

Questions & Answers MANAGING 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 provides you with models for managing the innovation process in both your domestic business and your export initiatives.

1. What guidelines can I establish for appropriate innovation?

To succeed, you need to systematize the *process* of innovation rather than the innovative activities themselves, by adding an innovation policy and guidelines to your business strategy. Here are some areas to consider for developing guidelines:

Purpose of Innovating

- Strategically, what are your innovation objectives?
- What types of customers do you want to target?

Management Commitment

- What resources will you commit to support the innovation process, including staff time for creative idea generation and concept development?
- What provisions will you make to protect staff's ability to experiment and fail without negative consequences?

Developing Innovation Assets

- What types of training will you provide for staff in innovation-related skills?
- What core competencies should be leveraged in the innovation process?

Groundrules

- What proprietary methods do you want to protect and build on in the innovation process? Do you want one of the outcomes to be a new proprietary process?
- What standards of customer service need to be maintained in any new service delivery process?
- What types of roles are or are not appropriate for staff? for customers?
- What criteria should be used in screening new technologies for adoption?
- What criteria should be used in determining if a new concept should be implemented?
- What portfolio composition should be maintained of established versus new innovations?
- What minimum cycle time should be allowed for the implementation and absorption of one innovation before another one is introduced?

- What diffusion strategies are or are not appropriate?

Success Criteria

- How will you know if an innovation has been successful?

2. What is a good model for managing innovation?

There are four types of managerial skills that you will need:

- Strategic visioning, or the ability to anticipate market trends
- Risk management, or the ability to make change a success
- Lateral thinking, or the ability to “break set” and find new options
- Change management, or the ability to engage the whole firm

You also need a systematic approach to innovation that can be supported by effective routines, like the following stages:

Foundation

Stage 1: Quality assurance to verify that innovations meet service standards and do not have a negative impact on service delivery or customer satisfaction.

Stage 2: Staff training to provide the skills needed for successful innovation.

Concept Development

Stage 3: Clarify customer needs in order to identify those that are unmet or that could be met more effectively.

Stage 4: Generate ideas for service innovations.

Stage 5: Assess the ideas generated in terms of their feasibility and select those to be developed and implemented.

Implementation Cycle

Stage 6: Concept proposal to state the business case for a particular innovation and test it for clarity of concept, attractiveness, and utility in satisfying a priority need.

Stage 7: Service design and internal testing to identify how the innovation would be delivered.

Stage 8: Test marketing to assess the feasibility of the innovation.

Stage 9: Implementation of the innovation by integrating it into the repertoire of services normally provided or processes used.

Return to the Foundation

Stage 10: Audit of innovation processes to make sure that innovation guidelines are being honoured and innovation is playing an appropriate strategic role.

3. Where do I start in the innovation process?

Once you have a set of innovative ideas that have been screened to make sure that they are in line with your corporate positioning strategy, then you need to develop a concept proposal. This proposal looks at the marketing, operational, and financial ramifications of pursuing the idea. That concept proposal should include the following:

Problem statement

Why the concept is being proposed; what customer need will be addressed.

Rationale for an innovative solution

Why the need cannot be addressed without an innovation

Description of the innovation

State the new service feature, or the changes in delivery process, or the changes in support processes

Net benefits of the innovation

What the customer will gain, in comparison to what the customer will lose

Rationale for customer acceptance

Why the customer would accept the innovation

Implications for customers

What will change about the customer's role in production

Implications for staff

What will change about the staff's role in production; what training will be needed

Summary of costs involved

Design and testing, operational changes, staff training, marketing of the innovation, software modifications, hardware acquisitions

Revenue flow projections

Net new revenues from the innovation

Proposed time line

Timing for design, testing, launch, and review

4. How can I support the design of a service innovation?

It is important to remember that new ideas are fragile and can easily be discarded if there is an environment of quick and harsh criticism – or even apparent disinterest. Here are some

groundrules that you could ask your concept analysis group to adopt in order effective design work:

1. We will each work to create an environment conducive to learning and creativity.
2. We want a constructive and useful outcome to this discussion and will work together to achieve that.
3. We will each accord respect to the experiences, needs, and priorities of each participant and expect respect in return.
4. We will do our best to build on the contributions of others in the group, using “yes ... and...” language rather than “yes...but.”
5. We will do our best to avoid using derogatory or judgmental language when commenting on the contribution of another participant.
6. We will do our best to avoid using humour (especially sarcasm) in a manner that belittles another participant.
7. We will express any issues or concerns we have about the concept to the group rather than keeping silent or only talking to others outside of our meetings.
8. We will treat the personal feelings expressed by others in the discussion in confidence.
9. We will take responsibility for signalling to each other if and when we believe that we are behaving in ways that are not consistent with these groundrules.
10. We will honour any action commitments that we make in this group discussion.

5. How do I test a service innovation internally?

Once you have a concept proposal, you will want to do two types of internal testing. First, you will want to test the concept with sample customers and staff to see if it meets the following criteria:

- *Understandable*
Does the service concept make sense? Do customers understand what is being offered? Do staff understand what they would need to do differently?
- *Attractive*
Do customers like the service? Do they want to try it? Are staff enthusiastic?
- *Effective*

Does the new service meet a real need? Do customers feel that they would benefit from using the service? Are staff convinced that the change is worthwhile?

If the concept testing goes well, then you will want to have service and service delivery innovations beta tested by a few willing customers or customer surrogates (i.e., staff who take on the customer role), and organizational support innovations beta tested by a few staff members. Beta testing is just a “dress rehearsal” for more extensive test marketing and needs to be done with persons who will not create negative word-of-mouth or poor internal morale if the concept fails the beta test. Typically there is some type of incentive for beta testers to participate and provide detailed feedback (e.g., offered free of charge, staff released from regular duties to participate in the beta test).

The beta test results will help you make the following types of decisions:

- #1 *Go/No-Go*
Should we proceed with developing this concept, or drop it?
- #2 *Modifications Needed*
If we proceed, what changes need to be made in the service design or supporting systems?
- #3 *Implementation Strategy*
Once any changes have been made, what is an appropriate timeline for test marketing and full implementation?
- #4 *Marketing Message*
In communicating with others about this new service concept, what are the benefits that should be emphasized?

6. How do I test market a service innovation?

Test marketing involves a limited roll-out of the revised new concept to as representative a group as possible. The challenge is to arrange the test marketing so that it does not disrupt customers’ positive feelings about other service offerings of your firm. There are four general strategies that you can use, depending on circumstances:

- *Using one location of a multi-site operation as the test site*
For example, you might have one relatively autonomous office, or one unit within an office, pilot a new procedure in order to contain the impact on customers as a whole and allow for a chance to work out any implementation difficulties.
- *Offering the service to a selected group of customers*
For example, you might want to offer the service innovation first to your preferred customers and get their response and potential endorsement.

Handled properly, they are likely to view this process positively as special treatment.

- *Having employees and their families try out the service*
If it is problematic to have customers test a new service that has not been finalized, an alternate is to involve your employees and their families. A benefit of this approach is that it can build employee commitment to the change.
- *Arranging a hypothetical situation and collect “intention to purchase” responses*
If there are high development costs for the innovation, then you might want to create a “preview” and ask selected customers if they would be willing to pay for the innovation.

You will want to analyze the results of the field testing to determine what changes are needed, how to price the new service, and what benefits to promote. One of the additional benefits that you want from the test marketing is input for your ultimate promotional campaign in the form of testimonials and success stories.

7. How do I integrate a successful innovation?

Once a new service concept has been thoroughly tested, you are then ready to integrate the innovation into your normal service delivery process. At this point you have three primary challenges:

- *Getting the support of all employees for the change*
Employee support is most likely when employees have been actively involved in designing and testing the innovation. You can strengthen employee support by allowing opportunities to raise concerns and make modifications.
- *Communicating the new benefits effectively to customers*
You will probably want to use several tactics in your communication strategy such as providing testimonials from those who test marketed the innovation, and allowing customers to try out the innovation “free” or with a money-back promise.
- *Ensure that service quality remains high or is enhanced*
Customers will want to feel that there is an added benefit to them from the change since it will require at least a minimum adaptation effort on their part.

You also need to be tracking costs and revenues so that you will be able to see if there are competitive benefits from the innovation.

Any time you ask your staff to adopt new behaviours or procedures, they will need a period of practice and skills consolidation. During that period, you may well identify further refinements needed to optimize innovation success. It is important to set periodic times for

formal evaluation and review. It is also important to allow for an appropriate spacing of new innovation introduction to allow for proper absorption.

8. When and how do I evaluate an innovation?

Evaluation needs to occur throughout the implementation cycle. In order to evaluate the implementation of the innovation, you will need to have refined your performance measures to make sure that they reflect the primary need that you are trying to address as well as your overall corporate priorities.

9. How do I extend the life of a service innovation?

Once you have invested creative time and energy in developing an innovation, you will want to derive as much benefit as possible. Remember the potential for moving from “country first” to “market first” innovation. Innovations from one market can often be applied to another. You can also extend the time during which an innovation provides you with a competitive edge by bundling (linking) it with another service from your company or a partner in order to provide a unique “one-stop” solution without a major reinvestment of creative energy.

10. How do I audit innovation processes?

The first step is develop appropriate performance measures, which need to be linked to your innovation policy and procedures. The most common approach is to develop a “scorecard” that allows you to see quickly how well you are performing, followed by an in-depth systems review. Here are examples of questions you might wish to ask?

Area of Focus	Questions to Raise
New concepts	Way to obtain ideas directly from customers? Monitoring of customer complaints? Feedback from contact staff? Input from back office staff? Cross-functional screening of new ideas? Process to match capabilities to potential customer needs? Innovation incorporated into the firm’s strategic plan? Innovation policy?
Innovation planning	Process for prioritizing innovation roll-outs? Screening criteria for innovation adoption?
Creativity	Elicit and support new ideas?
Developing processes	Early input from customers and staff? Mechanisms for test marketing? Cross-functional implementation teams? Check points and guidelines established?

Incorporating technologies System monitors information technology trends?

Leadership

Support value and breakthrough innovations?

Support a benchmarking process?

Performance measures defined?

Investment in staff training on innovation skills?