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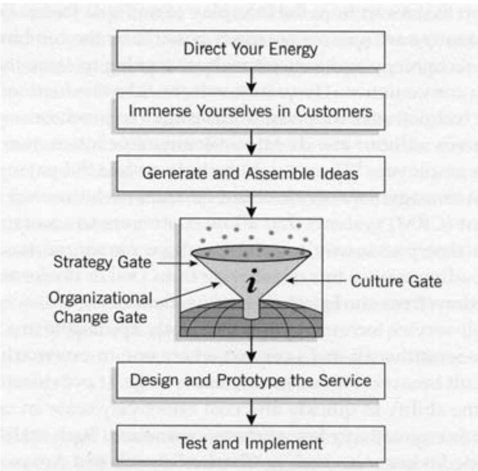
THE OXFORD INSTITUTE OF
RETAIL MANAGEMENT

BUILDING COMPETITIVE ADVANTAGE BY USING A SERVICE INNOVATION STRATEGY

Dr Jonathan Reynolds, Director, Oxford Institute of Retail Management

Outline

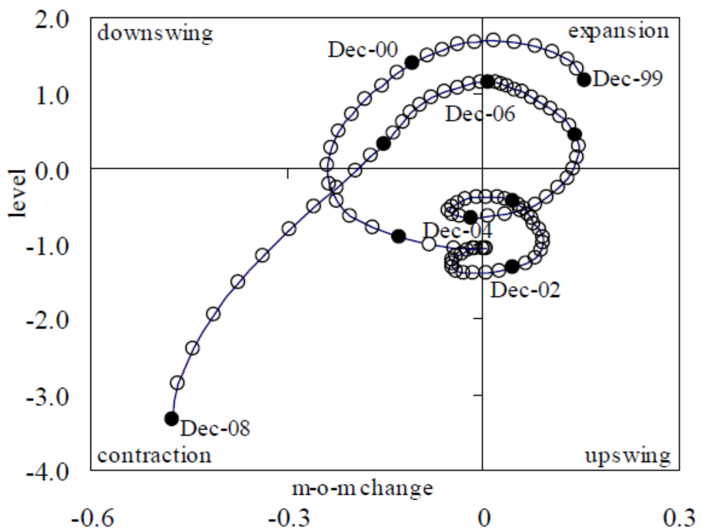
- Service innovation in an economic downturn
- The extent and nature of service innovation: recent statistical evidence
- Service innovation strategies: three examples
    1. Seek to **Collaborate**
    2. Work to **Conceal**
    3. Exploit **Convergence**
- Case: innovation in virtual worlds
- Conclusions: focus on customer's perceptions of value



Source: Gustafsson & Johnson, 2003

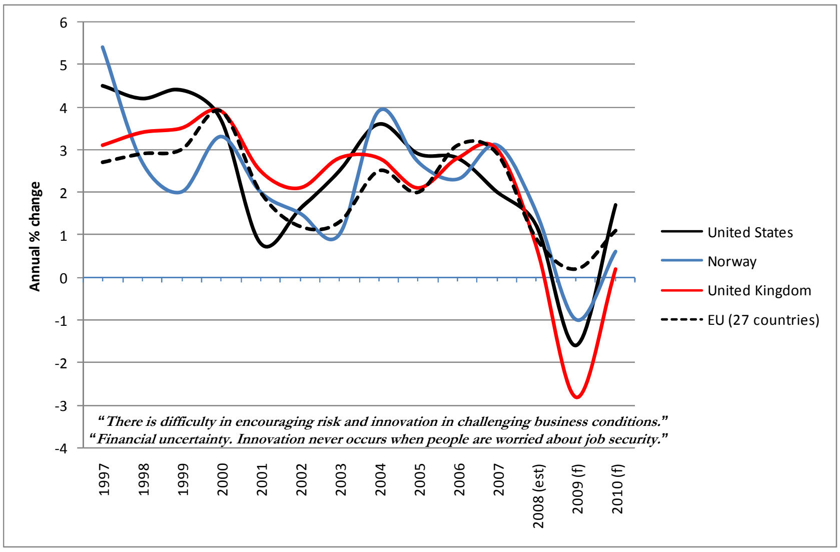
SERVICE INNOVATION IN AN ECONOMIC DOWNTURN

Economic climate tracer: Eurozone



Source: European Commission, 2009

The economic environment for innovation: change in GDP



Source: Eurostat, 02 2009; Economist Intelligence Unit

A bad time to innovate?

