

Innovation in Experiential Services – An Empirical View

Chris Voss and Leonieke Zomerdijk

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Chris Voss is professor of Operations and Technology Management at London Business School and Senior Fellow of the Advanced Institute of Management Research. He can be contacted at cvoss@london.edu.

Leonieke Zomerdijk is Research Fellow of the Advanced Institute of Management Research, working at London Business School. She can be contacted at lzomerdijk@london.edu.

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London Business School
Regent's Park
London NW1 4SA
United Kingdom
+44 (0)20 7000 7000

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Executive Summary

This report examines innovation in experiential services. These are services where the focus is on the experience of the customer when interacting with the organisation, rather than just the functional benefits following from the products and services delivered. The report is based on a continuing research programme on experiential services at London Business School. In particular it draws on a recent case-based study of eight design agencies and consultancies and nine successful experiential service providers. The report addresses the question of how do experiential service providers innovate, in particular the content of innovation and the process of innovation including organisation for innovation. Studying innovation in experiential services facilitates wider reflection on the subject of service innovation.

The research found that experiential services are often designed from the perspective of the customer journey rather than as a single product or transaction; the service is seen as a journey that spans a longer period of time and consists of multiple components and multiple touchpoints. The journey perspective implies that a customer experience is built over an extended period of time, starting before and ending after the actual sales experience or transaction. During a customer journey, numerous touchpoints occur between the customer and the organisation or the brand. These touchpoints need to be carefully designed and managed. The research shows that innovation takes place at each of these touchpoints as well as of the overall journey itself.

The customer journey perspective differs from the current models and frameworks describing service innovation, as it clearly shows the central role of the customer in innovation and design, as opposed to for example a central role of technology. In addition, the scope of the journey perspective is much broader than traditional models, for example it includes aspects such as building anticipation and facilitating transport to the core experience. Finally, the journey perspective integrates the common distinction between service product innovation and service process innovation, as a journey has elements of both.

Another finding from the research is that innovation takes place in five distinct design areas that directly or indirectly influence the customer experience: the physical environment, the service employees, the service delivery process, fellow customers and back office support. Although these areas are relevant to any service, they generally do not receive the same amount of attention as experiential service designers pay to them. Examples include sensory design for the physical environment, stimulating employees to engage with customers, using fellow customers to make an experience more enjoyable and connecting back office employees to the front stage experience. There is a large theoretical base from the service management literature concerning innovation in these areas, yet linkages with the service innovation literature are sparse.

With regard to the process of innovation in experiential services, the research revealed that many innovations were driven by detailed insights into customers. Both design and consultancy firms and experiential service providers invested a large amount of time and effort in conducting research leading to insights in customers' behaviour, needs and preferences. Common techniques were traditional market research, empathic research to understand customers at an emotional level, trend watching and learning from companies in different industries. This indicates that experiential innovations are typically customer rather than technology driven.

Another process-related finding from the research is the occurrence of both 'tight' and 'loose' methodologies in the design and innovation process of experiential services. Tight methodologies entail a relatively fixed set of steps, activities and tools and techniques required in the design process that can be used across projects, whereas in loose methodologies the required steps, activities and tools and techniques are determined individually for each project. Whilst some organisations had well-developed and tight methodologies, many successful innovators did not and preferred a more flexible approach. They feared that tight methodologies would inhibit the creativity required for experiential service design and would increase time to market unnecessarily. This suggests that the relatively tight and rigorous methodologies typically found in product innovations may not always be applicable to service innovation.

One of the difficulties in innovation in experiential services is predicting the outcome in financial terms. It can be difficult to measure the impact of a particular improvement of a customer experience on company performance. Many companies devoted much effort and used multiple methods to capture the outcomes of innovation. Common measures included footfall, dwell time, revenue growth, customer satisfaction and customer loyalty. The difficulty in predicting financial returns can not only cause an unwillingness to invest in service innovation, but also make it easy to over-invest and have a great and innovative service that is actually losing money.

Finally, the research found that although both product and process innovation were observed, significant innovation came from incremental process innovation. In addition service innovation was often associated with innovation in business models. This leads to a typology of service innovation consisting of three areas: product innovation, process innovation and business model innovation. Considering part of service innovation as process innovation provides insights into the problems of studying and measuring service innovation. Process innovations are embedded in a wider operational process and are frequently incremental rather than radical. They take place in operational areas, not separate R&D departments, and activity and expenditure is thus hard to measure. Rather than product leading process or vice versa, the research indicated that service innovation in general, not just in experiential services, is an iterative process where product, process and business model innovation go hand in hand.

Table of Contents

1	Introduction	5
	Introduction to the report	5
	Experiential services	6
	The research.....	7
2	The Content of Innovation	8
	Service as a journey.....	8
	Experiential innovation areas	10
	Summary and some implications for service innovation.....	16
3	The Process of Innovation.....	18
	Customer insights as a driver of service innovation	18
	Tight or loose methodologies	20
	Tools and techniques	21
	Organising for innovation and design.....	23
	Measuring the success of innovations	24
	Summary and some implications for service innovation.....	26
4	Other Observations	27
	Business model innovation	27
	Competition as a driver of service innovation.....	28
	Protecting innovations from copying	29
5	Reflections on Service Innovation	31
	A typology of services innovation	31
	An iterative process.....	32
	Language	33
	Heterogeneity of services.....	34
	Implications for policy	34
	References.....	35
	Appendix 1: Details of Research Studies	39

1 Introduction

INTRODUCTION TO THE REPORT

Service innovation has proved an elusive area for many reasons, including the intangibility of services, the heterogeneity of services, much innovation being of processes rather than products and the lack of an identifiable R&D function. Much research has focused on services where products can clearly be defined (for example financial services), and where technology is being used to change the nature of the service or the business. However, as Salter and Tether (2006) have pointed out, there is an emerging research stream which addresses the particular nature of services such as intangibility, dependence on people and high levels of interaction rather than technologies. A significant proportion of services, and hence their innovation activities, reflect this. The research by Hipp et al. (2000) reveals a pattern of diversity in innovation behaviour of service firms, which reflects the diversity amongst service firms. Consequently, they call for more subtle and differentiated analyses of services and service innovations.

This report investigates innovation in the area of experiential services: services that focus on the experience customers are having. Innovation is particularly important for this type of services, as one of the key features of successful experiences is considered to be continuous renewal or refreshment of the experience to keep exceeding customer expectations (Pine and Gilmore, 1998).

This report addresses the question: how do experiential service providers innovate? It mainly focuses on the content and process of innovation. Content includes the 'what' of innovation, addressing the substance of innovations, whereas process refers to the 'how': main steps, tool and techniques and people involved.

The report is based on extensive and ongoing case-based research of companies that either provide or help design experiential services, both in the UK and the US. The research is informed by the discipline of service management. An empirical view of current innovation practice in experiential services is put forward. From this, conclusions are derived that are relevant for both companies and policy makers.

The remainder of this report is structured as follows:

- 1 **Introduction** provides an introduction to the report, experiential services and the research underlying this report.
- 2 **The Content of Innovation** presents observations on service as a journey and five distinct innovation areas.
- 3 **The Process of Innovation** presents observations on the consumer research underlying service innovations, the methodologies, tools and

techniques for service innovation and the organisation of the innovation process.

- 4 **Additional Observations** links service innovation to business model innovation and investigates the role of competition as a driver of innovation, as well as how companies protect their innovations from copying.
- 5 **Reflections on Service Innovation** uses the research on innovation in experiential services to propose a typology of service innovation that includes service product innovation, process/system innovation and business model innovation and links them together in an iterative model.

EXPERIENTIAL SERVICES

Experiential services are services where the focus is on the experience of the customer when interacting with the organisation, rather than just the functional benefits following from the products and services delivered. Companies in the leisure and entertainment industries have traditionally focused on the experience of their customers, as an experience is their main offer, for example skiing, theme parks and cinemas. However, it can also be argued that every touchpoint that the customer has with the organisations is an experience, no matter how mundane the product or service that is being delivered. These experiences can be positive or negative, and to a greater or lesser extent memorable (Carbone and Haeckel, 1994).

Recently companies have begun to see systematically designing and managing customer experiences as a powerful way of improving service levels and differentiating from competitors (Pine and Gilmore, 1998). Providing compelling customer experiences is also seen as an important factor influencing customer loyalty, for customers are more likely to make repeat purchases and give positive word of mouth when they had a good experience. Pullman and Gross (2004, p.551) define experience design as an approach to create emotional connection with guests or customers through careful planning of tangible and intangible events. European examples of companies which stress the importance of the customer experience include: YO! Sushi, first direct, Land Rover with the Land Rover Experience Centres, the Eden project, the Guinness Storehouse in Dublin and Die Gläserne Manufaktur (the Transparent Factory) of Volkswagen in Dresden. Well-known examples and successful pioneers in the US are the American Girl Stores, the Apple Retail Stores, Build-A-Bear Workshops, Joie de Vivre Hotels and the Disney theme parks. All of these companies have designed services with the customer experience in mind.

