

Chapter 14

Service Innovation and Management

ABSTRACT

The purpose of this chapter is to explain the basic principles, theories, process, and management of service innovation. The authors first review the basic set of customer-centric principles of service innovation. Next, the authors review the theories behind service innovation typology. The following sections focus on the service innovation process, new service development, service engineering, customer participation, and lifecycle management. Then the authors select a couple of case examples from the literature to illustrate how the interrelated core concepts of knowledge, dynamic capabilities, and service innovation that have been covered in the previous and current chapters are utilized in different types of firms.

INTRODUCTION

The purpose of this chapter is to explain the basic principles, theories, process, and management of service innovation. It is targeting the strategic leaders who drive the innovation agenda as well as the operational managers who make innovations happen in firms. A common thread that runs through all these topics is the role of the customer—the arbiter of a firm's service innovation agenda as to whether it meets their evolving needs or not.

The authors first review the basic set of customer-centric principles of service innovation espoused by Bettencourt (2010) based on an updated review of his seminal book first published over ten years ago. This is followed by a review of a conceptual model of service innovation and its constituent four dimensions. Knowledge Intensive Business Services (KIBS), which constitute a well known type of service, is

discussed next to exemplify the importance of knowledge in customer value co-creation. These are the prerequisite knowledge for strategic and operational managers of services.

Next, the authors review the theories behind service innovation typology and use the framework devised by Gallouj and Weinstein (1997) as a basis, which has since been extended by other scholars, to distinguish the various types of service innovations possible and their determinant factors. This part is principally targeted at the strategic managers and policy makers, although operational managers will also benefit from it from strategic fitness perspective.

It has been shown by many scholars that companies with well-defined service innovation processes outperform those without. This is the focus of the next group of sections: service innovation process, new service development, service engineering, customer participation, and lifecycle

management. These are about processes and methods of service innovation—taking from ideas to market and to retirement and reinvention. They are all about making service innovations happen for the firm—the focus of operational managers but also executive leaders from an oversight and strategic alignment perspective. Customer participation in innovation together with community-based innovation are particularly critical for both operational and strategic managers because the mastery of these disciplines will enhance the firm's chance of winning the customer's heart and mind—the emotional as well as functional parts of customer experience.

In the penultimate section, the authors select a couple of case examples from the literature to illustrate two ways the interrelated core concepts of knowledge, dynamic capabilities, and service innovation, that have been covered in the previous and current chapters, are utilized in different types of firms.

As service innovation and its underpinning science—service science—is an emergent interdisciplinary practice, the authors conclude the chapter by excerpting a summary of the research directions synthesized by over 20 of the world's leading scholars and industry practitioners of service science and innovation—published in the January 2010 issue of *The Journal of Service Research*.

SERVICE INNOVATION: BASIC PRINCIPLES

Service is customer centered. Likewise, service innovation must focus on the customer, not the service solution. Grawe et al. (2009, p. 284) posit that service innovation is linked to the creation of customer value. Bettencourt (2010, p. 1) argues “the best guide to discovering service innovation opportunities is knowing how customers define value and the types of customer needs that can direct meaningful service innovation.”

He proposes four fundamental “truths” related to customer needs that provide a basis for the systematic discovery of opportunities for unique and valuable service innovations. They are (Bettencourt, 2010, p. 1-7):

1. Customers hire products and services to get a job done. For example, customer hires a credit card to make purchases. Focusing on the job that the customer wants done will allow the credit card provider to discover that customers struggle with finding desired products to purchase, choosing among competing brands, tracking purchase spending, and a whole host of other steps required to get this job done. These issues become a source for innovative ideas for fulfilling the customer's job requirements.
2. Customers hire solutions to accomplish distinct steps in getting an entire job done. A job is a process, and any step in that process represents opportunities for innovation. By addressing the complete job the customer is trying to get done, the company is in much better position to optimize its core service offering to do the job or to create entirely new services in what might be considered adjacent markets. The entire job process chain includes: defining goals and resource needs for the job, locating required inputs, making the preparations or evaluation required to get the job done, verifying readiness or choices, carrying out the core job, accessing job execution, making required adjustments, and concluding the job.
3. Customers use outcomes to evaluate success in getting a job done. Outcomes determine how well the job is done. Customers will use this measure as a criterion to choose among the competing solutions as to which one is best equipped to deliver the desired outcomes. Therefore, the outcomes provide rich insight into what customers are trying to achieve. This means the metrics that custom-

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