

Questions & Answers SERVICE INNOVATION

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Successful service firms compete through innovation because how a service is designed and delivered is in large part not protected by patent or copyright. This set of ten questions and answers explains what service innovation is and the interaction between cultural values and innovation processes.

1. What is service innovation?

A new service idea is an innovation if it:

- Is an intentional change in the service provided
- Provides a new or substantially improved benefit to the customer
- Significantly improves the service firm's profitability
- Can be duplicated from customer to customer

Service firms innovate in three ways:

- a) Changes to the *service* itself, or *what* is being offered. Innovative services are ones that did not exist before, or that have been substantially redesigned to meet customers' needs more effectively. These innovations are the most obvious to your customer.
- b) Changes to the service delivery *process*, or *how* the service is being provided. Innovative service processes include new or improved production, delivery, or distribution methods often involving the incorporation of new information technologies. The process innovation may involve significant changes in the roles of staff, strategic partners, and/or customers. The most typical forms of innovation include increased accessibility and changes in the degree of self-service.
- c) Changes to the *organisational and managerial structure*, or how service provision is supported. Organisational innovations include new or improved managerial techniques (e.g., total quality management, quality assurance system), significantly revised organisational structures, and/or the implementation of new or substantially changed corporate strategies. These innovations are the least obvious to your customer.

2. Why innovate as part of exporting?

As a service firm, your competitive edge lies in your ability to acquire, absorb, and apply new information on changes in customers' needs and frustrations, customers' service priorities, competitors' service offerings, and the technologies available to support service delivery. Export profitability is frequently linked to offering a new service in the export

market because experience shows that customers will pay up to a 10 percent premium for services that address a previously unmet need. That premium allows you to recover the extra costs of developing and servicing an export market without jeopardizing profitability.

Innovation links to export readiness in several ways. *First*, in order to resource your export initiative effectively, you may need to introduce internal organizational innovations to handle different customer demands. *Second*, you will find that you are most profitable in an export market if you offer a service or service delivery process that is new to that target market. Entering with a “country first” innovation will position you without direct competition and will allow you to derive a price premium from meeting a heretofore unmet need. *Third*, in order to adapt to the cultural norms of your target market, it is very likely that you will need to change features of your service or the manner in which your service is delivered — again an innovative activity.

The process of identifying unmet needs and designing services for them is what innovation is all about. Sometimes you can be innovative in an export market simply by offering services you already provide in your domestic market (i.e., “country first” or “market first” innovations). In other instances, you will need to either modify a service you usually provide or design a new service offering. Try asking people from the export market you wish to target which firms they believe provide the best service in their market and why. Then study those companies to see how you can exceed their level of service consistently through your own service process innovation.

3. How can I use innovation as a competitive strategy?

Export success depends on a number of strategic factors, only one of which is innovation. In fact, it is important to think through an “optimal” level of innovation. If you engage in too little innovation, you will lose market share. If you innovate too frequently, you will have trouble assuring consistent quality and may lose customer loyalty.

The focus of innovation is to compete by changing the rules and making competitors irrelevant. Successful innovation results in increased customer satisfaction and strengthened customer loyalty, which translate into increased repeat purchase, cross-selling of related services, and recommendations to others.

4. How can I use innovation to protect & expand market share?

Most service firms have to innovate if they want to protect or expand market share. New service concepts and delivery designs usually cannot be protected by copyright or patent, and so continuous, well-managed innovation is the only viable option. Remember that, when competitors increase the value that customers experience, then customers’ assessment of your service also changes.

To lead the market, your service firm needs to be *proactive* in defining what constitutes good service. In being proactive, you have four variables you can utilize:

- a) Staff capabilities, such as specialized expertise that is in high demand

- b) Technological changes, such as Internet-based service delivery options
- c) Increased operational efficiency, such as faster response time
- d) Emerging customer needs, such as dual career families needing assistance with all aspects of family responsibilities

You can also lead by being the first to take advantage of a unique, and often time-limited, option.