These examples indicate that experiential services can occur in any industry or sector, both goods-based and service-based. They can be found in banking, hospitals, retail, hotels, restaurants, transportation and traditional manufacturing. Indeed they relate to the service element of all companies.

THE RESEARCH

This report is based on a continuing research programme in the field of experiential services at London Business School. Starting in 2003, it has involved case-based field studies of experiential services, in nearly 100 companies primarily in the UK and US. Details are given in Appendix 1.

The most recent phase of this research serves as the main data source for this report. This study involves eight case studies with design agencies and consultancies that specialise in helping companies design good customer experiences and nine case studies of experiential service providers. They are listed in Appendix 1. These were all examples of successful organisations. This provided the opportunity to study widespread or good innovation practice. Several companies also had innovation as one of their brand values or are known in their industry as innovators. A case-based research methodology (Yin, 1994) was used; interviews were conducted with founders, executives and experienced designers to investigate process and content issues of experience design and innovation. As well as interviews, in the design agencies and consultancies examples of actual projects were studied, and in the experiential service providers site visits were conducted to observe and experience the customer experience on offer.

As service innovation is an emergent area, case study research is an appropriate method in this context (Yin, 1994). The case method lends itself to early, exploratory investigations where the variables are still unknown and the phenomenon not well understood (Meredith, 1998). The phenomenon can then be studied in its natural setting, and meaningful, relevant theory can be generated from the understanding gained through the observation of actual practice. When building theory from case studies, researchers ordinarily select cases using replication rather than sampling logic (Eisenhardt, 1989; Voss et al., 2002; Yin, 1994). This means selecting cases that offer the best opportunities to learn and build or extend theory. There are therefore limits to the generalisability of the results from case-based research. The observations presented in this report cannot be used for statistical inference, but point out several key issues and characteristics of innovation in experiential services.

2 The Content of Innovation

This section explores the content of innovation in experiential services. It first examines how experiential services are often seen as a journey, rather than a product. This influences the types of innovation taking place. It then presents a framework that captures the different areas in which service innovation occurs and provides examples of innovations in each area, and finally discusses the implications for service innovation.

SERVICE AS A JOURNEY

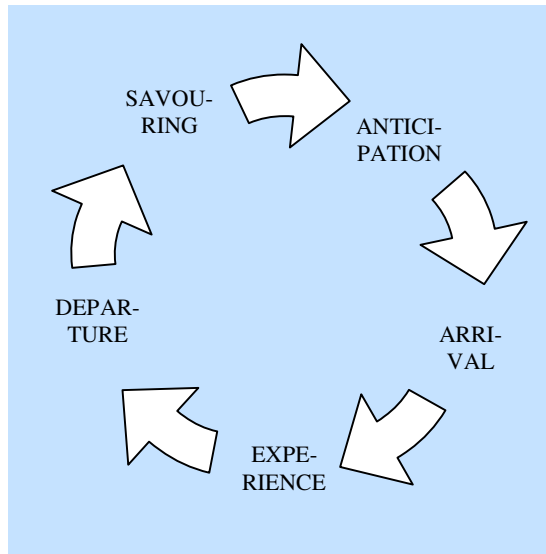
Innovation in services has traditionally been seen in terms of product innovation. It became clear in the field research that this mindset usually did not match how the organisations studied saw or managed innovation. The cases indicated that both design and consultancy firms and experiential service providers shared a common perspective or metaphor: that of the customer journey. **As opposed to a single transaction or purchase experience that involves a service product and a service process, the service is seen as a journey that spans a longer period of time and consists of multiple components and multiple touchpoints. The total customer experience is the result of every element in this journey.** Another way of describing the customer journey is as a **film that consists of multiple scenes.**

Typically, a customer journey is considered to start long before the actual transaction and ends long after the transaction is completed, preferably with recommendations to other people. Journeys are often cyclical, with the end of one cycle leading into another. See for example the Walt Disney World Guest Experience Cycle in Figure 1. Some of the characteristics of taking a journey perspective on service delivery include:

- **A customer experience is built over an extended period of time, starting before the actual sales experience or transaction to include pre and post purchase experiences;**
- **The journey consists of numerous touchpoints between the customer and the organisation or the brand; these touchpoints need to be carefully designed and managed;**
- **Each touchpoint has the potential for innovation.**

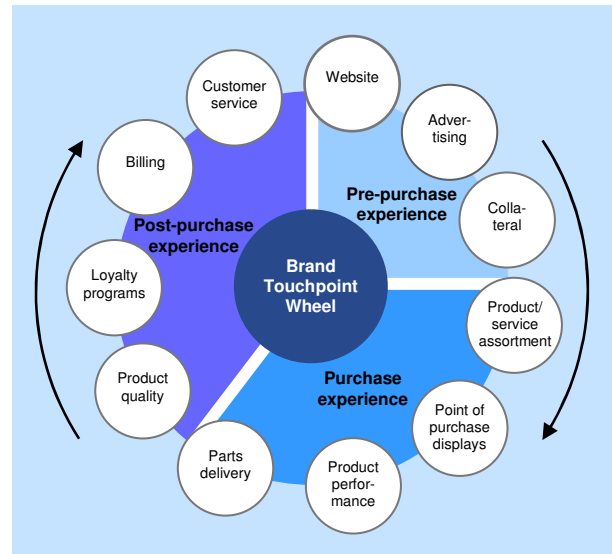
Several of the design agencies and consultancies that specialise in designing customer experiences used the journey perspective to analyse current experiences and design new ones. This often involved mapping customer journeys in detail. The journey model has its origins in the work on service blueprinting and service mapping by Shostack (1984), Kingman-Brundage (1992) and Bitner (1993). Several firms had developed a technique for mapping customer journeys such as **'Moment Mapping'®** (Shaw and Ivens, 2002) and **'the Brand Touchpoint Wheel'** (Davis and Dunn, 2002). An example is shown in Figure 2.

Figure 1: Service journey, Guest Experience Cycle



Source: Walt Disney World

Figure 2: Service journey, Brand Touchpoint Wheel



Source: Dunn and Davis (2003)

Companies that provided experiential services also frequently used the perspective of the customer journey. They included both physical aspects, such as travelling to a service, and non-physical aspects such as building anticipation. For example, the customer journey was one of the leading design principles for the Xscape destinations of X-Leisure. The journey starts with finding out about a destination, and includes getting there, moving through the various stages of the experience, finding reasons to come back, telling other people and paying repeat visits.

The innovations observed in the study covered a spectrum from creating entirely new journeys, through changing or adding elements in a journey, to making existing journeys more comfortable or efficient. In general, the experiential service providers produced a continuous stream of innovations to improve elements of existing journeys. A common issue in a customer journey is waiting or queuing. Another common issue is physically getting to the service location: using transportation and finding the right place. Several organisations paid a great deal of attention to signage, parking and public transportation. In a few cases the companies even added elements that were traditionally considered outside their boundaries to the customer journey, such as transport to and from the service location. An example of an extended service journey is the one designed by Virgin Atlantic for its Upper Class passengers. It is designed to be seamless and includes a wide range of services at each part of the journey, see Box 1.

BOX 1: SERVICE JOURNEY – VIRGIN ATLANTIC UPPER CLASS

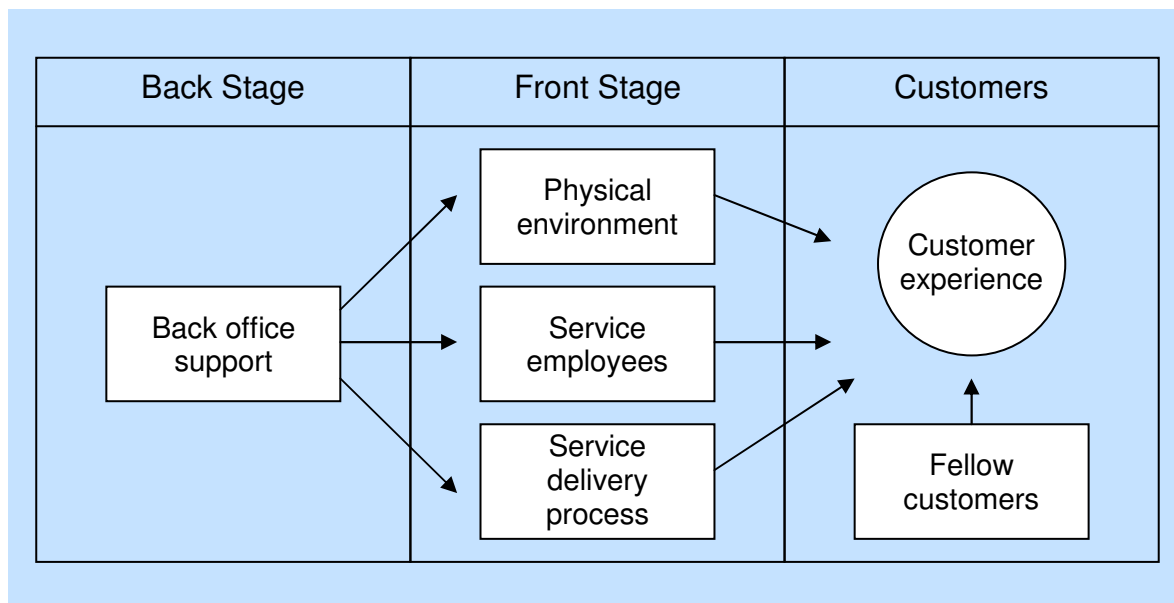
Flying Virgin Atlantic includes more than transatlantic flights. It is designed as a seamless and experiential journey that starts with booking and ends with transportation home. Having booked, Upper Class passengers are picked up by a chauffeur-driven car or LimoBike motorcycle, driven to the airport, go through a unique Drive Thru Check In process and are dropped off at customs, close to the entrance to the Virgin Atlantic Clubhouse. The clubhouse has an incredible range of services from restaurants and a bar through to a massage and hairdressing salon. At weekends there are activities there, for example a Gibson guitar clinic, to engage passengers. Onboard the plane in addition to flat-bed seats there is a bar where passengers can congregate and an in-flight massage service. At the airport of arrival, passengers can go to an arrival lounge to relax, have breakfast, shower and have a foot massage, before being escorted to their final destination. Although the core offer is the transatlantic flight, Virgin Atlantic recognised the complete journey involved and has innovated at every step.

