



Growing a Services Business: Change Management and Differentiation

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Center for Services
Leadership

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“Services is a key component of Boeing’s future success.” Ricky Freeman, Vice President, Boeing Global Services

The service landscape is dynamic, offering companies high rewards when they respond to changing consumer preferences but also creating daunting challenges. At the summer 2019 meeting of the Center

for Services Leadership Board of Advisors, members learned about growing a service business from two angles: through organizational change and by reimagining brand.

The venue for the event was Boeing’s South Carolina operation in Charleston. Ed Downing, integration director at the site, and Ricky Freeman, a vice president for Boeing Global Services (BGS), discussed Boeing’s dramatic ramp up in Charleston and how the company is building its recently launched service business.

In the afternoon session, author Stan Phelps led members in an exercise designed to help identify the “weirdness” that makes their companies distinctive, and how to use it to grow. Phelps and co-author David Rendall capture the concept in their new book, “Pink Goldfish: Defy Normal, Exploit Imperfection and Captivate Your Customers.”

Boeing: Raising the Third Pillar

Boeing passed the century mark in its history in 2016, and last year revenues were \$101.1 billion. With 150,000 employees in more than 65 countries, Boeing provides products and support to customers around the world. The company opened its South Carolina operation in 2009, and today the footprint of the facility is approximately 4 million square feet, representing a \$2 billion investment in land, facilities, infrastructure and tools. Some 7,000 employees work there.

Boeing houses 77 operations in South Carolina, Downing said. It is the first and only Boeing site that conducts “freezer to flight” manufacturing: the facility can process a composite material used in aircraft construction that must be kept frozen while it is rolled

and formed, then heated in a giant autoclave, and painted. The Charleston facility is also the only one outside of Puget Sound where aircraft are delivered to customers. The delivery center on campus provides space for meetings with customers.

This major manufacturing installation provided an apt backdrop for Freeman’s talk about building a services business within a product company.

Boeing Global Services (BGS), a stand-alone services business, became the company’s third pillar in 2017, joining the commercial and defense organizations that had previously defined Boeing. Freeman was named Vice President of Global Sales and Marketing for the government division of BGS in 2018. Freeman’s career has spanned multiple roles in defense aviation, giving him a unique perspective now that he’s squarely focused on services growth. He was a U.S. Marine Corps pilot, so he knows aircraft and the importance

of sustainment and mission-readiness. While at Raytheon, he gained the perspective of a product-focused role as well as the services mindset, and since joining Boeing, he's sharpened his focus even further on customer-focused results. "It's been a journey," he said, "and I've found that the sweet spot is in merging these two: how we maintain the product mindset and carry it into the services domain."

Driving that mindset will be critical as Freeman addresses what he called an "audacious goal" for Global Services. Boeing is weighted toward the commercial market, which produced \$60 billion of last year's \$101.1 billion total revenues. Defense accounted for \$23 billion and Global Services finished its first full year as a stand-alone business unit at \$17 billion. By 2025, Boeing aspires to grow its services business to as much as \$50 billion, with roughly half coming from defense services and the remaining from commercial, business and general aviation services.

It's an aggressive goal, made more daunting because of the rulebook that applies when doing business with the government. Freeman explained that the United States government holds contractors to profit margins that are approximately half that earned by companies doing business in the private sector.

Still, Boeing's shareholders expect a return based on the top line, he commented. Making it work for the bottom line involves careful attention to details. "Internally, we focus on execution and first-time quality," he said.

Start up and growth

Boeing has concluded, like other firms, that building its own services business opens new opportunities for steady future growth. Freeman pointed out that only 30 percent of the cost of an aircraft can be traced back to design, development and production. Everything else, he said, comes through lifecycle engineering, sustainment and logistics, and other aftermarket support. Every "tail"—or airplane—has a useful life of 30 to 50 years, throughout which services are vital. Capturing the opportunities to provide services during that lifespan provides steady revenue, no matter what

the market for new platforms. Freeman said he coordinates closely with the product side of the company, because every platform that is released for operation is a large source of potential service business.

For years, service was regarded as "a given," Freeman said, and was part of the product portfolio, but CEO Dennis Muilenburg saw the potential of expanding it as a standalone. One of Freeman's ongoing challenges is unwinding services on the product side of the business and incorporating them into the new BGS portfolio.

Boeing supports many of its aircraft through performance-based logistics contracts (PBLs), a sort of warranty focused on integrated sustainment solutions and guaranteed levels of performance. Freeman said that acceptance of these contracts in the defense sector varies as commanders balance the advantages of an aggregated, lifecycle sustainment solution with an organic ability to make repairs in the field. Freeman said his defense sector coordinates closely with the commercial side to leverage services held in common such as aircraft health management, predictive analytics, condition-based maintenance and digital solutions. Often, small businesses with cutting-edge capabilities will be brought in as subcontractors, strengthening Boeing's competitive position.

