

## **INCREASING CUSTOMER VALUE BY SERVICE INNOVATION – TOWARDS A CONCEPTUAL FRAMEWORK**

Arja Kuusisto, Lappeenranta University of Technology, SC-Research,  
P.O. Box 44 FI-62101 Lapua, Finland, arja.kuusisto@lut.fi  
Mikko Riepula, Lappeenranta University of Technology, SC-Research,  
P.O. Box 44 FI-62101 Lapua, Finland, mikko.riepula@aalto.fi

### Author Biographies

Arja Kuusisto is senior researcher at SC-Research, a research institute specialising in service innovation studies at Lappeenranta University of Technology, Finland. Currently, she is working on research projects on customer and user driven service development. She holds a PhD at the Helsinki School of Finland, in the field of marketing communications.

Mikko Riepula is researcher at Lappeenranta University of Technology, SC-Research, in Finland. His interests include innovation in software business and client-driven development. Riepula has an MSc in Information Technology and Computer Science from Helsinki University of Technology and will soon be defending his doctoral thesis at Aalto University School of Economics.

## ABSTRACT

**Purpose** – This analytical study aims to improve businesses’ capability of developing new successful services. We develop a framework that helps the service innovator look into different ways of increasing customer value, i.e. to help identify new service innovation possibilities.

**Methodology/approach** – Value of any service is ultimately created, realised and determined by the customer in the service use situation (value-in-use) (Grönroos, 2000; Vargo and Lusch, 2004). This study aims to make explicit how different ways of conceptualising customer value creation link to types of service innovations and innovation activities. The framework is based on analytic reading of research literature. The suggested linkages will be illustrated with empirical cases of actual service innovation processes.

**Findings** – We first identify different perspectives into customer value creation in the service research literature. These are: 1. *Process perspective*: the customer’s service use is seen through its contacts to the service provider’s service provisioning process. 2. *Interaction perspective*: the customer’s service use is viewed as mutual co-creation of value with the service provider. 3. *Service function -perspective*: the interest is in how the customer applies the service with respect to its own processes. 4. *Customer goals -perspective*: the focus is on the customer’s activities and experiences, in which service use becomes embedded. Second, we link these four perspectives to different types of service innovations (Hertog et al., 2010) and innovation processes: For instance, the Process perspective should help locate innovation potential in the internal service delivery system and customer interface; whereas the Customer goals – perspective should prove fruitful in suggesting innovations that are based on an innovative set of business partners.

**Research implications** – The paper is exploratory. It introduces a framework that helps to make concrete implications of the value-in-use concept for the service innovator. The framework integrates existing knowledge and advances systematic thinking in the field.

**Practical implications** – The framework offers practitioners with alternative strategies for thinking about service innovation. It can be an eye opener to service innovators by suggesting new ways to increase customer value.

**Originality/value** – The main contribution of this paper is that it directly links a service innovation perspective to the research and discussion on customer value creation.

**Key words** Customer value, service value, service innovation, conceptual framework

**Paper type** – Conceptual paper

# **INCREASING CUSTOMER VALUE BY SERVICE INNOVATION – TOWARDS A CONCEPTUAL FRAMEWORK**

## **1. INTRODUCTION**

This study aims to improve businesses' capability of developing new successful services. We develop a framework that helps the service innovator look into different ways of increasing customer value, and in so doing, helps identify new service innovation possibilities.

The key concept of the study is customer value: Value of any service is created, realised and determined by the customer in the service use situation (the now widely shared value-in-use concept) (Grönroos, 2000; Vargo and Lusch, 2004). We explicitly link different customer value perspectives to different types of service innovations and innovation activities. *Different perspectives into customer value creation can bring into light different ideas about what might be innovated and what type of role customers or users could have in the process.*

First, we identify the main approaches to customer value creation in the existing service management and service innovation research literatures. These are: 1. *Process perspective*: the customer's service use is seen through its contacts to the service provider's service provisioning process (e.g., Shostack, 1984). 2. *Interaction perspective*: the customer's service use is viewed as mutual co-creation of value with the service provider (e.g., Grönroos, 2008; Michel et al., 2008; Prahalad and Ramaswamy, 2002). 3. *Service function perspective*: the interest is in how the customer applies the service with respect to its own processes (e.g., Ulwick, 2002; Christensen and Raynor, 2003; Wynstra et al., 2006). 4. *Customer goals perspective*: the focus is on the customer's activities and experiences, in which service use becomes embedded (e.g., Heinonen et al., 2010). The four main approaches are alternative but not all incompatible.