EXPERIENTIAL INNOVATION AREAS

In addition to applying the service as a journey perspective, experiential service providers and design agencies and consultancies in the field of experiential services innovated in five distinct design areas:

1. Physical environment ('stage')
2. Service employees ('actors')
3. Service delivery process ('script')
4. Fellow customers ('audience')
5. Back office support ('back stage')

These five design areas directly or indirectly contribute to a customer's experience. In a restaurant for example, the dining experience consists not just of the quality of the food and drinks but is heavily influenced by the atmosphere and comfort of the venue, the behaviour of the staff, the presence of other guests, and the flow of the meal, for example waiting to be served. The areas are often referred to in theatrical terms, emphasising that a service can be seen as a performance that involves a stage, actors, a script, an audience and a back stage area (e.g. Grove et al., 1992). The research reported here shows that companies innovated in each of these areas to improve existing or develop new customer experiences. The relationships between these five areas are shown in Figure 3. The next sections examine each of these areas in turn.

Figure 3: Experiential design areas


Physical environment

The physical environment is the setting in which a service is delivered or experience is created. The physical environment is considered a key variable influencing customer perceptions and behaviour and has been studied from the perspectives of environmental psychology (e.g. Mehrabian and Russell, 1974), retail atmospherics (e.g. Kotler, 1973; Turley and Milliman, 2000) and 'servicescapes' (Bitner, 1992). The environment performs different roles: accommodating customers and employees, guiding behavioural actions, such as where to queue, and providing cues about the type of service to be expected. The companies in this study paid careful attention to the design of physical environments, such as a cruise ship, aircraft interior or shopping centre. Innovations regarding the physical environment include designing for the journey and sensory design.

Innovation: Design for the journey

Physical environments were often designed with the customer journey in mind, including the ease of getting in and out, how people move around inside to avoid crowding or congestion and making strong first impressions. An example can be found at the Xscape destinations in Braehead and Castleford. These destinations have double-height foyers that are designed to make entry a 'wow' experience. Likewise, the new Arsenal Emirates Stadium designed by HOK Sport Architecture is designed to generate a strong visual impact when spectators turn the corner and first see the stadium in full.

Innovation: Sensory design

Another area for innovation in physical environments is sensory design. This is design that stimulates all five senses: sight, sound, touch, smell and taste. Deliberately addressing the senses is a powerful way of influencing customers'

emotions and the experience they have. The design agencies and consultancies in this study agreed on the large opportunities associated with sensory design, but also on the lack of use in practice. Some of the companies in this study engaged in sensory design. Excellent examples can be found in the sport stadiums designed by HOK Sport Architecture and the airport lounges and aircraft interiors designed by Virgin Atlantic. An example that combines sensory with journey design is when Virgin Atlantic changed the positions of the galley and the bar on their aircraft, so that passengers were no longer hit by the smell of food from the galleys when they boarded the plane, but instead were greeted by the smell of fresh orange juice. Another example is the entry ticket for the Guinness Storehouse in Dublin as designed by Imagination. It is a pebble with a drop of Guinness in it, which doubles as a sensory touchpoint right at the beginning of the journey and a souvenir.

Service employees

It has long been known that the interaction between customers and the people delivering the service is a major factor influencing customer experiences. For example, three of the five dimensions in the SERVQUAL instrument to measure service quality, described in more detail in section 3, are explicitly related to employee behaviour: responsiveness, or the willingness to help customers and provide prompt service, assurance, or the knowledge and courtesy of employees and their ability to inspire trust and confidence, and empathy, or the caring and individualised attention the firm provides its customers (Parasuraman et al., 1988). Most of the experiential service providers in this study saw the role of the employees in delivering service as the key factor influencing customer experiences. As a consequence, organisations paid a lot of attention to their front line employees and the service they are providing. Walt Disney World is a renowned example of great customer service provided by their cast members, as are Virgin Atlantic and Royal Caribbean. Two areas for innovation are engaging with customers and managing the employee experience.

Innovation: Engaging with customers

For several companies in the study it was important for staff to engage with customers, or build emotional connections with them. This makes the customer experience more personal, more positive and more memorable. Furthermore, by connecting with the employees, the customers are connecting with the brand or the organisation which increases customer loyalty. To that end, several experiential service providers hired employees based on empathic skills (or Emotional Intelligence). Empathic skills refer to the ability to perceive and assess one's own emotions and those of others and the ability to manage them. For example, Luminar Leisure recognised the importance of the 'people element' for a pleasant night out and has started to train the front line employees of their Liquid and Lava & Ignite nightclubs in empathic skills. As part of this training, doormen are taught to recognise different customer segments and respond to them with a response tailored to that particular person. In addition, employees are encouraged to have fun themselves, so that their positive emotions can rub off on customers via a process called emotional contagion (Pugh, 2001).

Innovation: Managing the employee experience

A second innovation area related to service employees was the employee experience. The experiential service providers in this study explicitly saw that **one key to excellent service was satisfied and motivated employees. As a result, they not only managed the customer experience, but also the employee experience.** For example, management at Walt Disney World has specified four guest expectations and four cast (employee) expectations. The cast expectations, what cast members expect from Walt Disney World management, are: (1) Make me feel special, (2) Treat me as an individual, (3) Respect me and (4) Make me knowledgeable. Walt Disney World puts a great deal of effort into creating an environment where employees feel valued and supported so that, in turn, they will do their job well and take better care of guests. Leadership plays a large role in establishing this environment. Another example can be found at Royal Caribbean. Here, the importance of the employee experience is reflected in the quality of crew food, the design of crew areas on the ships and the availability of communication tools such as internet access in crew cabins and the entire fleet being cell phone capable, no matter where a ship is. As a result, these companies typically get lower employee turnover whilst they pay the same wages as competitors. This reasoning is consistent with the Service-Profit Chain model, developed by Heskett et al. (1994). This model links employee satisfaction to customer satisfaction, proposing that satisfied employees will be more productive and more loyal and will provide better service value, which will lead to greater customer satisfaction (see also section 3).

Service delivery process

The service delivery process is another area where companies innovate to improve the customer experience. **A service delivery process is a series of actions or events that take place to deliver the service. In theatrical terms, the service delivery process is the script for the service performance, defining the acts, scenes, intervals and actors involved.** The service delivery process for a large part determines the customer journey or the flow of the customer through the organisation. The companies in this study innovated in the design of service delivery processes by managing the start, end and peaks.

Innovation: Managing start, end and peaks

One of the key innovations for experiential services regarded designing the flow of a service delivery process in terms of its start, end and peaks. This is based on principles from behavioural and cognitive science regarding how people experience the passage of time and interpret events after they are over. For example, **customers generally do not remember every single moment of an experience. Instead, they remember the trend in the sequence of pain and pleasure, the high and low points and the ending** (Chase and Dasu, 2001). **Research shows that positive performance trends lead to more favourable evaluations and the end of an experience has a greater impact on customer's perception than the beginning** (Hansen and Danaher, 1999). Furthermore, Verhoef et al. (2004) found that in addition to average performance, positive

peaks contribute to customer satisfaction. Such principles can be used to influence people's perception of a particular experience or service, making it as positive as possible. Several of the design agencies, consultancies and experiential service providers studied employed this reasoning to the design of service delivery processes. Yet, managing first and last impressions were more common than managing peaks or trends.

For example, office furniture manufacturer Herman Miller explicitly uses these principles in its B2B context. When potential customers visit their offices the company pays much attention to the start of the visit to set the right tone: bringing people in the right mood, establishing rapport and explaining customers are in control. They use specifically designed 'decompression' rooms for that. An example of a strong ending to a service delivery process can be found at the Guinness Storehouse developed by Imagination. Here the final activity is a complimentary pint of Guinness in the sky bar, the highest point in Dublin, with 360 degrees panoramic views across the city. This ending to the process is specifically designed to connect with the brand and create a very positive memory. How cruise line Royal Caribbean manages start, end and peaks is described in Box 2.