- *"Do downturns breed better innovations?"* (David Silverman)
- An economic downturn makes it tougher to raise capital, make the business case and win customers
- What should drive service innovations?
  - Focus on internal process efficiency – at the expense of labour?
  - Focus on customers' need for more efficient and cost effective solutions
  - The best new ideas stand a better chance when customers are looking hard at **value**
- Companies have to be smart and nimble to survive
- US companies founded during the Great Depression
  - Motorola, Hewlett Packard, Xerox, Unisys, Texas Instruments, Revlon, Converse

MOTOROLA UNISYS imagine it. done. CONVERSE REVLON TEXAS INSTRUMENTS xerox hp invent

Economic downturn: management trap?

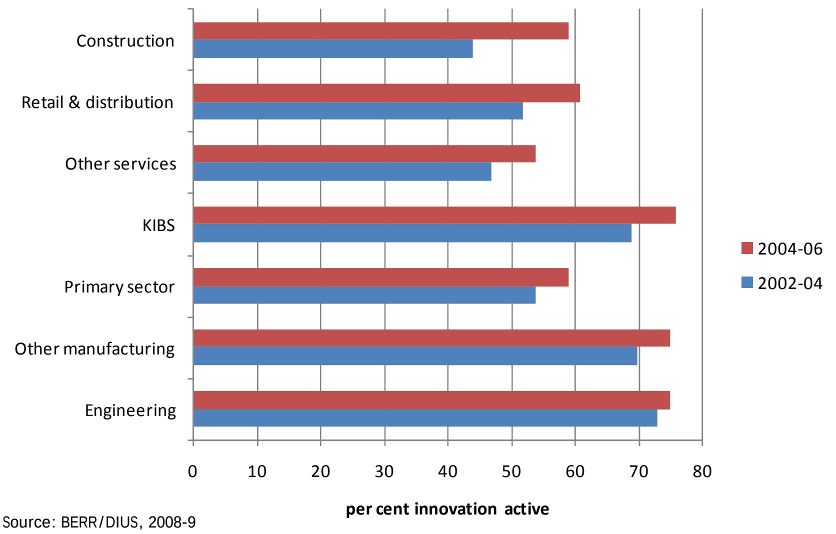
- *"A traditional management focus overemphasising cost reduction efforts and scale economies may become a management trap for service firms and lead to a vicious circle where the quality of the service is damaged, internal workforce environment deteriorates, customer relationships suffer and eventually profitability problems occur"* (Gronroos, 1993)
- E.g. offshoring

Where does your company offshore the following?

Category	Develo ped	Develo ping	India
IT	5%	27%	65%
Call centre/help desk	8	38	55
Business research analytics	22	36	42
Finance, admin	20	39	44
Human resources	30	45	24
Industry-specific R&D	30	45	31

