service companies ... want to figure out how to ‘productize’ their expertise and sell it.” He then stated “This kind of hybridization represents the true destiny of innovation. Products will become provinces and services will invariably evolve into serducts ... because this is what the marketplace wants.”

Xeelee Group has, based upon a number of client engagements, refined the idea of ‘serducts’ to a useful analysis for companies that are trying to examine the packaging and bundling, methodology, embedded technology, and other techniques to avoid commoditization of their services. Similarly, we have refined the idea of ‘provinces’ to accommodate companies that have developed technology that they want to productize for license revenue. Slightly different from the original article, most of the provinces we deal with arise from services organizations as well as custom deliverables.

The goal of provinces & serducts analysis is to properly support development and delivery as well as communicate the features and benefits to the customer.

## Definitions

### Serduct

The key attribute of a serduct is that it retains its service-like attributes. Typically, they evolve from a services engagement that a company has performed a number of times and has developed some methods or processes to improve the quality and consistency of their delivery.

Occasionally, this extends to process some kind of knowledge management support for project artifacts or process templates, but usually not at the start. In fact, Xeelee’s experience is that many firms spend too much time and money on that kind of delivery support before they have a clear indication how many, and what kinds, of artifacts are helpful based on actual engagements.

One of the terrific benefits of serducts is that they can be branded and sold as unique to a provider. Of course, it is important, in that case, to ensure that there is sufficient substantive methodology and process to warrant that kind of market positioning.

### Province

A province, on the other hand, assumes a more product-like positioning. It is typically reserved for the situation where a company has developed enough of a reusable technology framework that it can be licensed providing a new revenue stream for the company.

Many services companies struggle with providing development and support resources for provinces especially in the federal markets where overhead is important to determining rates. In fact, often the entire business systems infrastructure of a services company can struggle with provinces or products.

<b>Service</b>	Application of labor to solve customer problems
<b>Serduct</b>	Application of labor using proprietary tools, methods, and techniques to enhance productivity, repeatability
<b>Province</b>	Application of reusable frameworks entailing software, hosting, service bureaus enhanced by customization, configuration, implementation, and administration services
<b>Product</b>	Application of supported versioned software, hosting, or service bureau products

**Figure 1: Services, Serducts, Provinces, and Products Spectrum**

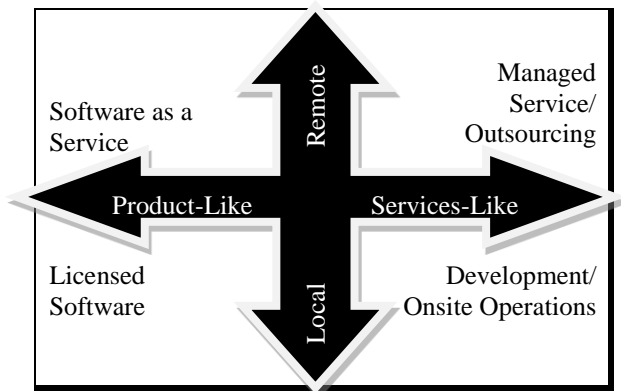
Unlike a product, the province is critically dependent on customization, configuration, integration, and O&M services. Indeed, sometimes these ‘wrap around’ services are more valuable than the province license fees leading to interesting conversations

regarding which part is the ‘razor’ and which are the ‘razor blade’.

### Warm Tea

One observation Xeelee group has made over the last many years is that while there are exciting opportunities to position past deliverables in a more product-like manner, it is important for customers to understand that they are buying something service-like or product-like. The middle ground is confusing; we call it the ‘Warm Tea Syndrome’: there is a market for hot tea; a market for cold tea; interpolation may get you in trouble.

Recently, there has been a tendency to use the term ‘as a service’ (e.g. SaaS, IaaS, PaaS, SECaaS) to describe a range of things that are either traditionally products or services but are now cloud-based subscription offerings. While a full discussion of hosted/cloud/virtualized and other models for consuming products is beyond the scope of this white paper, they are at the end of the day, mostly product-like. The remote model for consuming services would be managed services or outsourcing, like a contracted help desk or sys admin service.



**Figure 2: Local vs. Remote Provides and Serducts**

## **Building a Serduct**

### Inventorying Past Performance

One of the key aspects of building a serduct is that you typically want to start with the services you do often and well. A serduct is about codifying what you already do. Often, Xeelee finds organizations are not self-aware of what services they perform repeatedly either because the experiences are isolated organizationally, not communicated to senior management as consequential, or too great a focus on customer-specific details.

Sometimes the requisite experience can be found in business development, contracts, or project artifact

repositories, other times it may need to be generated via interviews.

A key aspect of this, at least in terms of building a discriminator based on proprietary methods and techniques like a serduct, is to focus on things that you have done a number of times and therefore have some learning curve to leverage.