BOX 2: MANAGING THE START, END AND PEAKS OF A CRUISE EXPERIENCE

A wide variety of examples involving managing start, end and peaks can be found at cruise line Royal Caribbean. A cruise's itinerary and schedule for entertainment and activities are developed to optimise onboard revenue, passenger experience and positive memories. Ideally, the first and last day of a cruise are spent at sea. The first day at sea enables passengers to unwind and get acquainted with the ship. The last day at sea not only gives passengers the chance to relax and make the most of what the ship has to offer, but also means the passengers are in the control of the cruise line, so the company can influence how passengers spend the last day of their cruise. The entertainment and activities schedule is not so much designed around peaks. Instead, the schedule is aimed at providing a constant flow of things to do to keep passengers active and entertained. In the beginning of the cruise there is more emphasis on providing information and building anticipation. The entertainment programme builds towards a crescendo on the second to last night. The last night is all about the 'warm and fuzzies' to reinforce the emotional connection between the passengers and the crew and the brand. The main tool in this is the Farewell Show where key events from the past cruise are recapitulated and several hundreds crew members appear on stage to wave goodbye.

Fellow customers

Experiences are not only influenced by interaction with the service providers, but also by the other customers present. In theatrical terms other customers form the audience, and crowding, unruly or unanticipated behaviour can destroy a service

performance (Grove et al., 1992). On the other hand, socialising or bonding with other customers can make an experience more enjoyable (Martin and Pranter, 1989). Many services are created while other customers are present. This particularly applies to situations where customers share the setting simultaneously, as in the case of restaurants and airline travel. This is enhanced when they are in close proximity to each other, have to share space or resources and waiting is involved (Martin and Pranter, 1989). Yet, the role of fellow customers has received little attention in practice and literature, except for issues of crowding and social density. This study did not show much evidence of design agencies and consultancies considering the role of other customers in an experience. On the other hand, a number of experiential service providers included fellow customers in their designs and found innovative ways of utilising the value they could add.

Innovation: Making experience more enjoyable and driving revenue

An example of using fellow customers to improve the experience and drive revenue can be found at bakery / coffee shop Le Pain Quotidien. Central to the concept of Le Pain Quotidien is the large communal table in the middle of each coffee shop. The table fits the theme of eating at a farmhouse and uses space efficiently. The main feature of the communal table is that it attracts customers who are by themselves and would like to come in and have a coffee, but do not want to sit alone. Joining the communal table avoids customers feeling alone. It also gives the opportunity to chat with other customers, but often the mere fact that customers do not feel or look alone is enough. As a result, the Le Pain Quotidien shops are very successful at attracting off-peak business of customers that shop by themselves.

Another example is the creation of a community around a product or service. A good example is Harley-Davidson, with their Harley Owners Group (H.O.G.). H.O.G. was established in 1983 as a company-sponsored enthusiast organisation in the motorcycle industry, designed to enhance the Harley-Davidson lifestyle experience and bring the company close to its customers. H.O.G. currently has over a million members. Benefits include a magazine, road-side assistance, a touring handbook, events and much more. In addition to this, one of the key benefits of H.O.G. is the opportunity to meet fellow enthusiasts through the local chapters or events that are organised nationally. This camaraderie between riders enhances the experience of owning and riding a motorcycle. From a company perspective, the bonds between fellow customers are a good way of making people ride more, because they know people to ride with and have events to go to. Thus, H.O.G. is also about giving people reasons to ride and put miles on their motorcycle. This will keep people in the sport and make them spend more on service, accessories and clothing. In this way, Harley-Davidson deliberately uses fellow customers to improve the riding experience and drive expenditure.

Back office support

The physical setting, service employees, service delivery process and fellow customers directly influence a customer's experience and take place front stage.

However, there are many things that go on back stage and influence the front stage performance. Most service organisations have a considerable number of back office employees that are vital to the customer experience, yet generally do not interact with customers. As a result, the main innovation related to back stage areas of service delivery involved connecting back office employees to the front stage experience.

Innovation: Connecting back office employees to the front stage experience

Several companies argued that in order to deliver great customer experiences the whole service supply chain should be focused on the customer experience, not just the front stage parts. Yet, this can be difficult for back office employees that rarely meet customers and are quite far from the actual experience creation. To that end, Walt Disney World has developed a system called Role and Purpose. Role and Purpose emphasises that everybody has a different role in the organisation, from checking tickets and sweeping the floor to managing maintenance for example, but all employees have the same purpose: making sure that every guest has the most fabulous vacation of his or her life. This system aims to achieve that everyone knows how their work matters in the final outcome. For example, sweepers know that they are the reason that Walt Disney World is famous for cleanliness, and they are trained in giving guests directions and interacting with children, emphasising how their role contributes to the bigger purpose of a great customer experience.

Another example of creating back office understanding of the front stage experience can be found at Cirque du Soleil. The Studio, Cirque du Soleil's international headquarters in Montreal, is designed around visual contact between administrative staff and artists. From the offices, the administrative staff can see into the training studios where artists work out and develop new routines and vice versa. In this way, the back office employees see what they are contributing towards and the artists keep in touch with the people supporting them.

SUMMARY AND SOME IMPLICATIONS FOR SERVICE INNOVATION

Although service innovation includes both product and process innovation, the design and consultancy firms and experiential service providers in this study often saw a service as a journey. Innovation can take place at any of the touchpoints in the customer journey, including pre and post purchase experiences. The experiential service providers in this study were constantly looking for incremental innovations aimed at improving the customer journey. From a designer's and innovator's perspective, the customer journey is a powerful focus for analysing and designing memorable customer experiences.

Innovation in experiential services covers a broad spectrum, taking place in five distinct areas. The first is the physical environment in which the service is delivered. In experiential services, physical environments are designed for the customer journey and deliberately stimulate the five senses. The second is the service employees that interact with customers. In experiential services, front line

service employees are key to engaging with customers and building emotional connections with them. To improve the quality of their work, several companies manage the employee experience, in addition to the customer experience. Thirdly, innovations take place in the design of service delivery processes. For example service delivery processes can be designed to have strong starts and endings and carefully placed peaks. The fourth area for innovation regards the fellow customers that are present. They can be a valuable resource in making an experience more enjoyable through meeting like-minded people. Several companies have found ways of realising this potential and managed to create additional revenue following from the linkages between fellow customers. The final area for innovation is back office support. Some companies developed systems for connecting back office employees to the front stage experience to ensure the entire service supply chain is focused on the customer experience.

The customer journey perspective is very different from the current models and frameworks used for discussing and measuring service innovation. Similarly the innovation content areas such as using fellow customers or sensory design are often neglected in current views of service innovation. This is despite there being a strong theoretical background behind these areas in the field of services management. As yet, there are few linkages between this literature and the literature on service innovation.

3 The Process of Innovation

This section discusses the innovation process in experiential services: the process from the initial need or desire to innovate to an implementable solution. It examines the data from the cases on (1) how customer insights drive innovation, (2) what type of design methodologies are being used, (3) the tools and techniques that are employed in the design process, (4) how experiential service providers have organised the innovation and design functions internally and how design agencies and consultancies collaborate with clients and finally (5) the issues with and ways of measuring the success of a service innovation. The section ends with a discussion of implications for service innovation.

CUSTOMER INSIGHTS AS A DRIVER OF SERVICE INNOVATION

One of the most important aspects of the innovation and design process in both design and consultancy firms and experiential service providers was research. Consumer research, leading to customer insights, was seen as the basis of experience design and acted as one of the main drivers for innovation. Consequently, the organisations in this study invested a large amount of time and effort in conducting research. Four types of research were commonly carried out: traditional market research, empathic research, trend watching and learning from others.

Traditional market research

Traditional market research focuses on finding out what the market is and what customers want and expect from a company, brand or experience. Both design and consultancy firms and experiential service providers often employed a combination of different techniques, such as focus groups and surveys (web based or off line). Market research was used for segmentation, based on customers' demographic and psychographic characteristics. Psychographic characteristics involve for example people's motivations to engage in a particular activity such as shopping, cruising or going out. As one consultancy noted, doing market research does not necessarily mean a company should do everything the customer wants. For example it might not be able to afford it, but it should at least find out. Moreover, several companies mentioned that customers might not even know what they want, so they did not expect their customers to design their next service.