Second, we suggest links from these perspectives to den Hertog et al.'s (2010) six types of service innovations and service innovation activities focusing, in particular, on customer and user roles in service innovation. The key argument is that certain ways of thinking about customer value creation favour service innovation in certain dimensions and certain ways of co-operating with customers. This phase of the study it is exploratory. We provide a few examples of actual innovation processes to illustrate the suggested links.

The purpose of this conceptual paper is to help the service provider raise new questions about the ways it can enhance customer value. Examining critically one's assumptions on how value is created for and by the customer in the service use situation encourages the service innovator to think about a broader range of potential service innovations.

## **2. KEY CONCEPTS**

### **2.1 Customer value creation**

Definitions of *customer value* in marketing literature have traditionally taken a producer's perspective. The value-added concept implies that value is contained in a product or service—it is something a producer or a service provider creates, owns, and offers for sale (Woodruff and Flint, 2006, 184-5). From the customer's point of view, however, the customer's own experiences and perceptions are more important than the producer's intentions. The now widely used value-in-use concept advanced by Vargo and Lusch (2004) (see also, Gummesson, 1998; Grönroos, 2000) focuses on the experience perceived by a customer interacting with products or services in use situations. As Vargo and Lusch (2006, 44) argue, "The customer is always a co-creator of value. There is no value until an offering is used – experience and perception are essential to value determination."

Morris Holbrook (1996, 2006) defines customer value as an *interactive relativistic preference experience*. Value is created collaboratively in interactions between the service provider and the customer as the customer *interacts* with the service provider's people, systems, information, etc. (Grönroos, 2008). Value is *relativistic* as it depends on the person, situation and other objects. The *experience* aspect of value refers to the meaning the customer attaches to service interactions and their outcomes (see Richins, 1994; in Woodruff and Flint, 2006). The *preference* dimension refers to the evaluation of value in comparison to some alternatives. All these aspects of value have important implications to marketing practice and have been analysed elsewhere.

Our key interest lies in *how* value is created by service innovation. Grönroos (2000, 2008), in line with the value-in-use perspective, characterizes value creation by the three theses below:

1. The customer is always the value creator. Value for the customers is created or emerges in the customers' processes during usage of goods and services. (Grönroos, 2008, 283) (Vargo and Lusch, 2004).
2. The service provider company is fundamentally a value facilitator. The service provider can provide a variety of 'input resources' for customers, who then make use of these inputs in their own value generating processes (Grönroos, 2008, 283).
3. However, interaction between the customer and the service provider (during which the parties have opportunities to influence each other's resources and processes) provides also genuine opportunities for co-creation of value between the customer and the service provider (Grönroos, 2008, 283).

The above characterization of value creation offers a stimulating basis for analysing how value can be enhanced by service innovation.

## **2.2 Service innovation**

The other key concept in the present analysis is 'service innovation'. Service innovations have often been contrasted to product/technological innovations, and aspects such as their multi-dimensionality, customer interactivity, and the informal, distributed nature of service innovation activities have been emphasized (Sundbo and Gallouj, 2000; Hertog, 2002; Jong et al., 2003). Increasingly, researchers argue that all product – service (innovation) dichotomies are artificial ones. All innovation is about finding new ways of solving or co-solving customer problems in ways that enhance value as defined and used by the customers (see, Vargo and Lusch, 2004; Michel et al., 2008).

In the present study, we have chosen to focus on ‘service innovations’. Rather pragmatically, by service innovation, we wish to emphasise two points: First, the fact that service innovations are multi-dimensional. They can be, and often are enabled by technologies (ICT in particular), but technology development and applications as such are not enough. They are also tightly linked to the concept of customer value: service innovation defines a new way of creating value for and mostly with customers (den Hertog, 2010).