### Example 1: Knowledge Outsourcing Serduct

One company Xeelee worked with provided offshore digitization services, XML tagging, and knowledge process outsourcing (KPO). The latter service was where the content had to be understood, such as for writing abstracts.

The KPO business was substantially more profitable than their other lines of business, but much more difficult to sell. In effect, one needed to convince a customer to open up their core workflow to an external company, have the external company’s fabrication process deliver properly tagged and structured content in a timely manner, and have that content authored by the external subject matter experts (SMEs), generally lawyers and doctors.

The company built a KPO methodology as a serduct that covered their process from up-front customer engagement through the design, implementation, and ramp-up of the technical data and content exchange through the SME’s authoring. Much of the serduct was built using a workshop that brought technologists, SMEs, and sponsoring executives together to standardize the process and develop cost effective best practices.

### Services Enhancement

Once the services we want to productize have been identified, the next step is some level of documentation. It need not be extensive, you need to have enough backup that you can successfully execute using the proprietary methods and techniques you promised you had and would use.

Interestingly, it is Xeelee’s observation that this is one of the areas where serducts often fail: management sees the organic accumulation of experience and learning curve, presents it to prospective customers, and then fails to be able to backup claims of proprietary methods and techniques. It looks, to the customer, like smart folks figuring out stuff, not a better/faster/cheaper repeatable offering.

The process of documentation generally entails some workshops to gain consensus and clarity about what is proprietary and repeatable vs. generic good

delivery and customer-specific. That will, at the end of the day, provide the substance that convinces customers there is real value in your product.

### Technology Support

Products do not usually require technology support. Certainly, using portals like SharePoint as repositories of past deliverables, process templates, or methodology documents enhance the perception and reality that the difference between the product and un-enhanced services is material.

Additionally, there are often diagnostic tools, reporting tools, and productivity aids that can be used to discriminate the service. Generally, in this model, there is no attempt to get license or subscription revenue from these ‘tricks of the trade’.

## **Building a Product**

### Inventorying Technology

As with repeatable services, organizations are often not self-aware of technology that has been built and capable of being reused.

With software, there is an additional complication in that the code may be owned by a customer, and care must be taken to not violate contractual ownership. While it is best to negotiate this beforehand, sometimes it is possible to negotiate these rights after the fact and sometimes it is possible to independently re-develop software without customer proprietary information in it.

### Whole Products



**Figure 3: Whole Product**

In Geoffrey Moore’s book, “Crossing the Chasm”, he uses a concept called a ‘Whole Product’. This

concept is useful in detailing what needs to go into a product.

In general, the technology a company wants to reuse may need a number of product-like attributes before one can reasonably expect it to generate license or subscription revenue. For example, just because an interesting software application has been developed, doesn’t mean it has SDKs, APIs, Documentation, training, support, and a host of other things necessary for it to be productized.

The right answer depends on the specifics of the technology, target market, and goals of the company. Sometimes the goal is to provide the customer with most of what they need to customize and operate the product, sometimes the goal is to have that be value added services that must be purchased.

### Ongoing Productization

There is a natural tendency for companies to want to ‘improve’ a product, which usually results in it being more product-like. While this process is generally a good idea as a means to facilitate discounting, the value of ongoing productization is less clear when it’s driven by technology opportunity alone.

Xeelee’s point of view is that, whenever possible, you should retain customization, configuration, and O&M services. First of all, these are valuable sources of revenue, often far more than licensing fees. Secondly, especially with initial deployments, this is a critical way to ensure success.

That said, the larger the customer, the more likely they will be to not want long term reliance on external companies no matter how beneficial the relationship is short term. The best way to manage the ongoing evolution of the product is to develop a product roadmap and share it with selected customers. That way you can balance meeting their expectations with your preferred business model.

### Example 2: Big Data Search Product

One firm Xeelee worked with had a very successful big data analytics business based on public records. Part of their success was a very unique and powerful searching and inferential linking technology that could correlate massive amounts of information very quickly.

The company had an interest in selling the underlying search technology as a product, preferably with their data. However, the technology had little documentation, and none of it intended for external customers, no graphical interfaces, no training, or anything else.

Xeelee Group helped them develop a roadmap that articulated the kinds of ongoing development that would enable them to support external customers. Additionally, since the company did not want to enter the services business, we found them a partner who not only would provide those customization/integration services, but would also fund some of the product roadmap in order to facilitate their joint sales.

## **Selling & Marketing Provinces & Serducts**

### **Selling Services as a Serduct**

The initial rollout of a serduct generally starts with some test marketing. Conversations with past customers and trusted advisors are invaluable in identifying target markets, developing go-to-market strategies, and validating the assumptions about the value of this particular bundle as a discriminator. Xeelee recommends these conversations happen in concert with the services enhancements mentioned above. The customer feedback will almost always revise internal notions regarding what is valuable and what is self-serving.

Longer term, some marketing and lead generation will eventually become more like marketing/selling products. Indeed, as a key attribute of a serduct is that it is branded and can be articulated by features/functions/benefits, not just resources or levels of effort, product-like marketing/selling is a must.

### **Example 3: Integrated Security Serduct**

A mid-sized federal systems integrator had businesses that provided front-end security risk/vulnerability assessments, information assurance services, and infrastructure protection services. Each focused on their own customers.

The head of the group wanted to target larger projects and expand out of federal markets. In order to do that, the overall organizational vision was re-focused on integrated security solutions. In this case, the serduct 'brand' was synonymous with the overall business brand.

The discriminators wasn't within the methods or techniques of any one business unit, but, rather, the integration of the business unit's capabilities into an overall solution.

The result was very successful in winning several new projects.

That said, once more in-depth sales conversations are underway, very often customers will tear apart the skills, methods, and processes that comprise the serduct and build back up something quite different that better meets their requirements. While we have had some of our clients express a little frustration at this, given all the effort then went into preparing the serduct, at the end of the day, Xeelee believes it is almost always a good thing. It was never intended for the serduct to move the company out of its services delivery model, just to provide better ways to present and utilize its discriminators.

### **Selling Frameworks as a Province**

Generally, there are two methods to sell a province depending on how visible you want the associated services to be early in the sales process.

Firstly, there is a straight product sale approach. Most major applications, such as business systems, almost always have associated services. The only difference here is that they are required: by definition there isn't a standalone product without services (which may or may not be bundled in the subscription or licensing fees).

Secondly, there is a solutions approach where the bundle of products and services represent a more holistic solution to a customer problem.

Which is the best approach generally depends on the details of the province, target customers, and pricing model.

## **Challenges**

There are a number of key challenges Xeelee Group has identified based on its experience.

Internally, there is a top-down challenge of matching overhead investment to a return on investment. Serducts, to some extent, and provinces, to a large extent, require investment. It may be possible to match investment with sales by keeping everything more services-like with limited support of documentation, process definition, and automation, but care must be taken to manage customer expectations: they are early adopters and some aspects of the province or serduct will be developed as their solution is implemented.

There is also a bottom-up challenge of program and project managers not recognizing incipient provinces and serducts in their deliverables. Typically, they are too engaged in day-to-day delivery considerations to step back and see multiple projects as customized/tailored versions of a common process or application of a similar framework.

#### **Example 4:** **Automated Data Ingestion Provice**

A company in the automotive information publishing industry had developed software that could, on a 'lights out' basis, download, cleanse, normalize, and ingest data from a variety of sources with appropriate metadata tagging.

Management invested heavily in this new capability, building documentation, training, professional services, and marketing literature. They even spun it off as a separate legal entity with its own CEO, CTO, and sales force. Xeelee, upon review, thought they did an excellent job with all of this.

Not long afterwards, however, just as some interesting sales prospects were starting to be found, management decided that the technology was too core to their own business, and did not want to license it to others as a software product. They reabsorbed the subsidiary and focused on internal deployments.

The lesson learned here is that a more measured approach that explored some of the market appetite and management commitment early might have been more cost effective.

#### **Federal Markets**

There are some special considerations for services companies serving the federal markets.

Financial systems for these companies are complex, and usually based upon tracking labor hours and allocated costs to those labor hours. Sometimes even recognizing non-labor based revenue is a challenge.

Provice or serduct development is an overhead cost that can increase rates and thereby hurt cost competitiveness for a company that bids based on labor rates in cost pools. While a certain amount of this can be tolerated, i.e. as allowed IRAD or marketing, more substantial amounts of investment are difficult, especially for a small to midsized firm. There are a number of ways to solve this, from creating separate cost pools to separate subsidiaries, but involvement from Finance and Contracts early in the process is essential.

Ironically, once resolved, a provice can create new opportunities for your customer to purchase the licenses and bundled services as a commercial product offering enabling use of different sources of customer funding and different contract vehicles. Again, involvement from Contracts to ensure FAR compliance is critical.

## **Conclusion**

Almost every service that is performed repeatedly is worth a look to see if there are standardized methods or processes that can aid in delivery quality, consistency, and cost effectiveness. Many custom technology deliverables have the potential for reuse and productization.

We believe that by being deliberate about how offerings blend products and services, developing realistic roadmaps for investment, and managing customer expectations, there are excellent opportunities to get additional benefits from past performance in this way: more discriminated offerings that can be easier to sell, provide competitive advantage, justify higher margins, create new revenue streams, and even enable access to different customer budget line items.