Empathic research

Empathic research can be seen as a special kind of consumer research that is particularly important for designing good customer experiences. It was used by a number of organisations in this study. Empathic research is not about finding out what customers want, but about finding out how they 'work'. It aims to lead to an understanding of customers at an emotional level, knowing not just what they say

and do but also what they think and feel.) In this way, customers' latent needs can be uncovered and, more importantly, it helps to identify what makes them tick. This is important for developing compelling experiences that say 'for me'. Several techniques are available, including asking customers to draw a particular experience, shadowing them and investigating extreme users. For a project for a financial start-up, IDEO used a set of empathic research techniques to segment users of financial services based on their feelings towards their finances. They then identified a segment of customers with low daily engagement with their money and a lack of clear long-term goals. This segment was currently not being addressed in the marketplace, so financial solutions particularly attractive to this segment were developed.

An example of how Harley-Davidson, a highly customer-focused organisation, gathers customer insights that drive innovation is shown in Box 3.

BOX 3: CUSTOMER RESEARCH AT HARLEY-DAVIDSON

In addition to focus groups, surveys and more empathic research methods, Harley-Davidson gathers customer insights through riding with its customers. Employees attend events and rallies and talk to customers, both Harley-Davidson riders and non-Harley-Davidson riders, to find out what they like about the brand and what they are currently missing. People in leadership roles are required to attend at least two events a year and other employees from all departments (marketing, finance, legal, logistics, production etc.), whether they ride themselves or not, volunteer to help out at different events throughout the year, varying from an afternoon to several days. It is not uncommon for Harley-Davidson employees to go on organised multiple-day trips covering thousands of miles. From observing and talking to customers at events and during rides, Harley-Davidson gathers in-depth insights in what motivates them and what their needs are, even if they do not yet express them. These insights are fed back into the organisation and form the basis for innovations in the Harley-Davidson portfolio of products and services. For Harley-Davidson, riding with customers and sharing the experience is the ultimate way of getting close to them.

Trend watching

In addition to the primary research they do with customers, companies often engaged in trend watching, or making long-range forecasts about customer behaviour, needs and preferences. They followed socio-economic or demographic changes, such as changes in lifestyles or what is happening with the baby boomers generation. On a more detailed level, they tried to predict how customers will be spending their time and money, what they would like to be doing, with whom etc. Royal Caribbean for example, identified that because they are spending less time as a family in their daily lives, a lot of people nowadays want to spend more time together as a family when they are on holiday. As a result they added more family-oriented activities on their ships. They also looked at trends in land-based gyms to help decide what new features to put in the gyms on their ships, such as

a boxing ring. For Royal Caribbean trend watching is vital, because of the lead time of new ships and their lifetime. The ships they are working on today are designed for the voyages they will make fifteen years later. For other companies, looking into the future was a way of staying ahead of the competition and ensuring the products and services on offer continue to match customer's needs. Techniques for trend watching include talking to experts in particular areas (culinary, entertainment, lifestyle etc.), reading magazines and newspapers, and using third-party research focusing on trends.

Learning from others

Although most of the experiential service providers monitored their own industry and observed competitors from a distance, they did not intend to copy what others were doing. Many of the cases in this study were leaders in their industry with regard to the customer experience or were doing something that is unique. Therefore, they looked outside their own industry for inspiration. For example Virgin Atlantic and Herman Miller studied luxury hotels to learn about customer service. X-Leisure saw Selfridges as an inspirational brand and looked to align the same values of matching the customer experience with marketing and brand. X-Leisure also got inspiration from the world of theatre. Walt Disney World followed developments in retail and manufacturing to see how innovations in those industries can be applied in their world. Cross-industry insights are obtained through publications in newspapers and magazines and through site visits.

TIGHT OR LOOSE METHODOLOGIES

There has been much debate as to whether tight and rigorous methodologies typically found in product innovation are also essential for service innovation. On the one hand these are seen as contributing to effective and controlled innovation processes. On the other hand, it has been argued that services being intangible require a more creative and less structured approach. This study revealed strong contrasts within the design agencies and consultancies studied.

In some firms, the design process was seen as requiring a great deal of flexibility in execution. In other firms, the design process was accompanied by a detailed step-by-step approach for coming up with a new design for a service or service delivery process. The first group employ what could be called a 'loose' methodology, when the main steps, activities and tools and techniques involved in the design process are determined for each project individually and on the way. The second group employ a more 'tight' methodology: the main steps, activities and tools and techniques are known beforehand and do not differ much between projects. Both design agencies and consultancies with 'tight' or 'loose' methodologies were passionate about their approach. The firms that advocated a loose design methodology did so from the perspective that every project is different and unique and therefore requires a tailored solution. This implies that the required activities, techniques for gathering insights and conceptual frameworks need to be chosen specifically for that particular project. Firms with a

tight methodology used a particular protocol or road map that they had found to be very effective.

The design agencies and consultancies that were interviewed for this study differed in size. As organisational size is often associated with increasing degrees of formalisation and standardisation of procedures, size might explain this preference for either a tight or loose methodology. However, this was not the case, for both small and large firms employed tight or loose methodologies. An alternative explanation might be that for a relatively homogenous customer base, i.e. all in one industry, tight methodologies would make more sense whereas for highly diverse customer bases spanning different industries loose methodologies would be more effective. However, this was not supported by the data, as both focused and broad firms employed both types of methodologies. Instead, the different methodologies seem to represent different business models: one aimed at selling a particular process or approach, the other at developing customised solutions.

As with some of the design and consultancy firms, several experiential service providers stressed the importance of having flexibility in the design process. They stated that sticking to a fixed routine or fixed group of people inhibits their creativity, can increase time to market unnecessarily and might not lead to the best set-up for the job. In one organisation, the design process was considerably shortened when a good idea could be mocked up into a full-size working prototype in a number of weeks, skipping some of the interim steps. This way of working is obviously enabled by an ongoing design thinking process and customer research efforts to gather insights. In another company, the design processes and design people involved in service innovation projects were also flexible, because the company believed that forcing every project in the same mould would become too stifling from a creative standpoint and it would not get the best thing. The company emphasised there was not one way to design experiences, it depends on what it is. Whilst the contrast between tight and loose methodologies was not as evident as in the sample of design agencies and consultancies, there was clear evidence that the experiential service providers saw flexibility in the use of methodologies as important.

TOOLS AND TECHNIQUES

The companies in this study employed a wide range of tools and techniques in the service innovation and design process. Design agency IDEO for example, has developed a set of 51 Method Cards to inspire design and keep people at the centre of the design process. The methods are grouped in four categories: Learn, Look, Ask and Try. Some of the tools and techniques used by the organisations in this study include the following:

- **Simulation** – Several tools are available for simulating aspects of an experience, including the sensory experience. Such tools were extensively used by HOK Sport Architecture for the design of sport stadiums. For example,

they employ software that calculates sight lines, sound reflection and crowd movement in a stadium.

- **Prototyping** – A common step of any product innovation process is prototyping, or making a representation of a design before the final artefacts exist. Prototyping is often done to test various aspects of a design, communicate ideas or features and collect early user feedback. Given the intangible nature of services, prototyping is more difficult (Vermeulen and Van der Aa, 2003). This is even more true for prototyping experiences, as they are not only intangible but also inherently unique and personal. Still, **prototyping was an integral part of IDEO's design process. Prototypes are developed from quite early stages in the design process. Early-on they are used to try things out ('build to think'), in the same way as in a theatre play actors might try something out on stage to see whether and how it works. At later stages they are used to communicate ideas to an audience. Particularly for designing experiences, it is important prototypes have physical aspects, to get as close as possible to experiencing the actual experience.** Looking at digital 3D demonstrations or witnessing somebody else's experience will not give the full sensory experience end-users will have (Buchenau and Fulton Suri, 2000). **A useful technique in experience prototyping is IDEO's method 'bodystorming': setting up a scenario and acting out roles, with or without props, focusing on the intuitive responses prompted by the physical environment.**
- **Experimentation** – Experimentation involves trying something on a small scale before launching it in full. This is perhaps easier to achieve for services than for products, as the relatively large intangible component means services can be tested without the need for large capital investments. Several respondents reported that their company had a culture of trying things out: new ideas are put into practice for a limited period of time and carefully monitored. Based on the test results, the innovation is continued, terminated or adapted. At Walt Disney World, for example, small experiments are set up in the parks, accompanied by a sign 'work in progress', and guests are asked for feedback. The Head of Development explained that guests and consumers in general are tolerant of tests, and actually enjoy it, because it shows that companies are innovating and care about customer feedback.
- **Knowledge transfer** – Operating at multiple sites or conducting similar projects brings about the opportunity to learn from across the organisation. For example, HOK Sport Architecture could rely on an impressive range of stadiums to observe what works and what does not and lessons are carried on from one project to the next. Royal Caribbean currently operates a fleet of 21 ships and often innovations on one ship or the introduction of a new ship is informed by the experience at the other ships. For example, entertainment schedules are developed from existing ones and then adjusted for the ship under consideration. With other resorts in California, Paris, Tokyo and Hong Kong, Walt Disney World in Florida can build on the creativity and operational expertise of a worldwide network.

ORGANISING FOR INNOVATION AND DESIGN

In most product-based organisations, the majority of innovation and design activities are allocated to specific organisational roles, such as R&D or product development departments. For the experiential service providers in this study, this generally was not the case. Whilst there was considerable variation in the ways in which the experiential service providers allocated tasks and responsibilities related to innovation, a number of underlying patterns can be identified. They include a different structure for designing tangible and intangible elements, the widespread use of cross-functional teams and a broad base for creativity. Similar reasoning was found in the way in which design agencies and consultancies collaborate with their clients in service design projects.

Tangible versus intangible design

In general, services and experiences are made up of tangible and intangible elements. The experiential service providers in this study often had dedicated design and product development departments for the tangible elements in the service or customer experience, but not for the intangible elements. The tangible elements include the products that are required for or support the service being delivered, such as the motorcycles of Harley-Davidson, the food at Le Pain Quotidien and the cruise ships of Royal Caribbean. Most companies had dedicated design departments, who worked with external consultants, designers and architects who specialise in a particular area. For the intangible elements, however, the companies generally did not have dedicated design departments. Intangible aspects include the service provided by employees, the interaction with other customers and the service delivery process. Design and innovation of intangible aspects principally resided in the operational departments, resembling what Gorb and Dumas (1987) call 'silent design': design that is carried out by individuals who are not called designers and would not consider themselves to be designers. Several companies made a point of avoiding distinct design departments for the intangible parts of a customer experience. They argued that such departments might lose touch with reality and do not have the same understanding of customers' needs and wishes as the people who are actually involved with delivering the service. Therefore, design and innovation were part of each functional area.

The design agencies and consultancies in this study also emphasised the importance of including operational people in design teams. They often collaborated closely with their clients in order to develop appropriate solutions. They argued that the client knows the business better than the agency does. Furthermore, a high degree of client involvement increases buy-in and makes successful implementation more likely. Several firms mentioned that they often include front line employees in their projects, because of their detailed insight in the current customer experience and the opportunities for improvement. They form a great source of information and the firms emphasised the creativity that can be found inside an organisation, particularly with the people involved in daily

operations. At the same time, working with front line employees helps the agencies and consultancies create more essential buy-in.

Cross-functional teams

Experiential design projects are often cross-functional, requiring contributions from people in operations, marketing, branding, business and technology. In most experiential service providers the design and innovation process was executed by multi-disciplinary project teams. The occurrence of multidisciplinary project teams that work on innovation part-time is consistent with Vermeulen and Van der Aa (2003). As in the experiential service firms, the design and consultancy firms emphasised the importance of cross-functional involvement. Yet, as people from the different functions frequently have never worked together before, they faced the challenge of overcoming different interests, specialities and backgrounds.

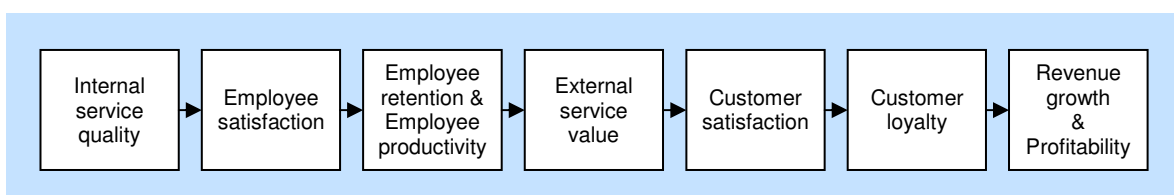
Broad base for creativity

Having dedicated design departments for tangible elements and cross-functional teams of operational people for intangible elements did not mean, however, that creative thinking was limited to these roles. Instead, the experiential service providers emphasised that creative ideas can come from anywhere and anyone in the organisation. It is by no means restricted to management levels or product development roles. Some respondents argued that having such a broad base for creativity was required to remain innovative.

MEASURING THE SUCCESS OF INNOVATIONS

Because of their intangibility and heterogeneity, the quality of services is often more difficult to establish than the quality of physical goods. This is even more true for experiential services, as customer experiences are inherently unique and personal. There are a number of established models for performance measurement in services. A widely used one is ‘the Service-Profit Chain’ developed by Heskett et al. (1994) that looks at the key drivers of performance in service organisations and their inter-relationships (see Figure 4). The model links internal and external service quality to employee satisfaction, customer satisfaction, customer loyalty and eventually profitability. Each of these links can be measured and the results suggest actions that can lead to better financial results.

Figure 4: The Service-Profit Chain



Within the Service-Profit Chain an important area is external service value: the relationship between price and service quality. Service quality is defined as the discrepancy between consumers' perceptions of service offered by a particular firm and their expectations about firms offering such services. **The SERVQUAL framework** (Parasuraman et al., 1988) is a widely accepted model of service quality. It embraces five dimensions:

1. **Tangibles** – appearance of physical facilities, equipment, personnel, and communication materials;
2. **Reliability** – ability to perform the promised service dependably and accurately;
3. **Responsiveness** – willingness to help customers and provide prompt service;
4. **Assurance** – knowledge and courtesy of employees and their ability to convey trust and confidence;
5. **Empathy** – the caring, individualised attention the firm provides its customers.

The way quality is measured in services is clearly very different from traditional manufacturing-based measures of quality.

The experiential service providers studied devoted considerable efforts to measuring the performance of existing and new services. Current performance was one of the drivers for service innovation. At Walt Disney World, for example, things end up on the agenda for two reasons: one is when something is extremely successful and needs to be advanced and taken to the next level; the other is addressing a gap between customers' expectations and the actual experience at Walt Disney World. Therefore, analysing performance data becomes a crucial activity. Most companies in this study had an ongoing process for data collection and analysis, involving large numbers of customers and continuous measurements. For example, Bluewater measures virtually everything that goes on in the shopping centre: from weekly sales and footfall (165 clusters of 4 cameras) to how many people walk past a particular promotion and the ratio between regular and diet soft drinks sold from the vending machines. They also do regular exit surveys. In this and other companies such data were part of a feedback loop where information on current performance was fed back to service providers and service designers for continuous improvement of existing services and the development of new services.

To justify investments in service innovation, the experiential service providers in this study often developed business cases, estimating the costs and benefits of the proposed innovation. One of the difficulties with making business cases for innovations in experiential services was predicting the outcome in financial terms. The companies advocated the use of multiple measures, as maximising return on investment may not necessarily mean maximising what is being delivered to the customer. The innovation could be seen as part of a holistic customer experience, having effects across different areas not easily captured by financial measures. Therefore, companies often used additional performance indicators such as

footfall, dwell time, revenue growth, customer satisfaction, customer loyalty and specific measures of the quality and outcome of the service. These performance indicators are not unique for experiential services, but selecting the right set of indicators for an innovation was considered an art.

This difficulty in predicting the financial returns could have two negative effects. On the one hand it is easy to over-invest and have a great and innovative service that loses money. On the other hand, the difficulty in predicting returns can lead to unwillingness to invest in service innovation.

SUMMARY AND SOME IMPLICATIONS FOR SERVICE INNOVATION

This section addressed the innovation process in designing and delivering experiential services. A significant commonality between the organisations in this study was the fact that many innovations were driven by customer knowledge: detailed insights into what customers want, need and what makes them tick. This implies that service innovation in experiential services is primarily customer rather than technology-driven (Hipp et al., 2003).

In several design agencies and consultancies the service innovation process was characterised by a relatively tight methodology, whilst other firms promoted flexibility in activities, frameworks and tools and techniques. This suggests that the relatively tight and rigorous methodologies typically found in product innovation are not always applicable to service innovation.

The innovation process was supported by a range of tools and techniques for service innovation. The intangible nature of services does not preclude the use of sophisticated techniques for reducing risks and improving efficiency of the innovation process.

With regard to the organisation for innovation, the research indicates that although the design of tangible elements typically resides in separate design departments, the design of intangible elements is typically addressed by cross-functional teams of operational people. Thus a great deal of innovation is undertaken by people whose affiliation or job title does not refer to innovation or design.

Measuring the success of service innovations can be difficult, leading to over- or underinvestment in innovations. The experiential service providers in this study often made business cases to justify a particular innovation and devoted a lot of efforts to measuring performance on a daily or weekly basis. They advocated the use of multiple measures to capture the breadth of a customer experience and link the innovation to financial performance. Yet, choosing the right set of performance indicators was still considered a challenge.

4 Other Observations

In addition to the process and content of service innovation, the research on experiential services identified a number of other areas relevant to service innovation: business model innovation; the role of competition as a driver of innovation and how experiential service innovations were protected from copying by competitors.

BUSINESS MODEL INNOVATION

Business models have for a number of years been at the centre of attention in innovation in IT and e-business innovation. For example in the online music arena there has been a continuous stream of innovations each trying to find new ways of capturing value from consumers. Afuah and Tucci (2003, p.4) define business models as ‘the method by which a firm builds and uses its resources to offer its customers better value than its competitors and to make money doing so’, being made up of components, linkages and their dynamics. They subsequently develop a taxonomy of business models in e-business. Chesbrough and Rosenbloom (2002) see the function of a business model as embracing the value proposition, the targeted market segments, the structure of the value chain, the cost structure, the position of the firm in the value network and competitive strategy for exploiting the business model. They also extend the application of the business model concept beyond IT to embrace a wider range of innovations. Business model innovation can be defined as the discovery of a fundamentally different business model in an existing business (Markides, 2006).

The research on experiential services revealed that in a number of cases significant business model innovation was involved. In the UK a good example of business model innovation was the development of the Travelex £10 Season at the National Theatre, see Box 4.

BOX 4: BUSINESS MODEL INNOVATION AT THE NATIONAL THEATRE

The objective of the Travelex £10 Season at the National Theatre was to extend and grow audiences by attracting many who would otherwise not come to the theatre, by selling the majority of seats at a significantly lower cost than before. However, in order to do this on a financially sound basis, it also required considerable innovation in the production of plays. Ways had to be found of producing plays that would work in a large theatre, but at significantly lower cost. Both new behaviour and buy-in was required from directors and producers. The innovative approach worked, all the key people bought into the new business model and the Travelex £10 Seasons have been both artistic, financial and audience successes with near full houses for the season.

Another UK example comes from the Xscape destinations run by X-Leisure. They are experiential service destinations combining a wide variety of activities including indoor skiing, rock climbing, cinemas and bowling; with retail, restaurants and bars. This concept, though innovative in its own right, required substantial business model innovation to become successful. The first Xscape destination was operated within a retail property business model of build and rent. The Chief Executive, PY Gerbeau, brought to this a new business model that included managing it as a destination, building synergy between the brands and activities, proactively developing a culture of experiential service in all the tenants, and aggressive marketing and branding. The impact of this included a sharp upturn in footfall (visitors), increased profitability for the tenants and the knock-on effect for the owners of higher rents. In addition this business model was seen by the city as a low risk strategy, even though the city normally considered leisure as high risk, and thus it reduced the cost of capital for future expansion.

A final example is from the US. When Amazon.com's online business model led to their immense growth, many predicted the demise of regular bookshops. However, the leading chains in the US (Barnes and Noble and Borders) reacted by rethinking their business model along experiential lines. Today, these stores have added a wide range of services such as coffee shops, comfortable chairs for sitting and welcome extended browsing and reading of books in the store. They have now become what is often known as a 'third place' where people can go, relax and possibly meet people. Customers have found this very attractive and as well as spending more time there, they spend more on books and sales and profits have risen sharply.

There is much evidence of business model innovation in the whole service sector, not just in experiential services. For example, whilst most financial service innovations do not change the business model, some do. The Open Plan banking model, combining multi-channel delivery with the ability to offset interest across accounts, developed initially by Woolwich embraced a radical change of business model. It was so effective that it was one of the main reasons for Barclays acquiring them and subsequently adopting the Open Plan model. The low-cost airline model of Southwest Airlines, subsequently adopted by Ryanair, Easyjet and others is as much a business model innovation as a service product innovation. Markides (2006) lists business model innovations in banking, insurance, airlines, brokerage, bookstores and car rental. This indicates that much of the real impact of innovation in services comes not just from the service itself, but from exploiting new ideas to create innovation in the business model.

COMPETITION AS A DRIVER OF SERVICE INNOVATION

Competition between firms is a common driver for innovation as firms try to stay ahead of or keep up with their competitors. For most experiential service providers in this study providing experiential services was a way to distinguish themselves from competitors and increase market share.

Most companies monitored their direct competitors' actions and performance, often using benchmark studies. The companies commented that they welcomed competition, because it keeps them on their toes. In many industries competition leads to a continuous stream of service innovations. This is clearly illustrated by the airline industry (see Box 5).

BOX 5: INNOVATION IN LONG-DISTANCE AIR TRAVEL

Business travel on transatlantic flights is one of the most competitive of markets. This has led to a continuous stream of innovation in all parts of the service journey and in business models, the main protagonists being BA and Virgin Atlantic. The stream of major innovations started with BA's introduction of flat-bed seats in 1996, but then led on to innovations including a new intermediate class (Premium Economy and World Traveller Plus), meals served before take-off to allow passengers to sleep the whole way, better departure lounges, arrival lounges and services, limousine or bike pick up and delivery, and in-flight services such as massage. More recently, innovation has come from new entrants, Eos Airlines and MAXjet, who offer luxury-only transatlantic travel with more room and further innovations such as suites for on-board business meetings.

In addition to direct competition, the companies typically took a broader perspective on what is competition. For example, for leisure and entertainment services, companies saw themselves competing for customers' time and thus competing with a wide range of service providers.

PROTECTING INNOVATIONS FROM COPYING

In order to capture the benefits of an innovation, companies can try to protect it from copying by competitors using, for example, patents or secrecy. Service innovations are generally thought to be easy to imitate (Vermeulen and Van der Aa, 2003). However, the research did not find much evidence of organisations seeking to protect the Intellectual Property associated with their innovations. Some companies claimed that whilst individual elements of the service experience can be copied, the whole service experience is not easy to replicate. Gupta and Vajic (2000) argue that copying individual elements of an experience will not recreate the same experience, because creating an experience depends on how well the different elements of an experience fit together and on how well they are adapted in continuing interactions with customers. This is not easily copied.

Several experiential service providers in this study felt their innovations were partly protected by their design and innovation culture. Most companies had a culture that was characterised by a thorough understanding of the importance of good customer experiences, a strong dedication to innovation and much support in terms of the resources that were devoted to research, design and development. This enabled them to continuously develop and renew coherent experiences that fit their particular context.

Another major element of protection is provided by the tacit knowledge of managing the service experience. For example X-Leisure incorporates indoor ski-slopes into their Xscape destinations. To do this profitably has required the development of extensive tacit knowledge of the design and running of these slopes and gives the company a competitive advantage and the potential to export this knowledge. When Woolwich developed the successful Open Plan banking model, Barclays did not try to copy this innovation. Instead, it took over Woolwich, partly to acquire the tacit knowledge that made the Open Plan banking model work.

5 Reflections on Service Innovation

Studying innovation in experiential services enables us to reflect more widely on the process of innovation in services. This leads to development of a typology and an iterative model of services innovation. In addition, the research illustrates the importance of the use of service language and addressing the heterogeneity of services.

A TYPOLOGY OF SERVICES INNOVATION

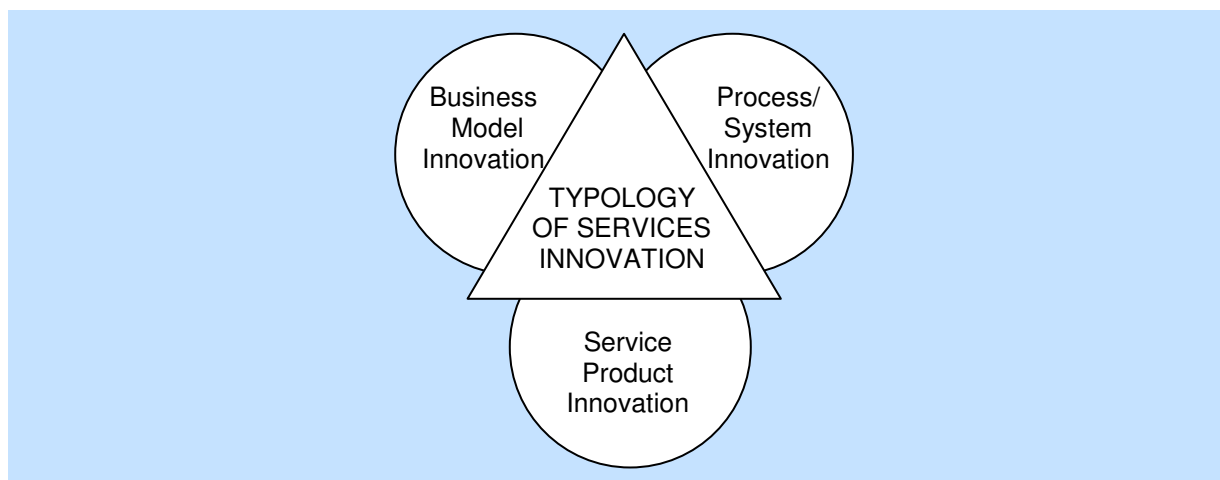
As many have pointed out, the innovation literature is dominated by product innovation models. It has also been argued that there are few differences between the basic processes for developing new products and services (Vermeulen and Van der Aa, 2003). Research in service innovation has been dominated by contexts where the innovation can be considered a product, such as financial services (Vermeulen and Van der Aa, 2003). This research on experiential services is consistent with Hipp et al. (2003), and questions the view of service innovation as being just product innovation. Although product innovation was observed, significant amount of innovation in the services studied came from major or incremental process innovation around customer journeys. Further, consistent with Chesbrough and Rosenbloom (2002) and Markides (2006), considerable services innovation was associated with business model innovation. In addition, in this area technology played a lesser role than might be expected. Some innovations were initiated by new technologies, others exploited them, but many were more complex or not technology dependent.

These observations are consistent with a recent study of services innovation in Ireland (Forfás, 2006). This presented a three-fold typology of services innovation:

- **New business models / concepts** involve a complete or substantial change in the way in which revenues and profits are earned. This is often accompanied by innovations in organisational arrangements in order to accommodate the changes in the business model.
- **New customer / delivery interfaces** involve changes in the way information is exchanged between a customer and a service provider.
- **New service-product offerings** is the most analogous to traditional manufacturing based innovation activity. It involves the introduction of new services.

The second area is consistent with the service process and service journey observed in this research, and with systems innovation (Bower, 2003) and infrastructure innovation (Nightingale, 2003). This leads to a proposed typology shown in Figure 5.

Figure 5:
A typology of services innovation



Source: adapted from Forfás (2006)

Seeing a considerable part of service innovation as process innovation provides insights into understanding the problems of studying and measuring innovation. First, process innovation primarily takes place in operational areas not in separate R&D departments. Innovation activity and expenditure is thus very difficult to measure. Second, process innovations are difficult to measure, both because they are embedded in a wider operational process and because they are frequently incremental rather than radical. Both of these characteristics are shared with manufacturing innovation.

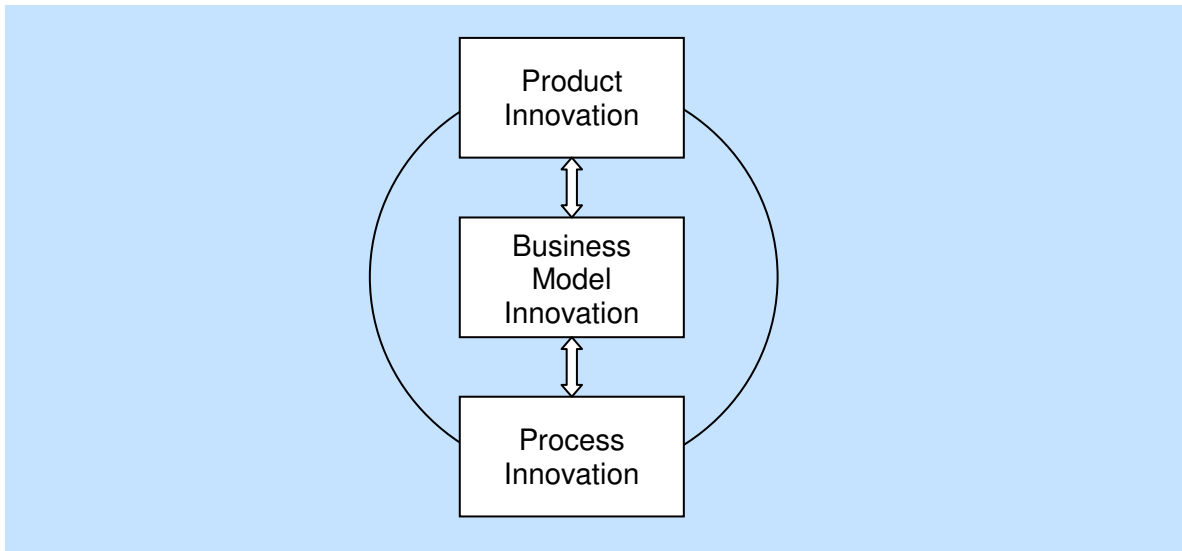
AN ITERATIVE PROCESS

In manufacturing product innovation is seen as leading process innovation. Barras (1986; 1990) observed in service innovation product innovation was preceded by process innovation, and Nightingale (2003) argued that it was enabled by infrastructural innovation. The observations in this research support this, but also indicate that there is an iterative process. For example, a new product, such as all-luxury transatlantic flights mentioned earlier, requires process innovations to enable it to be successful. In addition, the research indicated that business model innovation was an important element of service innovation, and frequently went hand in hand with product and process innovation.

This leads to a model of innovation that links product and process innovation in an iterative cycle, and links them to business model innovation. This is illustrated in Figure 6.

This model is consistent with the view on the service innovation process that was put forward by one of the design agencies in this study. Companies should step away from the traditional product-based funnel model for innovation where a large number of ideas is reduced to the last one standing and instead adopt an idea

Figure 6: An iterative model of service innovation



nurturing process, going through cycles of innovation to continuously improve the service:

'I think a good innovation is about the idea nurturing process. What one needs to do, is to go around the circle maybe several times. Even after you launched a service, you should be doing this, to evolve it. One needs to go round potentially several times, rather than 'here's an idea, do we kill it or not?' Companies that innovate well get something out there that is 'quite good', and then evolve it and make it into something really good. A mistake that many companies make is that you need to have a 'killer app' every time. You generally only get to know about wonderful service innovations after it has been evolved and sorted out.'
 (Source: Practice lead, Service Design and Innovation, IDEO)

LANGUAGE

Conducting research into innovation in experiential service innovation leads to further implications for innovation. The language of managing services is in many ways very different from the language of managing manufacturing, for example manufacturing processes are rarely described as customer journeys. Furthermore, the companies in this study often used metaphors from theatre, music or film. At Walt Disney World, for example, customers are called guests and employees are cast members. Bluewater's visitors are also referred to as guests and it is the role of the centre to host them. Whilst the language of product innovation may be similar across services and manufacturing, the language of process and business model innovation is certainly not. In addition, as Barras (1986; 1990) has indicated, uncritical use of manufacturing process-based frameworks may not be appropriate either.

HETEROGENEITY OF SERVICES

This research, having studied innovation in a context different from much previous research, indicates that different contexts may lead to different types of innovation and innovation process. This reflects the heterogeneity of services, and indicates that there is a need for development of effective typologies of services to reflect this and to help understand what processes are required in what context.

IMPLICATIONS FOR POLICY

Despite the heterogeneity of services, there are some generic lessons that can be learnt from innovation in experiential services. The findings of this research are consistent with many of the general models proposed by Bessant and Davies (2007), in particular the reverse product life cycle and customisation. In addition, as pointed out by Markides (2006), business model innovation is at the heart of disruptive innovation in organisations. Other service sectors, including the public service sector, can learn from the techniques used by the organisations in this study, such as the service journey and touchpoint models and empathic customer research.

The three modes of innovation described above (product innovation, process innovation and business model innovation) are not sector specific, but may occur in any context. Whilst much innovation in services is about product, service innovation can best be understood through a process innovation and business model innovation lens. Doing this helps to understand the problems in measurement of innovation, both of inputs and outputs, and will recognise and advance the innovations in services currently taking place.

Although the successful organisations in this study did not indicate that they required government support, for others it could be important. The implications from this research are that such support should recognise that service innovation includes process innovation as well as product innovation. Although existing manufacturing-based models are important, care should be taken to use the language of service in any support process. Such support should also recognise existing good practices in service process design. Finally support should also be about helping organisations exploit their service innovations through creating innovative and profitable business models.

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Appendix 1: Details of Research Studies

This report is based on a continuing programme for research in the field of experiential services at London Business School. It draws from the following studies:

Study I	Trends in the Experience and Service Economy	2004
Study II	Experience and the Brand	2005
Study III	New Strategies in Experience and Leisure	2005
Study IV	Designing for Experience	2006

Study I set out to examine trends in the service economy involving the creation of experiences and to identify factors associated with business success in this area. The research involved interviews with executives from a range of organisations that are delivering experiences, added upon by field data and internal and external documents. The sample contained 50 organisations in the areas of retail, entertainment and sport, theme parks, destinations and hotels, largely from the UK, Europe and US.

Study II was a field study of over 20 organisations, all of which were applying experience management to support existing businesses, build new ones and create innovative ways of connecting with customers. The focus was on the relationship between experience and brands.

Study III focused on innovators and innovations in the experience and leisure industry. Field research was conducted in a wide range of organisations, primarily in the UK and US. The data collection methods entailed interviews with managers from over 50 organisations, site visits to many of their operations and studying public documents to try to understand the strategies and outcomes of these organisations.

Study IV addressed the question how focusing on the customer experience changes the way services and service delivery processes are designed. It looked at the process and content of experience design. The study involved eight case studies of design agencies and consultancies that specialise in experience design and nine case studies of experiential service providers. They are displayed in Table A1. The main method of data collection was interviews with founders, executives or experienced designers. In total, 40 interviews were conducted. They were aimed at identifying the design processes, principles and practices for experiential services. In addition, at the design and consultancy firms examples of actual design projects were studied. The interviews at the experiential service providers frequently involved a site visit to observe and experience the customer experience on offer.

Table A1: Participants in Study IV: Designing for Experience

Design Agencies And Consultancies	Experiential Service Providers
Brand Experience Consultancy	Bluewater
Beyond Philosophy	Harley-Davidson
Gorgeous Group	Herman Miller
HOK Sport Architecture	Le Pain Quotidien
IDEO (Service Practice)	Luminar Leisure (Lava & Ignite / Liquid)
Imagination	Royal Caribbean
MindFolio	Virgin Atlantic
Prophet	Walt Disney World
	X-Leisure (Xscape destinations)

More information about these and other research projects can be found at <http://www.london.edu/otm/>.