The market for services in aerospace is \$3.1 trillion, Freeman said, with defense representing \$1.45 trillion of the total. Most defense service opportunities are in the U.S., he said, followed by the Asia/Pacific arena and Europe. "Our task is to maximize our market share in this space," he said. The international market creates additional opportunities to leverage Boeing's expertise in both the commercial and defense markets, offering the chance to earn margins that are more on par with commercial pricing, but also requiring careful navigation of all that comes from operating in global markets.

Freeman focuses on these questions as he ponders future growth: Does Boeing have the right business model to grow market share? Does it have the right

internal capabilities, and if not, can it acquire them? Can it generate sufficient growth opportunities so that services can insulate against the cyclicity of platform sales? And finally, can the company innovate by introducing new products into the market while driving out cost?

Organized for service

BGS is organized to tap into four core capabilities across the organization to meet customer needs, Freeman said. Each market segment (such as U.S. government services) has a business leader who carries profit and loss responsibility for that area of the business. Supporting the business leaders are capability leaders whose teams execute services offerings across customer sets and who are focused on leveraging Boeing's resources across the company. These capabilities – which span commercial and defense services – include engineering, maintenance, modifications, training, supply chain and digital solutions. The matrix structure creates “nests of capabilities” that allow BGS to serve a broad variety of domestic and international customers.

The structure has resulted in successes, Freeman reported. “In one year, Boeing had three major platform wins because of the integration between Boeing Defense and Boeing Global Services,” he said. “These are major movements positioning Boeing at the forefront of the next generation of aviation.”

Looking back 20 years, Freeman reminded his audience that commercial aviation dipped after 9/11, while defense spending was on the rise. Boeing has continued on its growth trajectory through business cycles because its combined commercial and defense business model buffers against the cyclical nature of these markets. But what if both defense and commercial slump at the same time?

“[At some point] it's certainly possible we will see another downturn where reduced commercial and defense aircraft sales will coincide,” Freeman said. “In such a case, we believe that services sales will act as an offset that minimizes potential contraction: during periods of reduced new platform sales, customers

invest more dollars in lifecycle support and sustainment of existing fleets. Services is a valuable third leg to the stool that keeps the organization solvent and stable even in downturns of that nature.”

Acquisitions are also helping BGS maintain momentum toward the company's growth aspirations. In 2018, Boeing acquired leading aviation parts supplier KLX, complementing the distribution and supply chain muscle of Boeing subsidiary Aviall. To further enhance the value of Boeing's significant portfolio of services, BGS recently brought together a unified sales and marketing team called Global Integrated Support Services to advance the defense capabilities and service offerings contributed by its subsidiaries. The new unit will identify opportunities to combine a variety of services and technical capabilities into integrated or bundled solutions, thereby strengthening Boeing's ability to deliver high-value, high-margin products, Freeman said.

The future

Services is a key component of Boeing's future success, Freeman concluded. The fast-growing global aviation and defense sector gives Boeing's services division a significant opportunity.

“We develop capabilities and services, even for products we don't manufacture,” he said. “Remember, every tail that's out there is 30 to 50 years of service opportunity.”

Boeing is fostering a services culture that quickly responds to customers' needs with innovative solutions. Other opportunities for services growth in the government and defense business include force modernization, condition-based maintenance and platform health management. From sensor suites to mission computers, the digital toolbox used to sustain aircraft is ushering in a whole new era of services. Similar opportunities exist on the commercial side of the business, and Boeing is poised to take advantage of this growing and dynamic market.

The PINK GOLDFISH: Embracing weirdness to attract customers

Imagine the goldfish tank at your local pet store: hundreds of gleaming orange fish streaming through the water. Which one is your favorite? That's a tough question to answer because despite small differences – size, coloration anomalies – they look pretty much the same.

In “Pink Goldfish: Defy Normal, Exploit Imperfection and Captivate Your Customers,” Stan Phelps uses these small aquarium fish to help readers think about their businesses. For a goldfish, a number of factors have to be just right in order for it to grow: how big is the bowl? How many other fish are in it? Is the water clean? When it was a small fry (baby goldfish are called fry!) was it healthy? Did it inherit good genes?

Phelps says that these questions could apply to company growth as well: What's the size of the market? Are there a lot of competitors? Is the economy healthy? Was the startup phase vigorous?

There isn't much managers can do to change market size, competition or economic conditions, Phelps says. And from a cat seat in the present they cannot go back and re-do the start up. The only factor left is the company's genetic make-up: its distinguishing characteristics. And that's where Phelps finds a way to accelerate success: differentiation.

“How you stand out – not only with what you do, but also with how you do it,” he says. “The only thing you have control over is how you differentiate what you do and the value you add to the marketplace.” The sad fact, he adds, is that only a small number of businesses have achieved competitive separation: they are the pink goldfish.

Phelps teamed up with David Rendall, author of “Freak Factor: Discovering Uniqueness by Discovering Weakness,” to explore the ways successful companies differentiate. They crowd-sourced 250 brands to learn how they stood out in the marketplace. “When we looked across hundreds of examples, there's really only two ways to be different. The first is to embrace

what makes you unique and different or weak, and the second is how do you avoid being normal,” Phelps says.

Benchmarking the top performers is a mistake, he says, because it leads to emulation. Instead, he says, lean toward what makes your company different and away from what is normal for your sector. And look at your weakness as a clue to strength.

Phelps rolled out his how-to advice using the acronym F.L.A.W.S.O.M:

- Flaunting – rather than downplaying how you are different, amplify.
- Lopsided – triple down on what makes you weird. For example, Nebraska used to market itself as “Nebraska Nice.” The new slogan, “Honestly, it's not for everyone,” is an opportunity to share unique attractions like float trips in feed tanks.
- Antagonizing – push away the customers you don't want, such as the woman who texted during the movie at an Alamo Drafthouse. When she raged about being ejected from the movie on social media, Alamo Drafthouse used it to send the message that they are the theater where movie-mavens can see a film without distractions.
- Withholding – take lopsiding to the extreme and do less of what others emphasize. For example, Chick-fil-A stepped away from the fast-food crowd when it made the decision to close on Sundays.
- Swerving – make small changes by doing a little more of what makes you different and a little less of what everyone does. REI became the example when the outdoor outfitter rejected a retail norm and closed its doors and its website on Black Friday. Instead, the company encouraged employees and customers to go hiking. Their campaign, #OptOutside, has become a movement.

- Opposing – buck the trend when everyone else is following the leader. When fast-food restaurants started experimenting with healthier menu options, Carl’s Jr. introduced the Thickburger, tipping the scales at 800 calories and 56 grams of fat.
- Micro-weirding – add little details that make the customer experience unique. The pool at the highly-rated Magic Castle Hotel in Hollywood isn’t glamorous, but it does feature a Popsicle Hotline, which summonses a white-gloved employee who delivers icy sweetness poolside on a silver platter.

Implementation

Phelps’ approach begins with a customer focus, and customers can help companies figure out how to differentiate by leveraging uniqueness. “You will have blind spots,” he counsels, so ask customers how they see you as different. Suppliers and employees can also offer insights. As important as asking is listening – and appreciating the input. When they tell you about a weakness, look for the corresponding strength, he says. For example, if you hear that your business is “regular,” or “ordinary,” you could re-interpret that to mean you are local – a positive that you can accentuate.

Once you have a clear picture of what makes you distinctive, evaluate your website and showroom to be sure they align with that identity. Do your employees understand and communicate it?

Finally, Phelps says, take a lesson from Spinal Tap. In a famous bit of dialogue from the eponymous documentary, the band discusses sheer loudness. Most amps went from 1-10, but theirs could be played at 11.

“If we need that extra push over the cliff, you know what we do?” says Nigel Tufnel. “Put it up to 11 ...” replies Marty DiBergi.

Take your weirdness “over the cliff,” says Phelps.
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Biographies



Edward F. Downing

Edward F. Downing is the director, Change Accelerator, for Boeing South Carolina (BSC) within Boeing Commercial Airplanes. Based in North Charleston, South Carolina, his responsibilities include leading the development of first-line

leadership and engagement, driving teammate engagement, diversity and inclusion, connecting business and functions for growth across the site and enterprise, aligning key enterprise initiatives, enabling and leveraging best practices across the site, and representing Boeing through community and government engagements.

Previously, Downing was the manufacturing leader of BSC Composite. In that role, he was responsible for leading teammates and managers within multiple manufacturing disciplines within Aftbody Assembly. Before that role Downing served as a manufacturing leader in Midbody Assembly, where he led manufacturing and support teams in the build of the 787 fuselage sections. Earlier in his career, Downing held positions of progressive responsibility in operations supporting the 747 and 767 programs.

Downing’s diverse professional background spans more than two decades with experience in manufacturing leadership, operations, quality, supplier management, team member development and Lean and Six Sigma process improvement.

Downing holds a bachelor of arts in leadership and management and a master of arts in organizational leadership from City University of Seattle.



