

## **Myths of Service Innovation**

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International DMI Education Conference  
Design Thinking: New Challenges for Designers, Managers and Organizations  
14-15 April 2008, ESSEC Business School, Cergy-Pointoise, France

## Introduction

What made Amazon's e-book reader succeed where Franklin's had failed – even though Franklin's was, by most accounts, better designed?

How could Harley-Davidson successfully roll out a suite of service offerings when its corporate expertise was centered on motorcycle manufacturing?

Why do companies apply Six Sigma to service innovation, when such approaches have fallen flat in product innovation?

How can Nike survive on a product-based business model in the service-led economy?

### **Service innovation is not a black art.**

A host of questions and uncertainties surround the discipline of service innovation. As manufacturing margins have shrunk, service innovation has become a hot topic in the design world. But service innovation practitioners have discovered that much of the discourse surrounding the field is more hype than help. The novelty of the undertaking has created a mystique around the field, accompanied by a host of myths. This paper debunks these myths, and offers practical advice for service innovators.

Myth #1: Visual design tools are the best way to inspire new service ideas.

Myth #2: Service innovation means overhauling the business.

Myth #3: Implementation trumps creativity in service innovation.

Myth #4: Service innovation is the only way to sustain value in the information economy.

### **Services and products often work together as a system.**

Many authors have sought to define a service as distinct from a product. The fact that leading business thinkers are still crafting new definitions of services speaks to the difficulty of definitively distinguishing between products and services. In practice, services and products often work together as a system. Some of the most compelling value propositions involve both physical products and intangible services. For the purposes of this article, I will use the operating definition of a service developed by Sasser, Olson, and Wyckoff nearly thirty years ago. According to this definition, services have four key elements:<sup>1</sup>

*Intangibility.* The offering is largely or wholly intangible.

*Heterogeneity.* The offering is different each time it is consumed.

*Inseparability.* Production and consumption are inseparable.

*Perishability.* The offering cannot be stored in inventory.

As they pertain to this article, services include purely intangible offerings such as knowledge-based services, as well as services with some tangible elements, such as hospitality and retail.

### **Myth #1: Visual design tools are the best way to inspire new service ideas.**

Traditional best practices in the design and product development world tell us that the more we use images, drawings, and concept renderings to express our ideas, the greater impact we'll have. After all, visual imagery can help large groups align around a single idea, inspire an organization, and provide guidance for what an end goal should look like. In the world of services, however, that's not always true.

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<sup>1</sup> Sasser, W.E. Jr, Olson, R.P., Wyckoff, D.D. Management of Service Operations, Allyn & Bacon, Boston, MA. 1978.

Some of the services we most rely on defy ready representation. How can a team illustrate reinsurance in a PowerPoint pitch – before anyone has heard of the concept? What would it take to explain the concept of TiVo to someone who has never used it before? How can developers represent the value of text messaging before it hit the market?

The current market and societal impact of these services belies the fiendishly difficult task of developing the idea for the delivery of their intangible value. Indeed, the intangibility of services underlies the greatest challenge in both developing new service ideas, and in delivering on those ideas once they've been developed: communication.

**The value of a service is often hard to communicate when the service is still in development.**

It's often impossible to judge a service idea on the description of that idea alone. After all, the service at a four-star restaurant is a far cry from that at a casual dining chain – but on paper, the actual tasks in question look quite similar.<sup>2</sup> It's the way that service is delivered, and the experience it creates, that determines its success or failure. But such an experience can't always be effectively measured and communicated with traditional static visual tools like drawings, photographs, or blueprints.

The second, less obvious, communications obstacle is the cognitive challenge among the development team themselves. Creating an abstract concept like a service, whose value can't easily be represented, is far more complex than simply sketching a product concept that can be collectively refined and improved. That's because services involve intangible emotional experiences, changes over time, and multiple processes and players. When value can't be seen, touched, or heard, how can a service be represented? And how can it be conceived in the first place?

