

Chapter 19

Innovation in Experiential Services: Trends and Challenges

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ABSTRACT

Experiential services are growing within the service economy. In these companies, the focus is on the experience of the customer, rather than just the functional benefits delivered. These types of services are often designed from the perspective of the customer's journey rather than as a single transaction; the services are seen as a journey that spans a longer period and consists of multiple components and multiple touch points. Therefore, these types of services have specific characteristics with implications in strategic decisions and innovation management. It is relevant to question how the usual innovation concepts, typologies and models apply to these industries, and because most of these industries usually operate worldwide, innovation management must consider this. The purpose of this chapter is to analyze innovation in experiential services with a focus in internationalized companies, as this poses challenges such as the dichotomy between standardization and local adaptation of services.

INTRODUCTION

Globalization has affected the world economy in several ways. It led to integration, openness and interdependence between countries in the world economy, with increased movement of people, goods, services and capital across borders. This has been facilitated by technology, as well as by

important political changes. Services have not escaped globalization, being one of the largest contributors to economic growth and employment in most countries. For instance, in the most developed OECD countries, services account for about two thirds of the value added, a ratio that is still growing, contrary to what happens to the manufacturing sector (de Jong et al., 2003).

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Furthermore, services are essential for the functioning of economies and for improving the quality of life of populations (Fitzsimmons & Fitzsimmons, 2006), and innovation can be a critical way to achieve this. OECD (2005) defines innovation as the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organizational method in business. “Innovation is the (...) act that endows resources with a new capacity to create wealth (Drucker, 2007, p. 27).” Specifically in the case of services, innovation has a potential to address severe problems related to economic crises, environment, population aging, climate change, and so on. Innovation has also led to significant improvements in the way businesses operate. In the past, many organizations could survive with very limited amounts of innovation. They focused on providing quality products, and simply updated them to a level that maintained their competitiveness in the market. This is not suitable anymore in most industries. Nowadays, innovation is one of the primary ways to differentiate a company’s products or services from those of the competition. If the company cannot compete on price, it will need innovative products, services and ideas to stand out. In a differentiation strategy - one of Porter’s competitive strategies - a firm seeks to be unique in its industry and chooses one or more attributes that buyers perceive as important, and uniquely positions its products to satisfy those needs (Porter, 1985).

Customer expectations drive the amount of innovation in a market. They are used to continually improved products, and are usually very well informed and have many options in terms of what they buy and from whom they buy it. Innovation can also be driven by the amount of innovation of competitors. Being first to market can provide a significant advantage, but copying and adapting the innovations of others might also lead to success. Moreover, due to factors such as globalization, there is an increased push towards improved efficiency and effectiveness, as well.

Companies need more than good products to survive; they require innovative processes and management that can lead to lower costs and higher productivity. Research has shown that innovation activities have a positive impact on growth and productivity (e.g., Cainelli, Evangelista, & Savona, 2006) and that innovative firms are more profitable than other firms (e.g., Tidd, Bessant, & Pavitt, 2005). This is also true for various service industries (e.g., Vahter & Masso, 2011), namely the hospitality industry (e.g., Hertog, Gallouj, & Segers, 2012), one of the most relevant experiential services industry.

Until recently, the academic study of services innovation was an area of neglect (Miles, 2000). However, this has been changing since 2006 when EU Competitiveness Council identified services and non-technological innovation as a strategic priority. However, this does not come without challenges for researchers. On the one hand, innovations in services are often product, process, organizational and market innovation in one and they are often small improvements (Boden & Miles, 2000; Voss et al., 1992). Similarly, Gallouj (2002) argues that innovations in services are rarely radical or large-scale but are mostly small improvements of products and procedures. On the other hand, service innovations have increasingly become technological, particularly in knowledge services where the service can be delivered as a self-service via internet, mobile telephones, tablets, and so on.

MANAGING EXPERIENTIAL SERVICES

Definition and Typologies of Services

According to Kotler and Keller (2012), a service is any act or performance one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its produc-

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