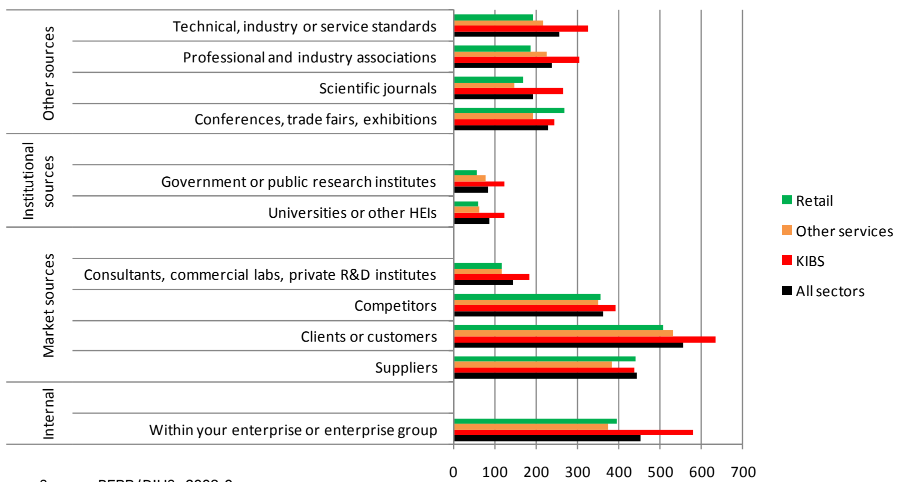
THE EXTENT AND NATURE OF SERVICE INNOVATION: RECENT EVIDENCE FROM THE UK

Innovation active by sector: UK



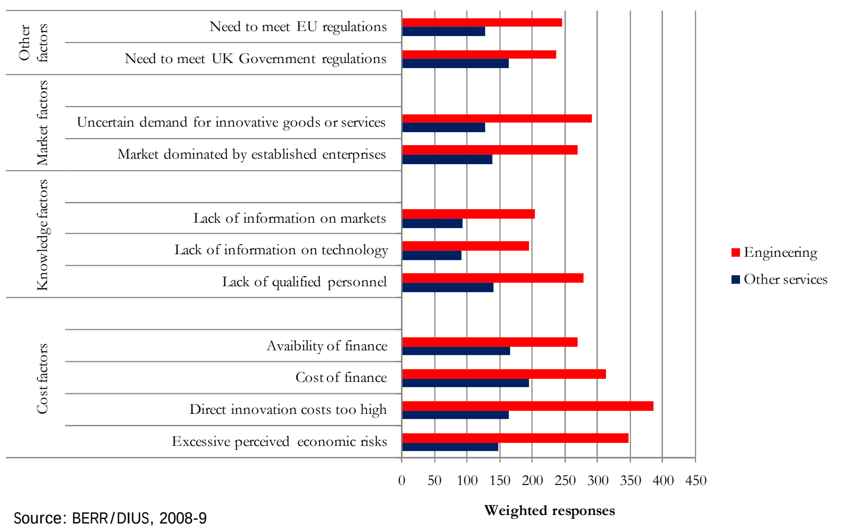
Source: BERR/DIUS, 2008-9

Where does value come from? sources of information for innovation



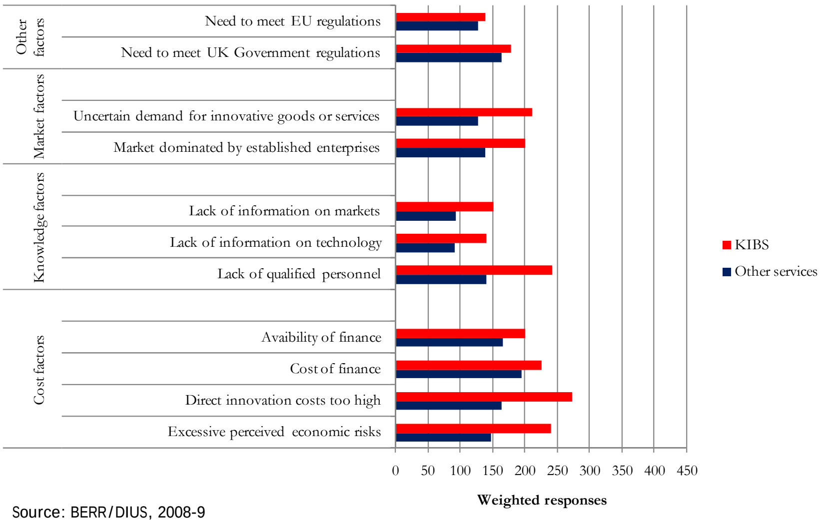
Source: BERR/DIUS, 2008-9

Barriers to innovation: engineering vs other services



Source: BERR/DIUS, 2008-9

Barriers to innovation: KIBS vs other services

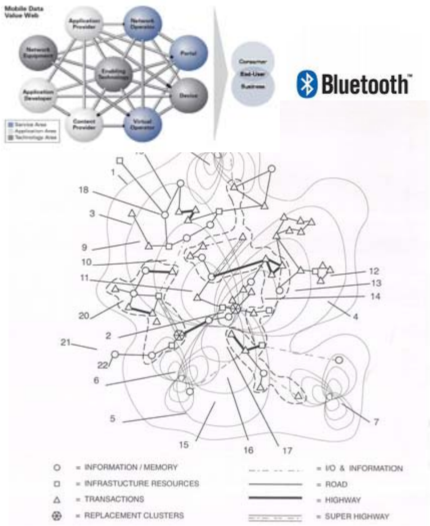


Source: BERR/DIUS, 2008-9

SERVICE INNOVATION STRATEGIES

Service innovation strategies: seek to collaborate

- Move from service value chains to value networks
- Value chains
  - Limited number of well-established providers
  - Long lead times
  - Limited offerings
- Value networks
  - Easy sign-up of providers
  - Negotiation
  - Real time service offerings
  - Settlement against a real time service agreement
- Rapid composition/decomposition of services
- Engaging customers through feedback mechanisms



Service business nets

Current Business Nets		Business Renewal Nets		Emerging Business Nets		
Vertical Demand-Supply Nets	Horizontal Market Nets	Business Renewal Nets	Customer Solution Nets	Application Nets	Dominant Design Nets	Innovation Networks
• Toyota • DELL • IKEA	• StarAlliance • SkyTeam • Nectar • Amex	• Offer improvements • Business process improvements	• Construction projects • Software solutions	• Flat panel displays	• Symbian • Bluetooth	• Science-based networks

High-level of determination ◆———◆ Low-level of determination

Stable, well-defined value system	Established value system, incremental improvements	Emerging value system, radical changes
• Well-known and specified value activities • Well-known actors • Well-known technologies • Well-known business processes • Stable value systems	• Well-known value-systems • Change trough local and incremental modifications within the existing value system	• Emerging new value systems • Old and new actors • Radical changes in old value activities • Creation of new value activities • Uncertainty about both value activities and actors • Radical system-wide change

Source: Möller & Rajala, 2007.

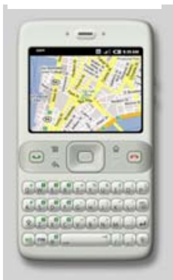
Managerial implications

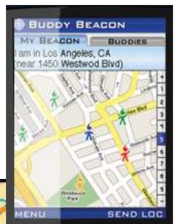
- Where value occurs in complex nets rather than chains, the goal of business is not so much to make or do something of value to customers, as to mobilise customers to take advantage of proffered density and create value for themselves
- As potential offerings become more complex and varied, so do the relationships necessary to produce them
- If the key to creating value is to co-produce/co-create offerings that mobilise customers – where is competitive advantage to be found? In the ability to conceive the entire system and make it work.

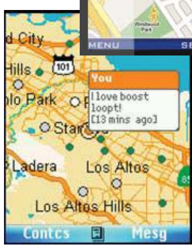
Source: Normann & Ramirez, 1993

Collaboration: mobile-based services

- Information and proximity services
  - Local weather, news, 'Find nearest store', concierge
  - Tracking of people and assets
- Navigation
  - Pedestrian & vehicle
  - Congestion alerts
- Community and networking
  - Find a friend/find a date
  - Social networking
  - geocaching
- Solutions in search of problems?








Sat-nav lorry 'risk' to buildings

"The privacy concerns are just monumental in the US"

..or fear-based services?

- Emergency response
  - Terrorist attacks, earthquakes, tsunamis, typhooons ….
- Child tracking
  - Astray alerts
  - 45% parents with children under 13 ‘interested in and willing to pay’
- Find a friend – the dark side
  - proximity based SMS
  - periodic SMS to friends and family
- *“I used to be worried when my boyfriend didn’t answer calls .. Now I can rest assured that he is at work or busy attending a seminar”*
- $1.54bn business in Korea, 150 LBS services

Future mobile service innovation

- SMS
  - An effective messaging tool in Europe
  - Good for ‘content push’
- Expanding mobile requires
  - More advanced content push (e.g. FlashCast)
  - Provide more content (e.g. Digby, Google/Google Android)
  - Social networking on mobile (e.g. Facebook for Mobile, Twitter)
  - Timely, location-relevant information (e.g. Petamap, in-mall GPS)

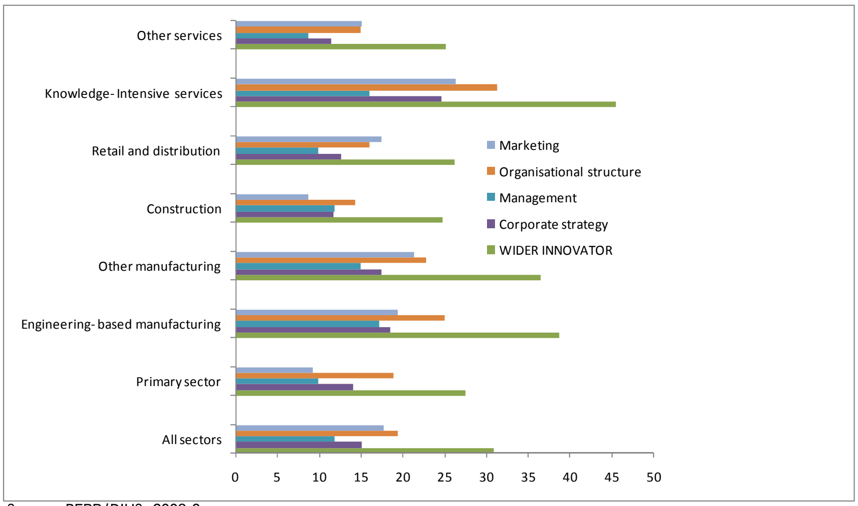
Source: Forrester, 2008

Mobile map sharing and tracking

Service innovation strategies: work to conceal

- Much of service innovation essentially
  - non-technological
  - incremental rather than radical
  - not easily measurable/observable
  - Benefits from organizational or human process elements
- Incremental forms of wider innovation less easy to copy
- E.g.
  - Professional service firms
  - Retailers
- But sometimes harder to prove business benefit of ‘hidden’ or ‘wider’ innovation

Extent of wider innovation - UK 2004-06



Source: BERR/DIUS, 2008-9

Innovation in professional services

- Word-of-mouth businesses becoming institutionalised: spot the difference?
- Basis for innovation and differentiation?
  - Technical abilities
  - Client focus
  - Availability
  - Individual solutions
  - Reputation management
- Innovation in PSF brands based on qualities inherent to the organisation and deliverable by its people

Incremental service innovation in retailing

TESCO Every little helps

"Our core purpose is to create value for customers to earn their lifetime loyalty."

Tesco customers want the best possible value for their money. Tesco is determined to offer its customers quality products, good service, attractive stores and low prices.

To meet these aims, Tesco:

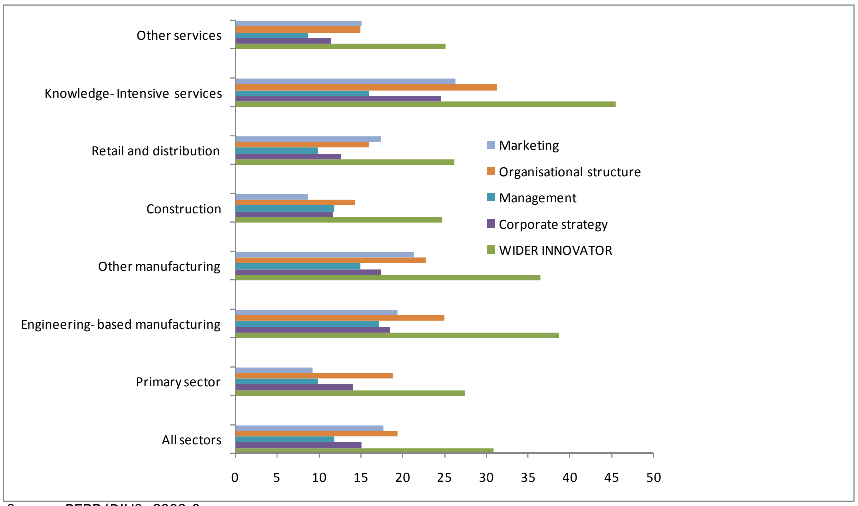
- **works closely with suppliers to ensure products are of the highest quality and are delivered to stores in the best possible condition.**
- **makes sure that its staff are committed to giving the best possible quality of service.**
- **aims to create in its stores an environment which makes shopping easy, interesting and comfortable.**

Great Value For Money...

Service innovation strategies: exploit convergence

- Manufacturing firms are transforming their own business models to allow for SI
- Competitive pressures have forced some firms to move to areas of higher value
  - E.g. IBM from manufacturer to business services
- Others have moved to a rental model for manufactured assets
  - E.g. service, parts, reuse
  - E.g. closed loop asset recovery
- 'Cradle to grave' service
  - Can be hijacked by conventional service organizations(e.g. printer cartridge refilling)
- Revolves around knowledge management of the asset

Extent of wider innovation - UK 2004-06



Source: BERR/DIUS, 2008-9

Convergence: the example of Caterpillar

- $1bn turnover *remanufacturing* division, UK
- Profitable alongside other manufacturing
- Reprocesses thousands of 'end of first life' car, truck, plant, rail and marine engines per month
- 40% originally built by other companies
- Provides advice on and management of remanufacturing by others
- Takes advantage of
  - EU Producer Responsibility legislation
  - EU Energy Using Products Directive

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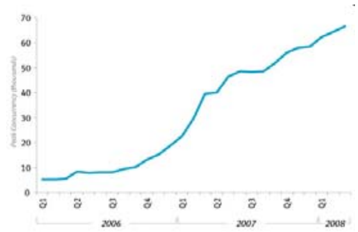
CASE: INNOVATION IN VIRTUAL WORLDS

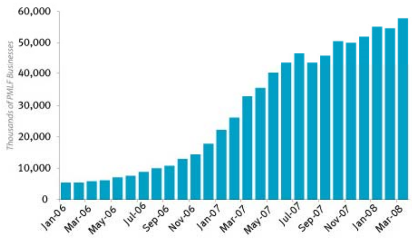
Virtual worlds

- E.g. Second Life
  - Creative massively multi-player online role playing game (MMORPG) (US, UK, Germany, Sweden)
  - 13,080,000 users, (1/2mn active in June 2008, 70,000 concurrent users)
  - Avatars and virtual economy
  - Virtual real estate – 1,000 km2
  - Virtual commodities
  - 60,000 profitable 'businesses'
  - $300mn GDP 2008 (Seychelles)
- Implications
  - Brands: Toyota, BBC, Adidas, Reuters, l'Oreal …
  - Role of corporate presence in virtual worlds?
  - Innovation & experimentation
  - *"Just because you can doesn't mean you should"* (Nic Mitham, KZero)

Concurrent users 2005-08

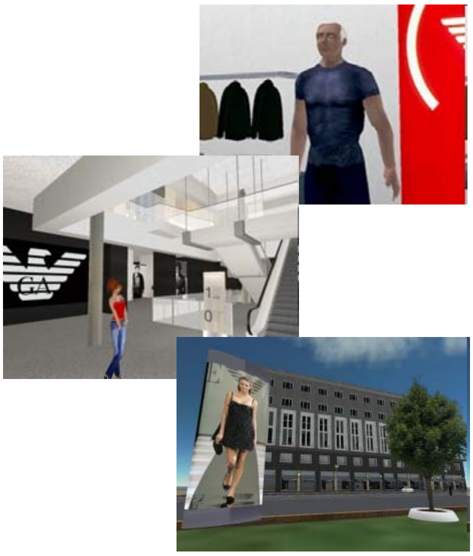


Profitable businesses 2005-08



Conventional innovation? Armani store

- Opened September 2007 as an exact replica of flagship concept store in Milan
- Can buy virtually, or click through to EA website to buy physical product
- *"My alter ego will be present much of the time to check on how the store is doing"* (Giorgio Armani)
- *"It is a great example of brands diversifying into a virtual world. Lucky browsers may find an avatar of Giorgio Armani in the store, allowing consumers the kind of interaction that would be impossible in real life."* (retailer)
- BUT: "*Although Armani in real life is fantastic, their Second Life presence is not; To put it mildly, Armani fell short."* (blogger)
- *"Inside, the mall is empty, no one and nothing's there …"* (discussion forum)



Virtual entrepreneurs: Armidi shopping village

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- Shopping village founded by Nicole David, Loa Marquez and Liam Oliver in 2007
- "We wanted something different than your average box-on-a-wall store. We wanted something original and reflective of Europe." (Liam Oliver)
- Six brands
  - Armidi (leisure)
  - Elephant Outfitters (casual- & beachwear)
  - Gisaci (upscale brands)
  - Armidi Gisaci (upscale accessories)
  - Armidi Beauty
  - Intimizzo (lingerie)
- Consumer reactions
  - *'feels like Rome'*
  - *'quality of products & presentation'*
- VALUE

© Jonathan Reynolds, 2009

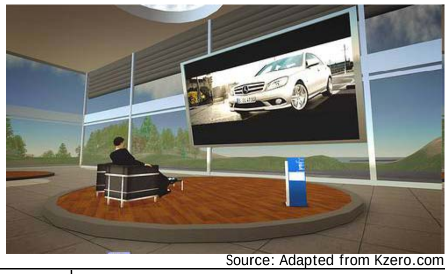
Lessons from L'Oreal

1. Virtual world make-up looks for avatars
   - Taps into interest in avatar customisation
   - SL 'face of l'Oreal'
2. Virtual retailing
   - Partnering with existing – and successful – virtual brands
3. Product placement
   - Giant handbag in 'Greenies Kitchen'
   - 34,000 click throughs in 3 months
4. Media placement
   - Fashion and clothing related SL magazines and websites
5. In-world search engine marketing

- An integrated approach to innovation

Translating brands into virtual environments

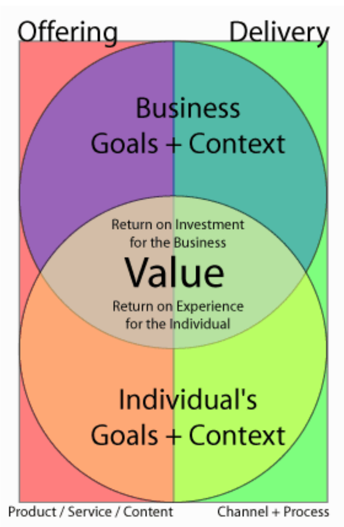
- What are your objectives?
  - Creating customer value?
  - Providing a meeting place?
  - Building brand awareness?
  - Buying & selling goods and services (real, virtual or both)?
  - Building organizational experience?
- Avoid
  - Branded desert islands
  - Real life 'lookalikes'
  - 'push' marketing
  - Creating unrealised expectations (e.g. Armani)
- Consider
  - Experimenting
  - Collaborating with existing virtual brands
  - Open innovation with in-world residents: build around a community
  - 'pull' marketing



Source: Adapted from Kzero.com

Conclusions: focus on customer's perception of value

- The key to successful service innovation is to **focus on increasing the customer's perception of value**
- Within the UK, there is **little evidence of major barriers** to service innovation activity
- However, **financial issues of risk and available capital, especially for SMEs**, or a longer-term investment in **leadership skills**, are apparent barriers in some specific situations
- There is a need to **ensure that technology-led innovation is value-driven**, rather than supplier-led
- There is a need to **ensure a greater input from research institutions to value-driven service innovation**, rather than rely solely on competitive forces
- **Changing economic conditions**, particularly the continuing shortage of liquidity and working capital for service firms, wiil influence investment in strategic service innovation



Source: www.boxesandarrows.com