**Some companies cope with the intangibility of their services by spelling out every detail.**

Companies have developed a variety of coping strategies to grapple with the issue of representing their service. Singapore Airlines, for example, takes a reductionist approach. Leaving nothing to chance, the airline has detailed all of the tangible, physical elements of its service, from the way refreshments are served to the way its flight attendants must smile at passengers.<sup>3</sup> Such an approach may work for Singapore Airlines, but the sheer volume of detailed descriptions – and the intense training required – makes this approach unwieldy, and complicates the delivery of the service.

**Physical touchpoints can distract the development team from the core service offering.**

Other companies opt for an approach that leaves less of the quality of the service rendered subject to the discretion of the frontline service provider. Often, this takes the form of physical touchpoints. Such physical touchpoints can help to reinforce the brand image of the service provider, and remind the customer of his or her experience. Sometimes, that physical touchpoint even becomes a proxy for communicating the value of the service to the customer. That's a useful goal, but it's peripheral to the actual value of the service itself. Unfortunately, however, the attractive physicality of these touchpoints can distract an organization's attention from its primary service goal. That's because it's easier to see and refine the physical touchpoint than it is the nonphysical service.

**Well-crafted touchpoints may hide gaps in the underlying service.**

The disconnect between the visual form and intangible service plagues many otherwise promising ideas. Franklin's 1999 release of its e-book reader suffered because of a focus on the design of the physical

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<sup>2</sup> Jeneanne Rae offers a similar example in her recent article. Rae, Jeneanne. "The Value of Inventive Services." *BusinessWeek*. July 29, 2005.

<sup>3</sup> National Public Radio. Sullivan, Michael. "Singapore Airlines Still Flying High." First broadcast Saturday, May 27, 2006.

product. It had a decent industrial design, but its creators gave little thought to what people would actually read with the device, or to the service that would deliver its content. At that time, few popular books were available in electronic form, and the e-reader's short battery life and limited memory further undermined its weak service model. Not surprisingly, development stopped in 2002. In effect, Franklin's visual tools had created the false impression of a successful electronic book service, when all the company had developed was an e-book reading product. This device is worlds apart from Amazon's Kindle, an e-book reader that delivers access to more than 100,000 titles through its built-in wireless broadband connection.<sup>4</sup> This strong service model has made Kindle a breakout hit despite its roundly criticized industrial design.

### **For service innovation, what you see is not what you get.**

The communication problem increases tenfold when it comes to service idea generation. Often, people use the tools of design for this task: sketches, PhotoShop, even CAD. Unfortunately, using these methods for service innovation is like using a basketball hoop to play Scrabble: they set up irrelevant expectations for the end goal. The form of these tools prevents them from representing changes over time, interactions, or processes. But that's exactly what characterizes a great service. That disconnect creates cognitive barriers, as I discovered last year.

Jump Associates recently worked with a financial services firm to develop new services for wealthy investors. Initially, we sketched our ideas on paper in traditional brainstorming sessions. But it quickly became clear that ideas generated this way were mostly product concepts: savings piggy banks, account widgets, and at-home banking kiosks. Our methods weren't working. We needed to change course.

### **McLuhan was right: the medium is the message.**

Communications theorist Marshall McLuhan coined the phrase "the medium is the message" to illustrate that the form of an idea determines our reaction to it. In effect, that's the challenge that my team had experienced. To break this logjam, we changed the form of our thinking. Instead of sketching, we started acting out ideas in the style of improvisational theater performers. We crafted scenarios that tied needs and solutions to the context of people's lives. We wrote long-form narratives. And we critiqued our own performances to identify ways to refine the service concepts that suddenly began to emerge. Now, we were no longer looking at product concepts. We were looking at service ideas. This change in form was instrumental to our success.

### **The form of the method determines its outcome.**

In retrospect, the problem we had faced was that our static visual representations created misleading cognitive constraints for idea generation. Sketching a concept on a blank sheet of letter-sized paper suggested that the outcome of the activity ought to be a single drawing. And that sketch, in turn, was to represent the service concept. This very premise was flawed – the services we were after often had little or no physical or visual element. How could we visualize a mutual fund? What should a savings account look like? A credit card, at least, was straightforward to represent. But even that was misleading; after all, drawing a rounded rectangle on a piece of paper doesn't show how that particular credit card is fundamentally different from any other credit card on the market.