Hence, the first criterion for service innovation is that it results in a *positive change* in service *value* for the customer. Naturally, the service provider also needs to expect new value, at least in the long run, in order for the innovation to become introduced on the market. The second criterion is *novelty* of some kind. Den Hertog (2010, 19) defines service innovation as “a new service experience or service solution in one or several of the following dimensions: new service concept, new customer interaction, new value system/business partners, new revenue model, new organizational or technological service delivery system.”

In a particular service innovation one of the above-mentioned dimensions may be dominant. Quite likely, this will prompt a set of changes in other dimensions in order to bring about a successful innovation (Hertog, 2010, 46). Service innovations are mostly combinations or renewals in two or more of the dimensions discerned.

Each of these six dimensions is summarised below (Hertog et al., 2010, 494-496).

1. *New service concept* is the most obvious dimension: “a new idea or concept of how to organise a solution to a problem.” Examples include telecom providers offering integrated bundles of their services and monobrand stores as a new style of shopping outlets.

2. *New customer interaction* refers to new roles customers play in the creation of value. Service innovations are quite often about new ways of interacting with clients. Also, new type of division of labour between the service provider and the customer is the core element of many new services.

3. *New value system*, or set of new business partners, can give rise to jointly produced service innovations. Value networks deliver customer value by multiple providers each delivering their specialised service component.

4. *New revenue models* are in many cases a requirement for an innovation to succeed. Especially innovations in the above third dimension require novel ways of sharing costs and distributing revenues. But new revenue models can also constitute innovations in their own right, changing what the client pays for (e.g., charging for end result rather than ‘billable hours’).

5. *New (human) delivery system* refers to new ways in which personnel is organised, motivated, and rewarded, including the wider corporate culture. Making the organisation easily scale up and down with the service sales can be such a novel aspect in this dimension. Innovation in this dimension easily occurs in combination

with the third dimension when organising reaches outside the provider organisation's boundaries.

6. *New service delivery system* refers to how the technological element, ICT in particular but not only it, has enabled numerous service innovations. Recent examples range from Google and Skype to do-it-yourself DNA testing.

### **3. DIFFERENT PERSPECTIVES INTO CUSTOMER VALUE CREATION**

We identify four main approaches, or perspectives into the customer's value creation in service management and service innovation literatures. They are:

1) *Process* perspective, 2) *Interaction* perspective, 3) *Service function* perspective, and 4) *Customer goals* perspective.

The perspectives are related to each other, and they overlap to an extent. Simply, they are different angles into the same phenomenon: how customer value is seen to be created in service use.

After presenting the perspectives, we draw links from each into: *the nature of the service innovation process* (reflecting the incremental-radical innovation dimension, and, customers' or users' role in innovation) (e.g., Kuusisto and Kuusisto, 2010); *the types of service innovations* (based on the six service innovation dimensions suggested by den Hertog et al., 2010); and, *the types of competitive positioning the perspective may optimally fit*. These tentative linkages are summarized in Table 1.

#### **3. 1 Process perspective**

The service process can be seen either more from the service provider point of view (as a service provisioning process) or from the customer point of view (as a service usage process). In literature the interest often is in the correspondence between the service provider's and the customer's processes (e.g., Grönroos, 2008, 272).

The process perspective tends to reflect more the service provider's service system and service provisioning than the customer's value creation. Here, we define the process perspective as one in which *the customer's service use is seen through its contacts to the service provider's service provisioning process*.

The service blueprinting method by Lynn Shostack (1984, 1992) is an example of the process perspective. A service blueprint is a diagram of the service process, which offers a means to visualise how the service provider's actions, processes, and systems are connected and support the customer's actions (service use). The customers' actions are basically seen from the point of view of the service provider, how they connect to the provider organisation's activities and systems. This aspect does not make it an ineffective tool for service design and development: the core strength of the technique is in visualising—and in so doing, helping to communicate—the many interconnected actions, elements and systems that need to work together to provide a successful service (Bitner et al., 2008, 88).

In the process perspective the customers are involved in the service process to varying degrees in ‘contact points’, but the service (process) is not seen as being actively reshaped by customers in service use. Customers can also actively participate in new service development activities: they are typically invited by the service provider to perform pre-defined tasks such as provide knowledge and ideas, or evaluate and test alternatives. Overall, *the process view is likely to lead to incremental development*, as it basically builds on improving and extending the existing service process and service options.