5. How else can my firm benefit from innovation?

There are four additional benefits that your firm can gain from innovating:

- a) *Improve operational efficiency*
Well-chosen organizational innovations can help to decrease production costs and increase profitability.
- b) *Increase staff retention*
Finding appropriately skilled staff is often challenging for service firms. The challenge of generating new ideas and the satisfaction of contributing to success can be very motivating for staff and so help to attract and retain skilled persons. As an additional benefit, customers are more likely to be loyal to a service firm with low staff turnover.
- c) *Enhance staff skills*
One of the unexpected benefits that service firms report from innovation is that their staff learn new ways of collaborating with one another and/or interacting with customers through the innovation process. This often includes a heightened respect for different perspectives, which translates into greater customer satisfaction.
- d) *Increase marketplace recognition*
As the innovation becomes visible to customers, the reputation of the innovating firm is enhanced and the likelihood of being viewed as a market leader increases.

6. How does novelty relate to innovation?

Innovation is not limited to “first ever” activities; rather, it includes the adaptation or diffusion of the concept beyond the point of origin to new markets. While technically the term “innovation” applies to any change that is new to a firm, practically speaking the change needs to be the first of its type in the market to be viewed as innovative by customers.

From a strategic perspective, it is an underutilization of resources to only apply an innovation in a single context. Given the staff resources needed to generate and launch innovations, you would want to benefit as much as possible from those efforts in order to

recover your initial investment. Export markets can offer an ideal opportunity to extend the life of an initial service innovation. In planning your export strategy, there are three levels of novelty to consider:

World first innovations

These are truly unique innovations that set a new international benchmark for performance. Such innovations comprise no more than 10 percent of all innovative activity. While they are rewarding to invent, you also have to develop the primary demand for the new service or service process.

Country first innovations

An entire export strategy can be built around taking a world-first innovation and adapting it to new economic contexts.

Market first innovations

Similarly, an export strategy can be built around adapting a country-first innovation to new geographic areas within the economy (e.g., rural or remote communities), or to new customer niches not initially targeted (e.g., women-owned businesses). From an export perspective, identifying opportunities for market-first innovations is one of the keys to extending the benefits that you can derive from innovative activity as it requires the least in terms of additional resources.

7. What types of innovation are there?

There are four types of innovations that your firm can develop and introduce:

Incremental innovations

Incremental innovations are the most common and usually stem from customer suggestions or an analysis of how to adapt competitors' strategies (competing on the margin). This type of innovation represents a new way to meet previously identified customer needs with commonly-used technology. A number of examples exist where service providers have innovated to bring the service to the customer rather than making the customer come to them or have found new ways to get paid by bundling two services for one price, finding a third party "sponsor" willing to pay (e.g., employers willing to pay for a preventive health service for their employees), or using price to manage demand.

Distinctive innovations

Distinctive innovations are more challenging to conceptualize and usually depend on matching existing capabilities with ideas generated from observation of customer behaviour and research into the potential of new technologies. They include the targeting of a previously unmet need and the integration of new information technology to meet an identified need.

Value innovations

This more radical type of innovation represents a redefinition of customer needs that sparks a complete rethinking of what is important to offer customers. Developing a value innovation involves challenging industry assumptions and taking a different strategic approach. Instead of starting from existing assets/capabilities, the primary question is “What if we started over again? what solution would we offer the customer?” The result is a new service offering, delivery process, or organizational structure that is completely different and irresistible to customers.

Breakthrough innovations

This transformative type of innovation represents a paradigm shift in terms of both the customer needs that are targeted and the technology used to meet them.

While value and breakthrough innovations are most dramatic, it is often more appropriate to have a continuous stream of incremental service improvements whose quality can be carefully managed. Because many customers have ongoing relationships with service providers, the introduction of a new service cannot be segregated easily from existing services being used. The introduction of an innovation that fails to meet customer needs or enhance service delivery can have a very negative impact on the service provider’s reputation.