At best, the visual tools of product design can help illustrate the physical touchpoints of a service. These touchpoints do contribute to the overall service experience. While they *enhance* the core value proposition, they aren't the value proposition itself. The cognitive constraints imposed by visual product development tools muddy the distinction between the physical aspect of the service and the value of the service itself. As a result, such visual tools often impede the creation of compelling new service ideas.

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<sup>4</sup> "Amazon.com Announces Fourth Quarter Sales up 42% to \$5.7 Billion; 2007 Free Cash Flow More Than Doubles, Surpassing \$1 Billion for the First Time." BusinessWire. January 30, 2008.

### **To craft new services, stop drawing. Start acting.**

To develop new service ideas, it's critical to get away from physical touchpoints. Process flow, interaction scenarios, and business models are far more useful sources of inspiration. Visual design methods shouldn't drive service brainstorming. Improvisational theater should.

Improvisational theater consists of spontaneous performances, often created through a collaboration of the audience and the performers. As they pertain to service innovation, these performances typically adhere to three rules, adapted from the improv theater tradition<sup>5</sup>:

*Say "yes, and..." to all offers.* Other performers' suggestions and additions to the plot are known as "offers." These offers help advance the plot of the performance. Listen and build on what others say, adding new dimensions and detail to the direction that has been established.

*Respond in the moment.* Avoid pre-planning responses. Respond spontaneously and naturally to the scene as it develops. Aim for obvious, average responses – not what's most clever. This focus keeps the performance true to the customer and context you're designing for.

*Keep notes for debriefing.* The "audience" (typically a development team member) observes and records the scene. Afterward, the team can discuss issues from the scene that may affect the service.

These types of performances can often be more useful than visual brainstorming, particularly in the beginning stages of developing new service concepts for white-space opportunities. That's because they force the development team to think through multiple elements of the service: the context and scenario of use, the motivations and needs of the people involved, state changes over time, and the emotional tenor of the service itself. These elements can inspire completely new service concepts.

### **The form of the method should reflect the most important elements of the service.**

Once the idea for the core value proposition of the service has been developed, it can then be refined further using several different methods. Depending on the most relevant aspects of the service, a narrative, process diagram, scenario of use, before-and-after descriptions, and even reasoning by analogy can help illustrate and refine the most important components of that service. For services where the experiential element is critical to the value proposition, storyboards can be a useful method for refining the service. Thinking through the step-by-step experience of the service from the point of view of the customer can help refine the concept. For services where the experiential component is not as critical, methods like process diagramming and narrative development can serve as better refinement tools. A mutual fund, for example, is far better represented by these tools than by a storyboard, since the service does not necessarily follow a linear progression of events. Each of these methods highlights a particular aspect of the service, from the human interaction to the emotional experience to the involvement of multiple players in the value delivery chain.

NetBase is a growing firm that helps companies connect existing technology solutions to market needs. To develop and refine its offering, the company used a reasoning-by-analogy approach. In its formative years, NetBase described its web-search-based offering as a low-cost, faster alternative to consulting firms. This analogy helped the company crystallize its own services, as well as position the firm in the minds of customers.

### **Designers are still critical to the service development process.**

The disconnect between traditional design tools and service innovation begs the question: are designers still relevant to the service innovation process? Is performance-based idea development better suited towards casts from improvisational theater than trained designers? Certainly, bringing experienced

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<sup>5</sup> Pan Theater Website. Available at <http://www.pantheater.com/BetterImproviser.htm>

performers into the process as methods coaches can be helpful. But designers themselves are still critical to the service innovation process.

While visual tools of the trade like photos and drawings may not always be useful, the performance-based methodology still requires design thinking – a human-centered approach to decision-making, and iterative refinement of concepts. Indeed, this method hinges on designers' ability to synthesize cultural, contextual, and business needs, and translate those inputs into concepts for services. Just as critically, designers often have a finely honed sense of what "good" looks like. This skill at selecting the best concepts for further refinement is just as relevant in the service domain as it is in the product domain. Ultimately, the content of this methodology is quite similar to the content of traditional design methodology. It's the form that's changed. And when it comes to service innovation, it's the form that makes all the difference.

## **Myth #2: Service innovation means overhauling the business.**

Even with a compelling concept for service innovation, other misconceptions may still impede a company's successful commercialization of that concept. One particularly prevalent obstacle is the belief about the differences between producing and delivering a product and a service. Many people in manufacturing organizations view service delivery as requiring a major overhaul of the structure, assets, and know-how of the business. While there are clear distinctions between the two types of innovations, service innovations can, in fact, leverage many of a company's existing capabilities and assets.

The production, sale, and delivery of a service are a far cry from those of a product. Unlike most products, services are often custom-tailored to individual customers. Delivery of that service may take place over a period of days or months. It can be a challenge just to keep track of all the customer interactions involved in the delivery of a service, let alone to address a customer's needs. These substantial differences often make it seem as though a product manufacturer could never successfully deliver a service – at least, not without completely overhauling the organization, investing in all-new IT infrastructure, and taking a major beating from Wall Street.

### **Emotional obstacles to service innovation may be greater than practical obstacles.**

Admittedly, there are a variety of differences in capabilities required and technology needed to deliver a product versus a service. But companies can often leverage their existing competencies, technologies, assets, and customer insight to a significant degree when developing new service offerings. The leap from current product offerings to new service innovations is often smaller than it might initially seem.

Product manufacturers are often far too quick to dismiss the possibility of service innovation. Citing the investment required, the differing business model, or the skills of its current workforce, such manufacturers often argue that service innovation is beyond the scope of their current capabilities. Certainly, such innovation does require some amount of investment, skills development, and new business planning. But the practical hurdles involved for a product manufacturer to develop a service offering are often far lower than the emotional hurdles that business leaders must clear. After all, new services introduce new types of risk, and require business leaders to overcome natural organizational inertia. That may be difficult, but it's not impossible. And it's sometimes necessary to grow the business. IBM and Harley-Davidson have both found ways to leverage existing capabilities, technology, and assets to successfully roll out new service offerings.

### **IBM translates its software programming capabilities into high-value consulting services.**

Long established in the mainframe business, IBM was well entrenched as a hardware manufacturer in the 1980s and early 1990s. But when IBM posted record losses of nearly US\$5 billion in 1992, the company

realized it needed to change direction. Newly appointed CEO Louis V. Gerstner, Jr., had been a former executive customer of IBM prior to his appointment as CEO. With this background, he realized that IBM's greatest value lay in the synthesis of multiple parts of the business to develop solutions. By combining IBM's vast knowledge of both hardware and software, Gerstner effected a major turnaround.

IBM soon prioritized its service offering over its hardware business. It acquired consulting firm PriceWaterhouseCoopers in 2002, and placed many of the former PWC executives in top positions within the combined organization. Building on the success of this strategy, IBM ultimately sold its PC business to Chinese manufacturer Lenovo. Today, IBM offers a variety of services, ranging from software implementation to management consulting to outsourcing.

### **Harley-Davidson leverages existing assets to offer motorcycle riding courses.**

Harley-Davidson has a storied past as a product manufacturer. As the last motorcycle manufacturer that still makes its products in the United States, Harley's manufacturing tradition forms an integral part of its identity as a company, not to mention its core revenue stream. Today, Harley-Davidson also boasts an impressive portfolio of service offerings. The success of its services portfolio is due to the same factors that have driven its success in its core product business: customer empathy and insight, combined with judicious allocation of existing assets.

The Harley team recently realized that the company could have an even broader reach – and bigger market – if it could grow the motorcycling community. Today, the community is comprised of both riders and enthusiasts, people who love the brand but don't own a bike. The team realized that the biggest obstacle to their participation and eventual purchase of a Harley was learning to ride a motorcycle. Harley had the opportunity to train a new group of motorcycle riders. But how?

As a product manufacturer, the company didn't have the manpower, facilities, customer network, or global reach that such an undertaking would require. But the organization knew a rider class could be instrumental in growing its customer base, as well as increasing loyalty to the Harley brand. To develop a motorcycle class without requiring an overly burdensome investment, the team catalogued its existing assets. Its global dealer base had a wealth of contacts in the rider community. The dealers had real estate – and more importantly, large parking lots – where the courses could take place. And they had access to fleets of motorcycles, which they could use for the courses with only minimal investment.