Ricky L. Freeman

Ricky Freeman is vice president, Global Sales and Marketing, for Boeing Global Services’ (BGS) Government Services segment,

where he is the executive head of global sales and marketing operations for the \$10-plus billion worldwide defense services portfolio. BGS provides

readiness and sustainment support for a broad array of Boeing and non-Boeing platforms and related infrastructure for U.S. Department of Defense and international armed forces.

BGS offers an extensive portfolio of turn-key solutions in performance-based logistics, engineering, modification, maintenance, training, supply chain and digital solutions. Headquartered in the Dallas, TX area, Boeing Global Services has more than 23,000 team members in over 300 locations, 40-plus U.S. states and 70-plus countries.

Ricky joined Boeing in 2018 after a fourteen-year career at Raytheon, where he was vice president, business development operations, Raytheon Missile Systems U.S.; Raytheon, Canada; and Raytheon United Kingdom. There, he led land warfare and air warfare, C4ISR, precision weapons, avionics, man-portable digital targeting systems and mission support products for U.S. and international armed forces.

Ricky held other leadership roles including program director, Naval Systems for U.S., Japanese, UK and Norwegian Naval forces with DRS Finmeccanica and roles in business operations, information technology and information security. Prior to his corporate career, Ricky served in the United States Marine Corps as a tactical naval aviator and program manager at Marine Corps Systems Command.



Stan Phelps

Stan Phelps is the founder of PurpleGoldfish.com, a think tank of customer experience

and employee engagement experts based at the Frontier in Research Triangle Park. He is a TEDx speaker, Forbes contributor and IBM Futurist that inspires leaders to think differently about their most important stakeholders.

Stan's keynotes and workshops focus on the value of customer experience as a competitive differentiator and the importance of employee engagement in building a strong corporate culture. He has spoken at over 250 events in 15 countries (U.S., Canada, UK, Spain, Ecuador, Peru, The Netherlands, Russia, France,

Germany, Australia, Bahrain, Malaysia, Israel and Sweden) for Fortune 500 brands such as IBM, Target, ESPN, UPS, and Citi.

Prior to focusing on speaking, Stan held leadership positions at IMG, adidas and the PGA of America. He also spent seven years as chief solutions officer at Synergy, an award winning experiential marketing agency. At Synergy, he helped create larger than life brand experiences for brands such as KFC, M&M's, Starbucks and organizations such as NASCAR, MLS, and the USTA.

Stan started writing and speaking in 2009 on the belief that "differentiation via added value" can be a game changing strategy. For far too long, the overwhelming majority of marketing has fixated on the eyes and ears of the prospect. Not enough has been focused on creating experiences for current customers that drive referrals. Great customer experience is about being so remarkable that people can't help but talk about you. That if you absolutely delight someone – they will not only come back, but they'll bring their friends.

Stan received his B.S. in marketing and human resources from Marist College, a J.D./MBA from Villanova University, and a certificate for Achieving Breakthrough Service from Harvard Business School.

He is a past-president of the AMA Triangle, a 700+ member chapter of the American Marketing Association. He also currently serves on the Advisory Board for Special Spectators. Stan lives in Cary, North Carolina with his wife Jennifer and two boys Thomas & James.



Thomas Hollmann

Thomas Hollmann is a Clinical Associate Professor of Marketing and Executive Director at the Center for Services Leadership at Arizona State University.

Thomas' work experience spans four countries and over 10 years in Fortune 100 companies, including Black & Decker, Xerox, and as an executive at Sun Life Financial. His research interests include services

science, with a focus on B2B, service analytics, and relationship marketing, with a particular interest in relationship outcomes (profitability, customer equity, defection, retention, satisfaction, etc.).

His research has appeared in the Journal of the Academy of Marketing Science, the Journal of Business and Industrial Marketing and several leading marketing and services conferences. He has received research grants and awards from the Center for Innovation Management Studies, Xerox, IBM, and the Center for Services Leadership. Thomas has consulted with a range of Fortune 500 firms and he received awards for his teaching at Arizona State University and at NC State.

Thomas earned a Ph.D. in Marketing from Arizona State University.

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The Center for Services Leadership

The Center for Services Leadership is a groundbreaking research center within the W. P. Carey School of Business at Arizona State University that concentrates on expanding service innovation by combining the latest scientific insights from the academic world with the best of service strategy in the business world.

The CSL was created in 1985 as a response to the unique set of challenges that companies faced. While others were focusing on products and manufacturing enterprises, the CSL pioneered the study of service. Today, the Center is a globally recognized authority and thought leader in the science of competing strategically through the profitable use of service.

The Center's success is due to our partnership with the business community. Our distinguished Board of Advisors, who serve as thought leaders representing our member firms, provide us with valuable insights into the challenges that firms face in the services arena. We partner with our Member Firms on research and projects in a "real world" context that keeps our message practical and vital.