8. How can my firm innovate successfully?

The success or failure of a service innovation is linked to two primary factors: (a) a correct reading of the market and what matters to customers, and (b) appropriate management of the innovation process. While firms usually give explicit attention to the market factors, they are much less likely to attend to the management of the innovation process. Here are some of the principles that will help you manage the innovation process successfully:

- a) *Make sure that the innovation delights customers while meeting the needs of all stakeholders and remaining financially viable.*
Consider introducing a new performance measure, ROII or “return on innovation investment.” To make ROII meaningful, you would need to measure return over an appropriate time period.
- b) *Provide vision to drive the change process.*
Think about the vision you have for innovation in your company and then change the physical environment to reflect that vision. For example, if you want employees to brainstorm implementation ideas, then create a space where the challenge can be posted and employees can add their ideas.
- c) *Provide a risk tolerant environment where one is not expected to always succeed.*
Not all ideas will be viable and about 20 percent failure is inevitable. Find a way to recognize the creative work of employees that does not result in an

innovation being adopted, such as circulate a list of ideas proposed, with the names of the proposers, or creating a “nice try” award.

- d) *Establish a lifelong learning orientation that involves all members of the organization.*
Build choice and ongoing learning into the work life of employees by letting employees choose what projects to work on, or allocating time each week for employees to work on ideas of their own choosing (e.g., 15%).
- e) *Support creative thinking in a diverse, information-rich environment.*
The creative process requires a lot of input to stimulate new concepts. Make sure that employees are exposed to lots of new ideas through techniques like:
- Having employees report on the implications of a new trend
 - Having employees report on the implications of their training
 - Subscribing to a range of journals for employees
 - Arranging staff interchanges with sister organizations
- f) *Provide a cross-functional systems perspective to analyze the impact of change and oversee implementation.*
Build in multiple perspectives by using cross-sector teams to brainstorm new ideas or having staff role play different customer and staff perspectives and try to resolve differences.

9. **How does culture affect customers’ attitude about innovation?**

Cultures differ in their readiness to embrace change. In some cultures, risk taking is valued and “new is better.” Children are trained from an early age to investigate alternate approaches and pose “why not” questions. In other cultures, the training is on incorporating and exhibiting traditional values and approaches, often without question. In cultures with a fatalistic religious tradition, innovation resistance is usually more pronounced.

Traditional cultures, while initially difficult to enter, can offer excellent export opportunities if local business and community services are still relatively underdeveloped. Three strategies that can be successful include the following:

- Focus on equalizing access to basic services
- Use an incremental, rather than breakthrough, innovation strategy
- Select a method of delivery that minimizes cultural reluctance

Willingness to innovate is more complicated than just whether or not one is open to taking risks. Cultures also vary in how people are socialized to make decisions about an innovative service. In individualistic cultures, people typically scan a range of information sources (including self-service on-line services) as well as consulting with persons they respect in order to decide whether or not an innovation is likely to benefit them. For those from more collective cultures, the decision-making process is more likely to begin with consulting persons they respect and trust, and may or may not include the consideration of more impersonal sources of information. In addition, those from collective cultures that

value relationships more highly than efficient task completion are likely to try an innovation simply because it is offered by a service provider to whom they are loyal.

In addition, cultural factors influence how positively customers view self-service and the increased use of information technology rather than personal contact. Customers from low risk aversion cultures who value speed of service delivery, convenience of access, and/or an increased sense of choice are the most likely to embrace self-service.

Since customers typically are engaged at some level in the service delivery process, innovations pose an effort cost for customers in the form of having to learn a new service or service delivery system. The perceived enhancement in benefits received needs to be great enough to offset the cost.

10. How does the innovation process change over time?

Innovations in the *process of service delivery* or in the way in which a firm organizes to *support service delivery* generally continue until they are made irrelevant by competitive changes. But innovations in the *actual service offering* go through a gradual maturation process known as the service life cycle:

a) Introduction

Here your primary task is to educate customers regarding the benefit of the new service so as to create primary demand. In some cases, this means helping customers redefine how they see their own role.

b) Growth

Here you will need to focus on quality control and repeat use in order to protect your niche from competitors. Remember that, once customers have a positive experience with your service firm, they tend to remain loyal in order to manage risk. Investing in quality assurance can help you maintain that customer loyalty.

c) Maturity

Once sales growth has levelled off, it is time to introduce a new innovation if you are going to stay competitive. Either a world or country first innovation can be launched, or the original innovation can be adapted to new markets or new customers through the diffusion process.

d) Decline

By this time, you will want to have moved on to a new service concept.