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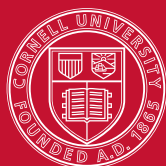


Key Elements in Service Innovation: Insights for the Hospitality Industry

Cornell Hospitality Roundtable Proceedings

Roundtable Proceedings No. 1 (November 2008)

by Rohit Verma, Ph.D.,
Chris Anderson, Ph.D., Michael Dixon, Cathy Enz, Ph.D.,
Gary Thompson, Ph.D., and Liana Victorino, Ph.D.



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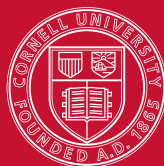
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Thompson, and Liana Victorino

EXECUTIVE SUMMARY

Service organizations are constantly attempting to find innovative ways to serve customers more effectively and efficiently. Even though they recognize service innovation as being essential, service organizations also face particular challenges in their innovation efforts. Participants in an industry roundtable on service innovation outlined the elements of and challenges inherent in the process of developing and introducing new services. One of the chief frustrations identified by the participants is that service innovations are easily imitated. Another challenge to service innovation is the real-time nature of introducing new services. The service cannot be tested in a laboratory. At minimum it must be pilot tested with real guests in a real hotel. Moreover, once a new service is rolled out it is difficult to recall. Innovation is most successful in service operations that seek the support of employees for innovations and, beyond that, encourage employees to participate in a culture of innovation.

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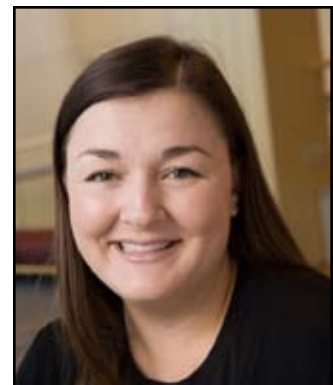
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Gary Thompson, and Liana Victorino

For the hospitality industry, innovation is the oxygen that keeps concepts fresh and which attracts new customers, as well as encourages repeat customers. Although innovation requires creative thinking, coming up with a new idea is only the first step in ensuring successful service innovations. To detail the elements of service innovation and to determine ways to support successful innovations, the Cornell Center for Hospitality Research invited service industry leaders and Cornell faculty members to examine the issues surrounding service innovation. The resulting Service Innovation Roundtable brought in not only hospitality industry leaders, but also representatives from other service industries that have incorporated service innovations into their business models.

Key elements of service innovation

Customer Focused	A customer-centric approach to exceeding guest expectations.
	Any new technology, procedure, or method that improves the guest experience. Service innovation is simply new ways of meeting or exceeding guests' expectations.
Process Focused	Synergistic use of technology and process re-engineering to bring about a transformational step change in the quality of services being provided.
	Defines the processes of how significant improvements in products and services are adapted and ultimately delivered to users.
	Increase productivity and improve the customer experience.
Continuous Improvement	Continually seeking out ways to provide intuitive service to your customers.
	Continuous improvement of the customer experience, or the cost of delivery of that customer experience; the ability to both anticipate and to invent new ways of delighting the customer in an economically sustainable manner.

Note: Items are compiled from 2008 innovation roundtable comments.

The roundtable covered the following topics:

- What is service innovation?,
- Service versus product innovation,
- Service process innovation,
- Tools and techniques for fostering effective service innovation, and
- Challenges, trends, and the future of service innovation.

This report summarizes the insights gathered from the roundtable to provide new perspectives on service innovation. Beyond that, to address the call for research issued by the participating service executives, I seek to expand the discussion with a “virtual roundtable,” by encouraging industry participation in future research into service innovation.

Service Innovation Defined

As one participant elegantly defined it, innovation is “the act of introducing something new.” Roundtable participants agreed, however, that service innovation is far more complicated than that. A hospitality industry executive suggested that service innovation is the process by which significant improvements in products and services are adapted and ultimately delivered to users. The user (that is, the guest) is the essential element in that definition. Merely introducing a new product or process is only the start, and the goal of service innovation is to increase productivity and improve the customer experience.

Thus, roundtable participants identified three overarching principles for service innovation. The new or improved product or service should involve at least one of the follow-

ing areas: (1) having a customer focus—exceeding expectations of customers, (2) having a process focus—increasing efficiency, or (3) utilizing a continuous improvement mindset to doing business. Exhibit 1 provides examples from conference participants' comments to describe each area involved with service innovation.

Using the key elements found in Exhibit 1, roundtable participants developed the following collective definition for service innovation, encompassing the essential factors related to service innovation, namely: customer focus, process focus, and continuous improvement.

Service innovation is the introduction of new or novel ideas which focus on services that provide new ways of delivering a benefit, new service concepts, or new service business models through continuous operational improvement, technology, investment in employee performance, or management of the customer experience.

Innovation: Services vs. Products

The hospitality industry's challenge of innovating in real time sets up the distinction between service and product innovation. Although it's possible to run limited tests of service innovations, the fact remains that services are simultaneously produced and consumed. Since the development and delivery of a service innovation coincide, the testing of service innovations tends to occur in the actual marketplace, no matter how limited the test, while product innovations can often be tested in a lab or in tightly controlled focus groups. As a result, failures for service innovations

Innovative companies are focused on new methods for assessing the customers' experience, particularly blogs and internet forums.

are viewed as being extremely costly and considered more risky than product innovations. Compounding that frustration, in most cases, service innovations are easy to imitate. Consequently, the participants noted that the terms “service innovation” and “imitation” often go hand in hand. Therefore, what is today’s service innovation becomes tomorrow’s commonplace service. Guests quickly learn to expect what was once novel, and hospitality firms must engage in a never-ending search for the next new idea for service.

Another key difference between service innovations and product innovations is that a single person can develop a new product, but it takes a team to implement a new service. As the roundtable members put it, service innovation tends to follow a democratic process where a leader needs to create a culture that motivates employees to innovate. A top executive from a major hotel chain stated that service innovation involves a “cultural imperative,” where a process is in place for encouraging innovating thinking and the development of new ideas. Such a culture is especially important in the hospitality industry because, unlike manufacturing firms, most hospitality companies do not have laboratories expressly devoted to research and development, and because innovative ideas can arise from any individual at any level of the hospitality organization.

Those who are closest to the customer—the employees—must be empowered to come up with new ideas, without worrying that their novel idea carries a risk of failure. Managers should make clear to employees that failure is not only allowed, but also acceptable as part of the innovation process. As a consequence, evaluation methods should support innovative thinking. As noted by conference participants, it is management’s role to be facilitators of innovation because a service innovation that exists outside the context of motivation will ultimately fail.

Inherent in the discussion of the success and failure of service innovations is the problem of how to measure the success of service innovations. Even with guest surveys and other measurement techniques, one roundtable participant noted that it is hard to quantify a guest’s experience to determine the success of an innovation. As a result the measurement of services proves to be a difficult task.

In relation to the challenge of measuring the impact of a service innovation, participants also discussed the difficulty in getting research and development funding for service innovations because of the lack of hard financial data that would support the projected profitability of an innovation. Specifically, an executive noted the

inability to accurately measure the impact [that a service innovation] has on profitability in isolation from other elements.

In product innovation it is possible to accurately measure R&D expenses, launch costs, and resultant profits generated by a particular product, but with service innovation, the picture is jumbled. Especially in a hotel, many hundreds of “service elements” are bundled together and may be either chosen or not chosen by each guest. The task of accurately measuring the impact of any one service innovation is next to impossible in the short term. Even in the long term the effects can only be suggested via increased market share or brand equity.

Nevertheless, without financial measures of success it is hard to sell the idea of service innovation.

Although financial improvement may be the factor that determines an innovation’s success, roundtable participants noted the human aspect of service innovation. Beyond finances, the connection between customers and services is emotional rather than rational, and measuring this experience is difficult. Hence, when it comes to innovations that involve human interaction, there are no cookie-cutter formulas for success. Because every customer has different expectations and perceptions of service delivery, hospitality firms must take different approaches to serving different customers—and different approaches to measuring their reactions to an innovation. In summary, the distinction between product and service innovation was evident by the challenges that arise with service innovations.

EXHIBIT 2

Examples of service process innovations

Open Forums for Customer Feedback	Receiving and responding to customer comments.
	Loyalty program so particular guests involved can give feedback. Reading posts and blogs about their stay.
Personalized Service	“Wowing” the customers; involves personalizing service (e.g., guest’s initials on bed pillow kept for guest’s next stay).
	Changing hotel reservationists into experience makers who plan entire vacation packages.
	Sending an email from a personal concierge prior to the stay. At this time the guest could select all the desired activities and make any special requests about the room. This is all set up for when the guest arrives. Simple and easy ways to get customers’ needs met.
	Use of technology can give you the advantage of personalization; you can track web traffic to customize web pages to your preferences and needs.
Measurement	Tracking complaints via survey systems and track your best practices. This helps to quantify services.
	Surveying before checkout so management can solve problems before guests depart from the hotel. Proactive approach to quality.
	Process innovation through 6 Sigma tools and techniques.

Note: Items are compiled from 2008 innovation roundtable comments.

An Innovation Vacuum?

Considering the distinction between service and product innovation, roundtable participants ruefully noted an absence of innovative firms in the service industries. Almost 80 percent of the United States gross domestic product (GDP) and about the same percentage of the labor force are involved in services, but service firms constitute only 30 percent of the world’s most innovative companies, as recording in the survey of the twenty-five most innovative companies by the Boston Consulting Group.¹ Examining the reasons that companies known for innovation tend to be related to products rather than services, roundtable participants first noted that hospitality companies may be unfairly labeled because of the lack of historical tracking for service innovation in comparison to product innovation. Without a record of service innovation developments and benchmarks of success, it is harder to learn and grow, but it is also harder to document a firm’s status as an innovator. Complicating the lack of documentation for services, participants again indicated that products can be patented and clearly “belong” to the innovating firm, while services are typically “viral” and spread rapidly. A successful service innovation that is quickly imitated by competitors seems not so innovative. The other differences already

¹ See: Jena McGregor, “The World’s Most Innovative Companies,” *Business Week*, April 24, 2006 (www.businessweek.com/magazine/content/06_17/b3981401.htm).

catalogued above likewise contribute to the perception that service businesses are not innovative, including the difficulty of demonstrating the profitability of a service innovation to get R&D funding, and the chances for public failure since “testing” is done in the marketplace.

Participants also identified disincentives to innovation. In particular, once an innovation is rolled out, it is hard to reverse the innovation or to pull a new service from the market. When a single failure can result in expensive consequences, the risk becomes great enough to discourage firms from pursuing service innovations. Finally, often firms are torn between minimizing costs and providing an extraordinary customer experience. Conference participants mentioned the tendency for viewing innovation as the opposite of a standardized approach to service delivery. Since the standardized approach is normally associated with economic benefits, firms shy away from innovative delivery approaches. This may be why service firms are not known for being innovative.

Service Process Innovation

Looking at service process innovation, or ways to improve the way they perform a task, roundtable participants outlined ways to assess their services. Some of the latest service innovations implemented by participants are summarized in Exhibit 2, which shows that the majority of the responses

Employee acceptance and involvement is critical to the success of service innovation.

focused on new methods for assessing the customers' experience. Examples include using open forums (or blogs) in which customers share their experiences (with all the world), and creating complaint systems that are designed so that service failures can be recovered prior to a guest's departure. In addition, participants shared service innovations designed to "wow" customers. The group was particularly interested in various forms of technological advances to the service process, such as one-stop shopping, which allows the hotel to assist customers in planning an entire vacation. With this approach, the hotel reservationists become experience makers, and technology allows customized service. Technology also allows personal touches, like a hotel placing the guest's initials on pillowcases, and then keeping the same cases for the guest's next stay.

Learning experiences. As the participants dissected innovation failures, they found that the majority of the failures stem from the peculiar characteristics of service innovation, most of which they had already outlined. As the use of technology expands, employees may see technological applications as a threat, particularly technology that allows guest self service. Finding ways to encourage employee acceptance of self-service technology is a challenge. One participant described a case where frontline employees were sabotaging the new self-service check-in kiosks due to the threat the kiosks posed to their job security. A similar example was given about ticket readers at airlines who would not give up keying in each passenger as they entered the plane. It was not until they realized that they could provide more personal services by talking to passengers instead of concentrating on typing that the ticket readers embraced this new technology.

Thus, one way to improve the chances for success is to remember the team aspect of service innovation. Participants continually emphasized the importance of getting employees involved with the service innovation process and making sure they understanding the reasons for the innovation.

Tools and Techniques for Fostering Effective Service Innovation

Roundtable participants shared the tools they are using to promote innovation. Most were using the traditional tools of

customer surveys, namely, questionnaires and focus groups. However, one difficulty in developing innovative services is that customers don't always know what they want or cannot articulate their wants. Innovative customer survey methods that are designed to help determine customers' preferences include customer choice modeling. In this process, potential customers are asked to choose between different sets of hypothetical service options. Some sets have a high level of a particular service, low levels of another service, and omit other services entirely. Other sets have a longer list of services, or a shorter list of services and varying levels of those services. After making several iterations of choices, one can determine the important attributes of a service.² For instance, the analysis might show that business travelers are particularly interested in collecting loyalty program points, while leisure travelers care little about loyalty program options, but respond to price points.

Again, the roundtable participants emphasized the importance of employee acceptance and involvement for service innovation success. One technique in this regard is to align employee compensation schemes to promote innovation, focusing on the attempts to innovate as much as the success of those innovations. The participants were particularly interested in virtual service testing and other uses of the internet to foster successful innovation. For example, websites that allow a guest to virtually experience a service may help in testing and design of services. Benefits from social networking and the use of online social communities to share knowledge were also deemed as important.

Challenges, Trends, and the Future of Service Innovation

Considering future efforts to encourage service innovation, the executives outlined the many challenges they face. Some of the challenges mentioned included:

- (1) how to measure service innovation's effects on profit,
- (2) understanding what delights customers, (3) how to pre-

² For a description of customer choice analysis, see: Rohit Verma, "Unlocking the Secrets of Customer Choices," *Cornell Hospitality Report*, Vol. 7, No. 2 (2007), Cornell Center for Hospitality Research, chr.cornell.edu.

Trends in service innovation

Technology Enhancements	The evolution of the concierge from an employee standing behind a desk booking tickets and restaurant reservations (but bound by his own network and biases) to a 24/7 multi-channel, multi-media provision of service to enable guests to optimize their stay experience.
	Interfaced technology where a wall unit or handheld device controls multiple items in the room—drapes, temperature and lighting—along with controlling the television, playing an iPod, displaying the hotel directory or ordering room service. All can be done with the touch of a button.
	Many major trends are results of the internet age. We sell over 50 percent of our tickets ... over our website. Internet is also a major impact on all our communication used for marketing purposes but many complaints and suggestions from customers come via email. This requires a much faster answering process than before.
Personalization	The personalization component is evident in initiatives to provide guests with an in-room hotel experience that allows guests to enjoy personal electronic devices, and have greater control over the information and service-level they receive during their stay.
	Flexibility and customized vacations are critical to our members. They want a membership that uniquely fits their specific situations and needs (e.g., amount of days, holidays).
Customer Relationship Management	Knowing the moment frequent or VIP customers enter the restaurant. Alert the right person at the right time with the right information to do the right thing.
	The goal is to passively and unobtrusively gather guest preference data, and through process innovation, deliver preferred services to the guests to make them more brand loyal.

Note: Items are compiled from 2008 innovation roundtable comments.

dict whether a technological innovation will be accepted by customers and employees, (4) establishing employee reward and motivation systems to encourage innovation, and (5) the fact that innovations can be easily imitated. The subtext for all the challenges, however, is the many sources of risk connected to innovation: particularly, risk associated with service innovation failure, risk from the lack of measurement tools, or the risk of competitors imitating your innovation. At root, the risk of service innovation derives from the unknowns involved with implementing that innovation. We consider this to be a particularly fertile topic for research that expressly addresses the challenges to innovation that have been outlined by these industry executives. We encourage researchers to pursue work in the service innovation domain. The challenges mentioned in this report (and others not stated here) provide researchers with the opportunity to conduct research and the potential to contribute significant managerial insight for services.

In addition to encouraging future research regarding the challenges of service innovation, it would be of interest to study the current trends in innovation. Participants cited such trends as technological advances to services, the offering of personalized service, and the use of customer relationship management tools to gather guest preference data. Trends highlighted by participants are summarized in Exhibit 3. Research which studies these trends and examines

ways to further improve in these areas would be of benefit to both academics and practitioners.

Three Central Points

As the service industry leaders discussed innovation at this roundtable, the conversation always referred back to the three items central to participants' definition of service innovation. To review, the participants' definition of service innovation as providing something new or improved comprised the following three elements: customer focus, process focus, and continuous improvement.

Customer focus. Falling within the customer focus category were the many discussions about the importance of understanding and measuring customer acceptance of innovation as well as their preferences. The participants shared methods for assessing customers' feedback, such as harvesting the information found in open forums, as well as new survey techniques that are designed to assess customer preferences, notably, those available through the internet. Since service innovations are often created to meet a customer need, participants encouraged using technology that allows operators to know more about what customers are thinking.

Innovation process. The process related aspects of service innovation, which involve both the design and management of the service process, drew considerable attention during the roundtable. In regard to managing the service process, many of the participants stressed that

a service innovation's success depends on employees both being on board with innovation and feeling motivated to innovate. To the end, a company must instill a culture that supports innovative thinking. Phrases such as "cultural imperative," "democratic process," and "employee empowerment" were brought up on several occasions to describe the impact employees have on innovation success. Along with motivating employees to innovate and to help them embrace new service methods, participants also noted the current trend for adding technology to personal services and to offer self-service options. In that context, it is important to remember that the success of technology-based service innovations is greatly influenced by employees being involved with the service innovation process. In short, technology alone cannot support a service innovation.

Continuous improvement. Finally, many of the participants noted that innovation often stems from efforts for continuous improvement. To innovate, one must constantly search for and implement improvements and new features to the current service offering. Measurement is essential for continuous improvement. Many participants emphasized the importance of continuously testing, analyzing, and improving processes. Particularly challenging is finding ways to directly measure the financial result of an innovation or determining and quantifying customers' perception of an innovation.

Overall, the roundtable fostered a wide ranging dialogue between the participating service industry leaders. The points raised in those discussions point to ways to develop knowledge about service innovation. Participants noted that service innovations face a number of challenges, given the complexity and intangibility of services, and also given the simultaneous occurrence of production and consumption. Many participants were interested in work to be done that examines these issues and possibly provides solutions or tools for mitigating some of the challenges associated with service innovation, especially ways to measure success. This roundtable is a step toward a better understanding of service innovation by identifying the common issues faced by service managers. My hope is that this discussion will inspire future service innovation research. ■

Innovations in the Global Hospitality Industry

In cooperation with the Center for Hospitality Research, researchers at Cornell University's School of Hotel Administration are conducting an industry-wide study of "Innovations in Global Hospitality."

Please help us identify innovations in the global hospitality industry. Think about the definition of an innovator below, and then contact the Center for Hospitality Research to nominate an individual or company that you believe is innovative or has developed innovative practices, processes, products, services, or philosophies. You are welcome to nominate yourself or your company.

Definition

An innovator is a person or organization that has developed a new or unique practice or has devised a novel application of an existing practice that has proven to be highly effective and profitable.

Service Innovation Roundtable Participants

April 17–18, 2008

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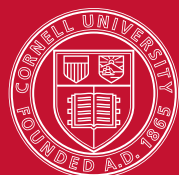
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