



Sustainable development: Innovations in business

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eISBN 978-83-8211-084-5

<https://doi.org/10.18559/978-83-8211-084-5>

PUEB PRESS



POZNAŃ UNIVERSITY
OF ECONOMICS
AND BUSINESS

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Poznań 2021



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SERVICE AS AN INNOVATION



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Abstract: Service innovations make life of customers easier during or after use of company's products or services. They are coming in different forms. Companies create strong connections with their customers by offering different helps, consultations or new experience. Service innovations make customers' experiences stronger and strengthen their gratitude. This chapter provides two case studies. The first case study is the famous company Whirlpool, which made service innovation by implementing CRM system. This enabled stronger straight relationship with their final customers and expansion of incomes. The second case study is an innovative way of selling old antiquarian books in the Czech company Knihobot. This innovation enables fast preparation of books for selling and introduces automation into a new area.

Keywords: customer experience, service innovation, sustainability.

6.1. Introduction

In recent years, services have become the most important sector of the economy of most developed countries in the world. This was not the case in the past, as the main goal was production. Services were seen as something that was necessary but did not bring much added value. Innovations are designed and created so that the customer is more satisfied, his purchasing process is simpler and the final experience of the product or service is better. However, a large number of innovation studies still lack a specific focus on service innovation. Most studies still deal with technological innovations in connection with the manufacturing sector. As a result, it is very difficult to fully appreciate the benefits that service innovation offers. At the same time, services make it possible to maintain the desired level of productivity or achieve higher productivity of the overall output. The main goal of this chapter is to describe service as an innovation with practical approach. To achieve this goal, two case studies are presented.

6.2. Theoretical background

Service innovation is defined as the introduction of novel ideas 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 (Verma et al., 2008). The complexity of service innovation is often underestimated. Moreover, sufficient effort is usually not made to properly target service innovation implementation. Another weakness is low awareness of service innovation importance and the lack of knowledge, which the innovation has on the effectiveness of company's management (Hertog, 2010).

One of the main challenges of the service innovation is its general and outdated understanding of the general public—academic public, statistics, politicians, managers and otherwise involved stakeholders (Lendel, Hittmar, & Siantova, 2015). Some companies still perceive service innovations and related components biased and out of date, especially from the point of view of technological innovations in the manufacturing sector, where innovations are the result of research and testing of the work of the Research and Development Department. Textbooks also devote more time to the issue of technical and technological innovations (Klimova, 2006). Similarly, most definitions describing innovation are dominated by articles of technological innovations only (Vargo & Lusch, 2004).

Services and their innovations are very adaptable to change. It is often the subject of changes in the distribution of the service, contact with the customer or, for

example, quality control of the offered service (Macintyre & Parry, 2011). In fact, most innovations result from a combination of minor and major changes and their adaptation to an existing service (Brentani, 2001; Oke, 2007).

Service innovation processes are not linear. They often involve different activities in different departments across the company and sometimes can be extended to the company's external environment. Mostly these are activities related to strategy, company development, marketing or communication with customers. However, it does not matter whether the company innovates the main processes or only the supporting ones; it is important that it always has in mind the creation of value and benefit for its customers (Klimova, 2006). Service innovations and their processes are difficult to implement, manage and analyse, because the tools for implementing, managing and analysing innovations are primarily created for technological innovations in the manufacturing sector (Hertog, 2010).

Cunningham (2007) adds, that due to the growing strength of the service sector in recent years, the topic and knowledge of service innovation and its processes is also growing. Hertog and Rublacaba (2010) confirm that the topic of service innovation is gaining momentum and that new models and statistical indicators on service innovation are being increasingly introduced. And with each passing year more companies are trying to manage and streamline service innovation (Hertog & Rublacaba, 2010).

The nature of services may explain the limited research that has explored innovation and its implementation. Labour intensity, high variability of delivery, coproduction with the consumer, intangibility and the perishability or time sensitivity of services make innovations in services substantially different in type and in adoption processes from the innovations in traditional manufacturing settings (Fitzsimmons & Fitzsimmons, 2004; Johnston & Clark, 2008).

“Service can be the most striking and prominent part of the customer experience, or an invisible safety net that customers sense but never see. Common examples of service innovations include product use enhancements, maintenance plans, customer support, information and education, warranties, and guarantees” (Keeley, Walters, Pikkell, & Quinn, 2013).

In this chapter you can find two case studies from Czech Republic, which map two different service innovations. The first company is a manufacturer, that innovates customer service by implementing new CRM system and several new processes around it (LLP CRM, 2020). This innovation is an example of product use enhancements, offer of warranties and guarantees. The second company's case study is an old-book seller, making innovations in internal processes of services and selling activities. This innovation is in the area of information and education. Both types of innovations are increasingly delivered through electronic interfaces, remote communications, automated technologies, and other impersonal means.

6.3. Case study of Whirlpool Czech Republic

Whirlpool Corporation is an American multinational manufacturer and marketer of home appliances, headquartered in Michigan, United States. The Fortune 500 (Fortune 500—Whirlpool, 2020) company has annual revenue of approximately USD 21 bn, 92,000 employees, and more than 70 manufacturing and technology research centres around the world. As company claims “We’ve always been a company of innovators... we make sure our innovation is purposeful— a feature that will make our consumer’s life easier. It’s a unique approach to products, collaborations and services that create sustained value” (Whirlpool webpages).

Whirlpool entered the Czech market in November 1991. Manufacturers in the market of white goods usually sell their products through distributors and specialized retailers of electrical appliances. They rarely get direct contact with the customer, usually if the customer needs to repair the appliance. However, Whirlpool also offers its customers several additional services, such as the very popular extended warranty, detergents, etc. Thanks to this, the company gains tens of thousands of direct contacts to its end customers every year.

In 2011, Whirlpool in the Czech Republic decided to start using direct online marketing to end customers. For example, a customer who buys a new washing machine and takes advantage of the extended warranty would receive a special offer for a dryer or detergent. The owner of a dishwasher with an extended warranty, which is just coming to an expiration date, would again receive an offer from Whirlpool with a new dishwasher and clear information on what new features are now available in Whirlpool dishwashers. However, in order for something similar to be possible, the company needed a quality CRM (*customer relationship management*) system that could process, segment and maintain customer data.

Until 2011, the company had manually processed customer data and spreadsheets in Excel. Although they provided almost no user comfort, it was still possible to work with them relatively efficiently with units of a thousand records. However, with the growing popularity of the extended warranty and with a greater emphasis on direct contact with end customers, the number of records began to grow by tens of thousands per year.

6.3.1. Whirlpool: Results and solutions

The company therefore tried to use a simple and free CRM system. However, this free system only allowed a very basic segmentation of customers and, although, it supported the distribution of newsletters, it offered no control at all as to whether the e-mail addresses used were valid. The system also did not provide information on what exactly the recipient of the newsletter was interested in on the company’s

website. If the server received an error message about a non-existent e-mail address, the system could not pass it to the operator.

At the beginning of 2012, therefore, the company decided to start looking for a professional CRM system. Whirlpool in the Czech Republic also began planning to launch its own e-shop, which would be associated with a further radical increase in the number of customer records.

Whirlpool chose Microsoft Dynamics CRM Online in 2012. The results brought the possibility of detailed customer segmentation and thus better targeting of newsletters. Clicks have increased by 30% compared to previous numbers. In addition, Microsoft Dynamics CRM Online brought the opportunity to monitor the subsequent activity of customers on the company's website and thus their interest in individual products. The results from the first weeks of operation in the marketing department of the Czech branch of Whirlpool were so convincing that the company decided to expand the system with additional functions and to other departments.

The next step was the full automation of the extended warranty service system. The customer either has a voucher available, which can be registered on the company's website, and receives an extended warranty free of charge, or they can buy an extended warranty directly from Whirlpool. An extension of the warranty can be requested both by sending the relevant form enclosed with Whirlpool products and by filling in its online version on the company's website. Previously, the whole process worked by entering the obtained data manually into the system, manually writing a certificate confirming the extension of the warranty, which, if necessary, the customer would show to an authorized service technician, and manually inserted this certificate in a mail envelope. The direct costs of one extended warranty issued thus amounted to CZK 32 (approx. 1,2 EUR). If the customer fills out the web form, everything will take place fully automatically-checking the accuracy of the entered data, pairing with payment, transferring customer data to the system, issuing an extended warranty certificate in PDF format and sending it to the customer by e-mail. It has also been a significant simplification for the paper form, because the service worker enters data into only one system and the certificate is generated automatically. Whirlpool will save tens of thousands every month in the administration of extended guarantees. Only thanks to this, originally unplanned functionality, will Microsoft Dynamics CRM Online Whirlpool pay for itself within three months.

However, a very important benefit is the fact that thanks to the implementation of new CRM system, customer data has been cleaned up and that the company is fully prepared for a radical increase in customer records, which will be associated with launching direct sales in the form of own e-commerce. At the same time, with the growing volume of records, the positive contribution of the entire CRM system will naturally grow not only for the company's sales, but also for its customers.

6.4. Case study of Knihobot (Eng. Book-robot)

Knihobot is a small Czech company, created by three friends, who loved old books. They decided to build an antiquarian shop of 21st century. They dreamed of building a book selling shop like real business, that meant buying and selling books in bulk. The market for old books is relatively small in the Czech Republic, so with innovations they soon became number one in the market. In 2020 it was still not standard to sell old books on the Internet with great profit.

When the book arrives at Knihobot, it receives a bar code and is registered to the internal database. Unlike classic e-shops, Knihobot does not have one item that has a thousand identical copies. Each of the books is in a slightly different condition. Each unique piece must be photographed and processed one by one. It is not possible to upload the item to the e-shop once and then sell it more times from the same data and photos, as ordinary e-shops do. The biggest difficulty of the antiquarian market is therefore enormous number of items that needs to be processed.

The original process of uploading books was 2 photos of each book on the table with a camera in hand on a monochrome background. Always one photo from the front and one photo of the imprint. Then photos must be copied from the camera's SD card to the computer and cut in graphic program. Then the worker had to fill in the information about the book, find photos of the right book in the folder and upload them to the book.



Figure 6.1. Innovative way to capture pictures in Knihobot

Source: (Knihobot e-shop).

The innovation was in the way to capture images. The book is photographed by using a pedal on the floor, which takes a picture of the book when pressed, thus allowing to have free hands when working with pages. In addition, imprints are automatically sent to Google, that takes them and returns them into text form, from which some information (ISBN, name, etc.) are later extracted into e-shop. Altogether, it saves time and allows workers to process more books.

Before the book reaches the e-shop, which the Knihobot team have programmed themselves, it will receive a price according to an extensive database of book prices from the websites of other antiquarian books. When the book is required to send by mail to its customer, it is wrapped in a carton and the barcode is scanned—the label with the address for the carrier is automatically issued.

In 2019 Knihobot sold 52,000 books and the sales were 7.4 mln CZK, which is a little less than it had been planned, but it means an annual growth of 78%. Moreover, there was the commission sale launch (it means purchase with delayed payment after the final sale to customer) for the public at the end of September 2019, and around 180 customers used this service, some of them repeatedly.

Literature to check:

<https://www.whirlpoolcorp.com/our-company/>

<https://fortune.com/company/whirlpool/fortune500/>

<https://blog.knihobot.cz/ohlednuti-2019/>

Student's support

Radical innovations are new products, services or processes and involve significant change and innovation. Accordingly, the impact is also greater—for example, new markets can be created as a result.

Incremental innovations are the optimization and further development of existing products, services, or processes. The purpose and benefits are optimization of customer benefit, cost reduction, repositioning, adaptation for introduction into new markets or adaptation to new circumstances such as new laws and standards.

Sustaining innovations refers to the improvement of existing, similar to incremental innovations. This type of innovation focuses on current customers and their needs.

Disruptive innovations describe innovations that shape a new market. Disruptive innovations mostly originate in the low-end segment, in less attractive segments. However, as the maturity of technology and products increases, they are gradually attacking the mass market and thus replacing existing services.

Questions / tasks

Recommended method of working on case study: team, 2–4 students.

1. Do you think both innovations were necessary? Do you see any other choices Whirlpool and Knihobot had?
2. Can you describe the process of innovation? Steps taken; results gained.
3. Where do you see other potential innovation possibilities for Whirlpool and Knihobot?
4. Was it a radical innovation or incremental innovation? Discuss your opinion.
5. Was it sustaining or disruptive innovation? Discuss your opinion.

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