In terms of den Hertog’s (Hertog et al., 2010) service innovation dimensions, the process perspective encourages to innovate, first of all, the *internal service delivery system* (such as new organisation of workflows, multiskilling of employees, benefiting from ICT). In order to become service innovations, improvements in the service delivery system need to result in positive changes in customer value: for instance, multiskilling of employees can lead to shorter waiting times and improved service experience. Second, the process perspective directs attention to *new customer interaction* (for instance, introduction of new self-service options or building a more personal service).

The process view may provide a beneficial framework for the enhancement of customer value in situations in which standardization of service options and efficient co-ordination of sub-processes and actions is important for customer value. Interestingly, innovation behaviour of service firms is not defined by the type of service sector; and possibly, not even by the type of service activity (Tether, 2003). As Tether (2003) argues, there is apparently not one optimal way of innovating in a particular service sector, but different approaches reflect different strategies of competing firms.

A good example is the competition that low-cost airlines (such as Ryanair) have brought to the airline market. At least in part, their competitive positioning (the ‘no frills, no extra costs’ promise) rests on a careful analysis of the service provisioning process (increasing the efficiency and co-ordination of various sub-processes) and standardization of all customer options in ‘contact points’. Clearly, a process-oriented view on customer value creation.

A case example of the Process perspective is presented in Box 1. The case examples that are here used to illustrate the different customer value perspectives (Boxes 1 to 3) are based on actual service innovation processes. The data was collected by the authors of the present paper in another research project, which specifically focused on customers’ roles in service innovation (Kuusisto and Riepula, 2009).

Box 1.

***The Process perspective in action.***

*Case company:* Division of an international security services group.

*Innovation:* The service is guarding in retail stores. The innovation is a web-based reporting system that makes it possible for the customers (retail store managers) to access almost real time data on the service process provided by the guards.

*Key innovation dimensions:*

*New customer interaction* - Real time interaction with the service process through a web-application, resulting in more accessible and better quality data for customers.

*New service delivery system* – Makes the service process more efficient, e.g, by helping in optimal allocation of guards to store locations.

*Incremental innovation*, a new service feature.

*How the innovation was initiated and created:* Key driver was the need to add value to the customer, in order to get rid of competition based on the lowest price in the market. The management looked into their service delivery process and discussed with key customers how the existing service process could be improved. The initial idea of a web-reporting system came from a customer in feedback discussions.

*Customer roles in the innovation process:* Customers performed specific tasks in the development process. In particular, customers stated the need for better availability of data on the service process and explicitly made a wish for e-reporting in feedback discussions; customer interviews were conducted to collect data on customer reactions to the first concept; customers were not directly involved in the internal development team, however, the team had intensive customer contact throughout the process; the new application was piloted with two customers.

### **3.2 Interaction perspective**

In the interaction perspective *the customer is one of an active contributor of value in the service process, who brings his/its own capabilities and resources into the interactions over time* (Grönroos, 2000, 2008; Vargo and Lusch, 2004; Prahalad and Ramaswamy, 2002; Michel et al., 2008).

Value is co-created when the service provider and the customer integrate their resources (Vargo and Lusch, 2004). Through resource integration the parties have opportunities to influence one another's processes, and hence, to genuinely co-create new value (Grönroos, 2008, 276). A typical example of such a co-creation process is problem solving in professional services (e.g., Aarikka-Stenroos et al., 2009). Solutions are not complete without active customer participation in their creation. It is often thought that the professional service provider has a superior role in the service process, as it has more knowledge and skills than the customer. However, the customers' inputs to the service process are of many types (systems and facilities; industry expertise; knowledge of needs; labour). Moreover, empirical evidence on lead user generated innovations across industries demonstrates that customers can also



be better experts in problem solving than existing service providers in the market (von Hippel, 2005).

The interaction perspective is dynamic: The parties' resources and circumstances develop, and the customers and the service providers influence one another's resources through interactions. Thus, it is pertinent to look into value that is created over time in these interactions (e.g., Payne et al., 2008).

Through the interaction perspective, the customer's roles not only in the service process itself but also in innovating the service become more evident, especially in the case of professional services in which the core service is co-created in (learning) interactions between the customer and the service provider. In professional services it is also typical that innovation activities become intertwined with the actual service process (Sundbo and Gallouj, 2000). However, the interaction perspective is not restricted to any particular type of service sector. The focus on resource integration helps generate fresh insights into new possibilities in terms of new combinations of resources and optimal division of labour between the customer and the service provider (and other co-operating parties) (e.g., Jaworski and Kohli, 2006; Michel et al., 2008). The focus on customer's resources also increases the service provider's sensitivity to important changes in the customer's resources and capabilities.

We suggest that the interaction perspective is fruitful in stimulating both incremental service improvements as well as more radical innovations along the following service innovation dimensions (den Hertog et al., 2010): new customer interaction (e.g., changes in the service provider's and the customer's integrating roles); new service delivery system; new value system (set of business partners); as well as new revenue models (e.g., pricing based on results over time).

The interaction perspective should provide a fertile ground for the enhancement of customer value when active participation and specific knowledge from all parties are needed for the creation of a successful service solution. Also, it is appropriate when a high degree of customization is important for customer value, or when changes in the division of labour between the customers and the service providers are likely (enabled, for instance, by many Internet applications). For example, as Prahalad and Ramaswamy noted already in 2002, the music industry has probably lost many opportunities to co-create new value with customers as it has rather tried to inhibit what people do want to do (to access and organize music in new ways with available technology), instead of actively co-creating new division of labour (and new revenue models) with customers. Evidently, when customers are willing and able to adopt new roles in accessing music, shutting out customers of the value creation process has not been the answer to secure profitable business.

Table 1. Four perspectives into customer value creation and their tentative links to service innovation.

	<b>Process perspective</b>	<b>Interaction perspective</b>	<b>Service function perspective</b>	<b>Customer goals perspective</b>
How service process / service use is viewed:	The service provider is 'in control' of the service process.	The service process is integration of the provider's and customer's resources.	The customer is 'in control' of the service use – how it applies the service in its own processes.	The service becomes embedded in the customer's practices and experiences.
Customer roles in innovation:	Customers can perform specific tasks in service development organized by the service provider.	In the service process, innovations can be co-produced.  Customers' new resources stimulate innovations.  Lead users have unique resources and can innovate 'on their own'.	Customers are to be understood in their own context.  Customers are key informants in service innovation, rather than genuine co-innovators.	Customers are to be understood within their own activities and experiences.  Customers are 'subjects' in innovation: - They define meaning of service and impact the direction of action; - Lead users can innovate on their own.
Incremental – radical innovation dimension:	Encourages incremental service development.	Encourages both incremental and radical innovation.	Encourages both incremental and radical innovation.	Encourages both incremental and radical innovation.
Directs attention to service innovation dimensions:	- New service delivery system. - New customer interaction.	- New customer interaction. - New value systems (set of business partners). - New revenue models.	- New service concepts. - New service delivery system.	- New service concepts. - New customer interaction. - New value systems (set of business partners).
Types of situations (competitive positioning) the perspective may optimally support:	Standardization of service is important for customer value.  Internal efficiency and control of the service process are key objectives.	Specialist knowledge and active effort from both parties is needed.  Customization is important for customer value.  Customers' have access to important / new resources.	Customer jobs are not adequately understood in the market.  Customers' resources or situations are changing in important ways.	Service providers looking for new business opportunities by reframing their role in the customer's business or life. Often in networks with other companies or actors.

### 3.3 Service function perspective

In the service function perspective, the focus of attention shifts from the customer-provider interaction towards *the customer using the service in his/its own value generating processes*. Looking specifically into what customers are doing with the service, suggests a more customer centred view on service use (Heinonen et al., 2010, 533).

The service function perspective that focuses on *what the customer or user does with the service, what for, or why*. North American scholars Christensen and his co-workers (Christensen and Raynor, 2003; Christensen et al., 2005) and Ulwick and his colleagues (Ulwick, 2002; Bettencourt and Ulwick, 2008) have developed innovation frameworks that are founded on the premise that successful innovation starts with a close understanding of what customers are trying to get done when they use a particular service or product. Hence, customer value creation in service use is tightly linked to the customer's 'job-to be done' (Christensen and Raynor, 2003), and the provider's aim is to reinforce the offering's intended use within the customer's activities.

Similar types of ideas have been presented in recent analysis of business services (Wynstra et al., 2006; OECD 2006, 8). Wynstra et al. (2006) classify business services based on how the customer company applies the service with respect to its own business processes. Their classification distinguishes between four basic business service applications: component services (services that are delivered to end customers without transformation), semi-manufactured services (delivered to end customers after being transformed), instrumental services (directly affecting how the customer's primary processes are carried out), and consumption services (not directly affecting how the customer's primary processes are carried out). Such a role of the service naturally impacts the user's needs and expectations, and hence, is highly consequential for the service provider aiming to support the customer in his/its task.

The service innovator's task is to build a deep understanding of the role and potential of the service in the customer's activities, and then transfer this understanding into the service development process. This perspective encourages the service developer to step into the customer's natural service usage situation. Collecting data by 'in situ' observation (e.g., as customers work at real tasks and use the service) (Holtzblatt and Beyer, 1993; Leonard and Rayport, 1997), contextual interviewing and 'job-mapping' (Ulwick, 2002; Bettencourt and Ulwick, 2008) can be used. The role of the customer or user in informing about the task may be active (e.g., service developer and the user together building a shared understanding of the user's working process) (Holtzblatt and Beyer, 1993, 94) or passive (e.g., information collected by unobtrusive observation). However, in the service function perspective, customers and users are typically seen as informants in service innovation, rather than genuine co-innovators of new solutions.

The service function perspective can be used to incrementally improve upon services. For instance, dissecting the customer's job into its discrete process steps ('job-mapping', in Bettencourt and Ulwick, 2008) can generate valuable ideas on how the job can be done in a more flexible or more efficient way. This perspective can also enable radical innovations: For instance, asking different questions about the

customer's current job or problem, that is reframing the job, can lead to breakthrough innovations: Ulwick (2002) provides an example from the medical instrument industry. In terms of den Hertog's (Hertog et al., 2010) dimensions, the service function perspective directs attention mostly to new service concepts or new service delivery systems.

The service function perspective is fruitful for innovation when the customers' jobs are not optimally supported by existing service offerings. For instance, the identification of new (or latent) customer jobs can provide major innovation potential in mature service sectors, in which the focus has traditionally been on extending existing services (e.g., in banking and insurance), and in situations in which customers' jobs are changing in important ways (e.g., resulting from customer access to new resources). In this perspective, the service provider views its role clearly as a value facilitator, providing resources for customers so that the customers can optimally perform their jobs. Thus, the perspective also fits well to service development in long-standing customer relationships. Box 2 illustrates the service function perspective with a case example.

Box 2.

***The Service function perspective in action.***

*Case company:* Small ICT-integrator in the security market.

*Innovation:* A monitoring system for elderly peoples' homes, which integrates various third-party elements in a patented, user-friendly way.

*Key innovation dimensions:*

*A new service concept* - Many elements, for instance, a new way of monitoring residents' movements with no need to fasten anything to the residents, plus customizing monitoring 'levels' to individual residents' needs.

Best characterised as '*discontinuous*' innovation.

*How the innovation was initiated and created:* This case shows that the 'service function perspective' can work from the other direction too: Instead of starting from any existing customers, the innovating entrepreneurs had developed important new ideas and means of monitoring movement. They had a solution, and they started asking questions –What jobs is this type of solution applicable? In what circumstances will it be most effective? They developed and piloted the solution in an elderly peoples home – indeed, the context was not only fitting to their new solution concept, but very much so to elderly/dementia care where the jobs of nurses and the needs of residents had not been well understood and served by existing security solutions.

*Customer roles in the innovation process:* The entrepreneurs worked intensively 'in-the-field' with their organizational customer (care home) and the end-customers (residents). The close understanding of the customers' needs and circumstances was essential in building a new type of system. Thorough understanding of the 'jobs-to-be-done' resulted in a fully integrated system that covers various security needs (monitoring, nurse call, access control, fire alarm, etc.) and has increased customer value in many ways (e.g., the nurses have more time to actual care as unnecessary 'running around' has decreased; feelings of safety have improved; the residents can move more freely). Thus, the customers were active in the provision of task-relevant information, but obviously, the solution was developed by the service provider.

### 3. 4 Customer goals perspective

Finally, the customer goals perspective extends the previous view to customer value creation beyond direct service use. The interest is in “how a company’s service is and becomes embedded in the customer’s contexts, activities, practices, and experiences” (Heinonen et al., 2010, 533). As Heinonen et al. (2010, 534) emphasise in their ‘customer dominant logic of service’, this focus “does not only comprise the producer’s service but also the customer’s other activities and life as a whole”.

The key question for service innovation is how the service provider can support customer’s value creation in new ways in the customer’s own network of interlinked activities. Participatory research approaches, and ethnography in particular, can be used to examine people’s actions, practices, experiences, and the social meanings attached to these, in their own natural setting (Hammersley and Atkinson, 1983; Korkman, 2006). Thus, the customer goals perspective calls for developing an in-depth understanding of the customer’s activities and experiences, also those that are not co-created with or necessarily even communicated to the service provider.

The role of the customer in service innovation is likely to be an active subject in the sense that customers or users are not primarily a source of information, but actively interpret the data collected, define the meaning of the service, and shape the desired direction of action with the service provider (Holtzblatt and Beyer, 2003; Lundkvist and Yakhlef, 2004).

Alternatively, user needs may be best identified (Kristensson et al., 2008) and, indeed, many functional innovations best created by users themselves as a response to the new challenges they face (von Hippel, 2005). The service innovator can invest in identifying, building upon and commercializing user developed innovations instead of aiming to first create a deep understanding of customer goals and activities, and then transferring this insight into its new service development process.

The customer goals perspective can stimulate more radical, discontinuous service innovations. The service innovator wants to identify quite new ways of supporting customers’ activities and processes. Often, building new type of support is too big a task for a single service provider and hence new value constellations, in which several new actors and resources co-create the new customer support (Michel et al., 2008), are typical. A sheer identification of customers’ practices as defined by the customers themselves can lead to improvements in several dimensions of the existing service offering: for example, Korkman (2006) shows how a cruise line can find new ways to develop their service based on deep understanding of customers’ practices onboard. We suggest that the customer goals perspective encourages thinking in terms of the following service innovation dimensions (Hertog et al., 2010): new service concepts, new customer interaction, and new value systems.

Box 3.

***The Customer goals perspective in action.***

*Case company:* A small ICT integrator offering office computer and communications services.

*Innovation:* Office computer and communications services combined into a single offering for SMEs: IP-based unified communications platform replacing traditional telephones integrated with other ICT infrastructure management. The offering allowed customers to pay for the overall service, including the technology component, on a monthly basis.

*Key innovation dimensions:*

*New customer interaction* – A single point of contact greatly simplifies ‘the job to be done’ for the customer.

*New value system* – From the customer’s point of view, the new service provider took over activities that had been formerly performed by the clients themselves (e.g., managing and contacting different vendors and service providers, integrating equipment). The service provider co-operates with many technology partners.

*A new revenue model* – Payment scheme reduced the customer’s risk and helped cash flow.

*A new service delivery system* - Advances in IP networking technologies, initially intended for only computer-to-computer communications, have made it into an affordable and much more flexible human-to-human communications bearer slowly but surely replacing traditional telephones and old networking technologies such as ISDN and PBXs.

*How the innovation was initiated and created:* Key push for the innovation came from an entrepreneurial ex-director of a large telecommunications company, who with his new colleagues had good personal contacts to another telecommunications company allowing them to strike an affordable communications product deal. But (re)selling it alone would not have addressed the customers’ deeper concerns, and therefore the team—who were experts in communications products and overqualified for mundane PC support—decided to take on the less interesting task of also supporting other ICT infrastructure.

*Customer roles in the innovation process:* Close co-operation with and a deep understanding of customers’ everyday activities was in the background when the service development (innovation) process started. To validate their approach and fine-tune their offering, the service provider planned and executed trials with a number of customers.

#### **4. SUMMARY AND IMPLICATIONS**

We have identified different customer value perspectives and linked them to types of service innovations and innovation activities. These perspectives are different angles into how customer value is created in service use. We propose that certain perspectives into customer value creation are likely to favour service innovation in certain dimensions and certain ways of co-operating with customers or users in innovation activities. These tentative links were summarized in Table 1.

As said, the suggested links are tentative. It would be possible to empirically evaluate the links across settings (e.g., service sectors). However, we consider that the core value of the here developed framework lies in it demonstrating how ‘different ways of looking’ are can direct attention to different innovation opportunities. Also, the framework integrates existing knowledge and advances systematic thinking by linking a service innovation perspective to research and discussion on customer value creation.

Two key implications for the service innovator follow. First, the innovating practitioner should be well aware of his/its way of conceptualizing customers’ service use and value creation. Second, raising the awareness and understanding of the

different perspectives can stimulate thinking of alternative innovation strategies. In particular, we propose that when a service firm has long employed a certain mental model of its customers' service use, considering another perspective can lead to new important innovations. A different mental framework (from that of competitors) can help realise a new competitive positioning. Further, looking into ways of enhancing customer value through such alternative lenses can help in reframing the key issues of customer value creation, which tends to be imperative for more radical innovations.

Overall, the framework stresses customers' and users' importance in service innovation. Customers and users can provide important contributions to service innovation processes and results (e.g., Lundkvist and Yakhlef, 2004; von Hippel, 2005; Kristensson et al., 2008; Kuusisto and Riepula, 2009), but also more critical voices have been raised (see, Ordanini and Parasuraman, 2011). We here argue that a clear customer orientation is important for successful service innovation. There are three main ways of making use of customer input in service innovation (Kuusisto and Kuusisto, 2010). One option is to directly engage customers into the service innovation project. Another is to learn from customers or users by working in the customers' or users' context as the users engage in their normal activities. The third is to identify, build upon and commercialize innovations that users have developed for themselves. To conclude, a true customer orientation entails a mental model that strives to enhance customer value. Above we have distinguished perspectives each of which can help the service innovator to accomplish this.

## References

- Aarikka-Stenroos, L., Jaakkola, E. and Nevmerzhitskaya, J. (2009), "Insights into Co-creation of Professional Service Offerings", in *Proceedings (DC-Rom) of the 2009 Naples Forum on Service: Service-Dominant Logic, Service Science, and Network Theory, 16-19 June 2009, Capri, Italy*.
- Bettencourt, L.A. and Ulwick, A.W. (2008), "The Customer-Centred Innovation Map", *Harvard Business Review*, May 2008.
- Bitner, M.J., Ostrom, A.L. and Morgan, F.N. (2008), "Service Blueprinting: A Practical Technique for Service Innovation", *California Management Review*, Vol. 50 No. 3, pp. 66-94.
- Christensen, C.M. and Raynor, M.E. (2003), *The Innovator's Solution*, Harvard Business School Press, Boston, MA.
- Christensen, C.M., Cook, S. and Hall, T. (2005), "Marketing Malpractice, The Cause and the Cure", *Harvard Business Review*, December 2005.
- Grönroos, C. (2000), *Service Management and Marketing: A Customer Relationship Approach*, John Wiley, Chichester, England.
- Grönroos, C. (2008), "Adopting a service business logic in relational business-to-business marketing: value creation, interaction and joint value co-creation", paper presented at Otago Forum 2, Academic Papers, No. 15, 8-12 December, University of Otago, Dunedin, New Zealand.
- Gummesson, E. (1998), "Implementation Requires a Relationship Marketing Paradigm", *Journal of the Academy of Marketing Science*, Vol. 26 (Summer), pp. 242-249.
- Hammersley, M. and Atkinson, P. (1983), *Ethnography: principles in practice*, Routledge, London, UK.
- Heinonen, K., Strandvik, T., Mickelsson, K-J., Edvardsson, B., Sundström, E. and Andersson, P. (2010), "A customer-dominant logic of service", *Journal of Service Management*, Vol. 21 No. 4, pp. 531-548.
- Hertog, P. den (2002), "Co-producers of Innovation: On the Role of Knowledge-intensive Business Services in Innovation", in Gadrey, J. and Gallouj, F. (Eds.), *Productivity, Innovation and Knowledge in Services. New Economic and Socio-Economic Approaches*, Edward Elgar Publishing Ltd, Cheltenham, UK, pp. 223-255.
- Hertog, P. den (2010), *Managing Service Innovation: Firm-level Dynamic Capabilities and Policy Options*, Dialogic Innovatie & