



Keeping up with the times: Companies like 3M have a virtuous cycle of innovation processes that leads to about 35 per cent of revenues coming from products less than five years old. This is part of their DNA and mandated in the objectives. PHOTO: BLOOMBERG

The elusiveness of service innovation

A 'new' form of customer experience would cause a significant change in consumer habits

By BALA SHANKAR

THE last big innovation for banking customers is perhaps the ATM (automated teller machines or Any Time Money as rechristened lately). Not many would believe that this was introduced in 1967, by Barclays Bank. In other service sectors such as airlines and telecoms too, there is a dearth of big customer-relevant innovation that causes paradigm shifts in buying or usage behaviours.

If one were to flip the pages of history, the flat bed in planes was one such thing. It brought our resting positions during long-distance air travel very close to our normal sleep posture. This is also a decade and half old, having been introduced by British Airways in 2000. Some, like the self check-in kiosk at airports, could be classified as service innovations, but not big enough to cause the paradigm change that I refer to.

Telecom is a booming industry in all markets – developed and developing – and yet the more you sift through the offerings and services, the more you discover how undifferentiated they are. Over the last few months I have had the opportunity to study the telecom markets in India, Indonesia, China, Thailand and countries in the Middle East, thanks to my work as a project coach for some of the executive education participants of a leading global company.

The telecom companies in these countries are almost identical in their product suite and suffer from the sameness and lack of blockbuster innovations. All these companies have similar voice and data plans, similar pricing cascades etc. Customer conveniences are also similar and not revolutionary. The top telecom companies have satiated their innovation appetite with minor tweaks in services on a regular basis – so much so that they have missed the wood for the trees. The innovation in handsets has not rubbed off in terms of

consumer experience. All our new conveniences in phone and data devices are a result of the smart phone technology and its adjuncts like touchscreens and apps. But these come from the ecosystem of the phone makers, the chip designers, the apps designers etc, and not from telecom services providers.

In Medicare, a few new "customer conveniences" have been ushered in – the concept of self-diagnosis or self-monitoring (diabetes) or even self-medication (for chronic dialysis patients, for instance) could rank in the category of innovation. An e-book is a good example of innovation in book publishing and it is no secret therefore that it is a hit with prolific readers. Dolby Surround in 1982 transformed the entertainment experience putting the audience in the midst of the movie action, in sound terms. More than a decade ago, digital music revolutionised personal music collections – from purchase, storage, archival, to retrieval across devices anytime, anywhere. It presided over the gradual demise of the old tape and CD industries in many markets.

Doing the heavy lifting

Service sectors worldwide are doing the heavy lifting in most economies. Pure product companies are extending into services – HP, P&G, for instance. And yet, the big innovation seems like an elusive commodity, save those induced by technology and Internet. These are in the realm of "mechanisation of human actions" with benefits of enhanced productivity, repeatability, data recording ability and error free transactionability. The drone delivery that is the new buzzword, is an example. The likes of Facebook, cloud solutions and Twitter are brilliant exploitation of the power of the Internet. Process innovation is another category. Skype and other video conferencing tools drew inspiration from technology and process innovations. Cashless payment modes and online payment gateways

would be other examples of the same kind. South West airlines streamlined and standardised several aspects of the operation that did not impact the customer – except in terms of lower fares that is a consequence of lower costs resulting from leaner operations. Dell computers brought in a simple online ordering and delivery model that cut costs for standard computers and enabled 24x7 ordering convenience. Yet, few of these caused paradigm shifts in consumer habits. Consumer-insight led innovations are a different space and create new value in customer facing areas.

So what would classify as a service innovation? A service innovation has to be a "new" form of customer experience not found in the industry hitherto. It must pass the test of causing a significant change (discontinuity) in consumer habits, must stay relevant for a sustained period of time and should create new value for customers and a new competitive advantage, at least in the pioneering phase. It need not always create an additional price opportunity for the service provider – the ATM example is a classic one here; the value for a bank comes not from being able to charge an extra fee to the customer, but in cutting costs on branch resources needed to serve a customer at the bank premises.

So why should profound (as opposed to incremental) service innovation be so elusive? The answers lie both in the mindsets and in execution flaws. Market research has been the sole source for ideas for innovation for a long time. In recent times, social media and consumer posts have triggered new thoughts as well. Brands seeking "customer relevant and customer valuable" innovation are often caught up with legacy innovation processes that are inflexible and sometimes, inhibiting. There is a lot of literature about how intrinsically innovative organisations like Google manage this activity. Separate silos allow personal time for employees engaged in innovation,

load the organisation with risk-taker type of employees, practise diversity in recruitment and tolerate mistakes. These are some of the public secrets. Companies like 3M have a virtuous cycle of innovation processes that leads to about 35 per cent of revenues coming from products less than five years old. This is part of their DNA and mandated in the objectives.

Being relevant

There is no instance of a service company publicly posturing such a strategy. Customer co-creation is one solution that is often advocated – who is better equipped to articulate the pains from the current service or a dream new service than the user herself? John Kotter of Harvard Business School advocates a "dual" operating system in companies, where one system runs the day-to-day operations and the other is focused on innovation. Companies sometimes find the missing clues to innovation while having to respond to crises.

There have also been examples of cross-industry findings as sources of innovation. For example, airlines have learnt from hospitals about how to improve passenger safety and copier companies learnt from F1 pit-stop efficiency to improve service turnarounds. Copious amount of research is done in all these areas but break-out successes are still few and far between. Will the driverless car from Google (if you consider it a private transport service) or on-line education, now embraced even by venerated institutions like Harvard, be the symbols of the next wave of game changing service innovation?

Time will tell. In the meantime, other service organisations need to embrace an innovation model that keeps them relevant. The dangers of commoditisation would surely act as the prod.

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