In partnership with the Motorcycle Safety Foundation, Harley-Davidson developed course materials for Riders' Edge, the "Harley-Davidson Academy of Motorcycling."<sup>6</sup> It certified course instructors, who taught local courses out of Harley dealerships. Harley provided follow-up community building activities to maintain the relationships that formed in its courses. Riders' Edge has since seen widespread success with novice and experienced riders alike. To date, over 100,000 people have enrolled in the course.<sup>7</sup> Thanks to this program, Harley has been able to expand its community of riders.

### **Customer empathy helped both Harley-Davidson and IBM succeed in service innovation.**

IBM and Harley-Davidson had to develop new capabilities and business models to commercialize their services. But these innovations didn't require a total overhaul of the business. In fact, they complemented the core business, leveraging much of the same underlying capabilities, technology, and assets that had helped to make the business successful to begin with. More importantly for the success of these businesses, the new services targeted a substantially similar set of their customers' needs. In addition to leveraging existing knowledge and assets, both IBM and Harley were able to leverage existing customer

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<sup>6</sup> Riders' Edge website. Available at <http://www.ridersedge.com>.

<sup>7</sup> "Riders' Edge, the Harley-Davidson Academy of Motorcycling, Moves into California." WebWire. March 12, 2008.

empathy. This deep organizational empathy gave both companies insight into how to position, message, and sell the new offering in order to appeal to customers. Though the offering itself was new, it tapped into existing institutional knowledge that gave the service businesses a distinct competitive advantage.

### **Myth #3: Implementation trumps creativity in service innovation.**

Organizations have long known that new product development teams ought to consist of representatives from across disciplines: marketing, R&D, strategic planning, and customer insights. When it comes to service innovation, however, companies often assume that the implementation of the service merits far greater thought, attention, planning, and resourcing than the creativity required to generate the idea in the first place. In reality, though, both implementation and creativity are critical to successful service innovation. The key lies in a hybrid approach that's at once inspired and practical.

### **Successful innovation in both products and services requires a multidisciplinary approach.**

Like great product innovations, great service innovation relies on the marriage of technical insight, cultural understanding, and business planning. Not surprisingly, therefore, successful white-space service innovation relies on tools from each of these three fields. Service innovators must draw on methods including brainstorming, prototyping, iterative idea refinement, ethnographic research methods, trend-spotting, roadmapping, strategic planning, and, of course, implementation. The specific application of each of these methods may look different in service innovation. But the underlying concept is the same. And as with new product development, it's the design thinking that contributes to great service design. When it comes to service innovation, though, organizations frequently forget to apply these lessons. Instead, companies often rely on operations leaders to develop new service offerings.

### **An organization's structure may thwart multidisciplinary service innovation efforts.**

This seeming incongruity typically stems not from ignorance of best practices, but rather from the structure of the organizations themselves. In industries as diverse as retail, hospitality, entertainment, air travel, and banking, it's the front-line employees – the sales clerks, bellhops, waiters, and flight attendants – who often provide the actual service offering. Typically, these employees report to an operational function within the organization – not to R&D, marketing, design, or innovation groups. As a result, it's often the operations group that's tasked with improving the way the company delivers its service.

### **Operations-driven innovation generates incremental improvement, not new services.**

This challenge holds particularly true in the telecom industry. Even the most cutting-edge mobile networks often allow implementation to trump creativity when it comes to service innovation. That's typically because the task of integrating technology from content providers, carriers, and handset manufacturers represents a mammoth challenge. To avoid pie-in-the-sky idea generation, these companies often charge the operations team with new service innovation. The resultant ideas are readily implemented, but they often represent incremental improvements rather than white-space innovation.

Unlike groups that have specific mandates to develop new offerings, these operational groups are typically evaluated on metrics like efficiency, quality, and consistency of service delivery. Such metrics make good sense for the delivery of an existing service; after all, most of us like to get the same high quality experience no matter which Starbucks we go to.

Unfortunately, these metrics are designed to discourage white-space innovation. At best, they may generate incremental improvements: Starbucks now serves its lattes thirty seconds faster than it did five

years ago.<sup>8</sup> At worst, though, these metrics can become obstacles to service innovation. New services are inherently more risky, less consistently delivered, slower to provide, and less efficient for the organization than existing services. As a result, new services drag down an organization's efficiency, quality, and consistency scores. The inherent tension between the realities of delivering a new service and the metrics used to evaluate operationally-minded service providers often results in little white-space innovation happening at the operational level.

### **A hybrid approach helps balance creativity and practicality.**

Certainly, developing new offerings that can actually be commercialized is critical to success. Balancing the need for practicality with the need for creativity can be difficult. But without a hybrid team to create innovative new service offerings – and an organizational structure that can accommodate the inherent inefficiencies in such a proposition – white-space service innovation often withers. Bringing together a cross-functional, multidisciplinary team to develop new service offerings can help overcome these challenges, particularly if the team has both operational and business development experience. This kind of cross-functional effort can bring together the design thinking, market and cultural insight, and business planning needed to craft and launch successful new services.

### **Saturn's multidisciplinary approach to revamping its dealerships was critical to its success.**

It's this multidisciplinary approach that Saturn took in its efforts to redesign its dealerships. Fifteen years ago, Saturn broke new ground in car sales with its No-Dicker Sticker. But competitors had since raised the bar, and Saturn needed to offer something new to regain its leadership position. To reinvent its retail experience, Saturn started with social research. In collaboration with Jump Associates, the team deconstructed the experiences of more than thirty retailers to identify the underlying social scripts that drive those experiences. Armed with this knowledge, the Saturn and Jump team then identified the script that was right for Saturn: the script of the interactive museum. The team then used design methods to translate that insight into action. They created multimedia displays, redesigned interactions with sales staff, and even developed large magnetic paint chips that allow people to envision their car in different colors. As of fall 2007, more than half of Saturn's dealers had enrolled in the program.

Saturn's willingness to once again rethink its service model underscores the company's commitment to its customers. This new service represented far more than a cosmetic change to the dealerships. It required its staff to completely change the way they interacted with customers, and offered a radically new definition of a successful sales approach. A team evaluated on execution-oriented metrics may not have been able to achieve a similarly compelling solution.

### **Myth #4: Service innovation is the only way to sustain value in the information economy.**

By now, business leaders and government officials alike are well aware that much of the developed world now relies on a service economy, not a manufacturing economy. The US Bureau of Labor Statistics projects that this trend will likely continue, with service sector job growth far outpacing that of the manufacturing sector.<sup>9</sup> Some of the world's largest corporations have already started to change organizational focus to capitalize on this shift. General Motors had for some time seen greater profits from GMAC, its financing arm, than from its core products division. In 2006, GM sold the unit to a consortium of private equity firms led by Cerberus Capital Management. Even long-established furniture makers like Thomasville and Drexel Heritage have outsourced the manufacturing of their products in

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<sup>8</sup> Gray, Steven. "Coffee on the Double." Wall Street Journal. April 12, 2005.

<sup>9</sup> U.S. Department of Labor Bureau of Labor Statistics Occupational Outlook Handbook. Available at <http://www.bls.gov/oco/oco2003.htm>.

order to remain competitive and preserve their margins. These companies are quickly transitioning to the role of furniture retailers.

Companies from a variety of industries – even those with distinguished histories as manufacturers – have found that their service offerings yield far more attractive margins and revenue streams than their traditional product offerings. This shift has been accelerated by business leaders who have pointed to the success of such offerings as a successful way to compete in an age of offshore manufacturing and increasing commoditization of manufactured goods.

So shouldn't everyone develop a service business?

Actually, no. Services aren't the answer for every company in every situation. Those services that add value to the core offering, provide new revenue streams, or prove integral to a company's business model should be nurtured and developed. But services aren't a panacea. Despite the attention that services now receive in the business press, they don't make sense for every company, in every situation, at every time. Indeed, service innovation for its own sake is easily copied. Westin's Heavenly Bed earned the company early accolades, but the move toward more comfortable, luxurious bedding was quickly copied by competitors. Without a larger value system to support it, such service innovation provides only short-lived competitive advantage, even for service-oriented companies.

### **Services aren't the only way to sustain value and deliver substantial growth.**

There are more ways to create and sustain value than simply offering services. That's true even for product manufacturers. Manufacturers can build strong brand identities, offer holistic solutions, or leverage unique customer insight in order to increase the value of their product offerings – all without developing new services. Nike, HP, and GE have all built strong businesses on a core portfolio of products by doing just that.

### **Nike sustains price premiums with an aspirational brand image.**

Nike shoes are among the most sought-after, and the most expensive, athletic shoes on the market. But that price tag isn't the unique result of high costs. Nike's revenue and margins continue to grow thanks to its powerful brand image. Consumers know well that Nike's shoes, like most of its competitors', are manufactured in low-cost overseas facilities. In light of this transparency, this price premium underscores the degree to which the Nike brand stands for more than just quality or performance. It helps people communicate their identity, values, and aspirations. Even the Nike +, Nike's recent joint technology play with Apple's iPod, is meant to both underscore this brand message and reinforce the core shoe business.

### **HP solutions add significant value, grow revenue, and improve margins.**

HP plays in the fiercely competitive small and medium sized business space, where it must defend its market share and margins against the incursions of other brand-name technology companies, as well as low-cost generics. To retain its market position, HP has realized that it needs to offer more than high-quality servers, printers, and keyboards. Today, HP offers holistic solutions that combine products from multiple categories to create a better result for the customer than any one of those products could do on its own. These holistic solutions address customer needs beyond functional technical requirements. They also address technology planning needs, security concerns, and other high-level business issues that keep the leaders of small and medium sized businesses up at night. Aiming at these higher-order needs has helped HP grow its market share and preserve its margins, even as new competitors enter the space.

### **GE uses customer insight to improve its margins in high-performance fibers.**

GE's former plastics division had developed new technology that could be used to develop high-performance fibers for use in a variety of applications. Despite the technical superiority of its material,

GE's initial attempts to enter the high-performance fibers market were largely unsuccessful. They resulted in minimal sales and margins that wouldn't sustain the business. To capture the potential of its new technology, GE realized that it needed to rethink its approach to the market. GE worked with Jump Associates to uncover the latent emotional needs of its business customers, and used these insights to retool its marketing and sales strategy. Most critically, GE realized it needed to take a collaborative approach to applications development. Rather than offering turnkey solutions, as it had done in other industries, GE began to collaborate with potential customers on new applications for its fibers technology. This approach substantially accelerated GE's entry into the fibers market, and gave the company access to higher-margin applications,

**Continuous improvement is critical to growth. But that improvement need not be a service.**

Nike, HP, and GE all recognized that they need to continuously improve their offering in order to remain market leaders. For these organizations, however, that improvement didn't need to come in the form of service innovation. Even in an information economy, improvements to the core product business can still drive sustainable top-line revenue growth.

## **Conclusion**

### **Making Service Innovation a Reality**

The key to coming up with great service ideas doesn't just lie in the so-called creativity of the team. It's the team's knowledge, and the form of the methods they use, that ultimately determine success. Of course, the great irony of service innovation is that it's often the most traditional companies – financial firms, banks, and insurers – that have the greatest need for service innovation around highly intangible offerings. With few, if any, customer touchpoints or physical assets, these organizations are often those that can benefit most from non-traditional service innovation methods. However, the conservative cultures of these organizations are often at odds with both idea generation methodology, as well as the development of alternative metrics for innovative new services.

This tension isn't necessarily fatal to the innovation process. But it does require innovation teams to tread more carefully when it comes to the development and roll-out of new service concepts. Walling off portions of the innovation process, and hand-selecting participants from other groups within the organization, can be crucial to the success of such efforts.

Ultimately, successful service innovation is well within the reach of most companies, provided that the organization properly structures such efforts. With the right methods, the ability to capitalize on existing company assets, the appropriate management and incentive structure, and a compelling value proposition, companies can successfully expand the range of their offerings.

### **Acknowledgements**

I would like to thank Joyce Chou, Steve Hoyt, Lara Lee, Michael Osofsky, Udaya Patnaik, Wesley Radez, and William Trepp for their contributions to this article. I would especially like to thank Peter Mortensen for his insightful feedback, ideas, and commentary. Finally, many thanks to my husband Charlie Pollak for his help and support.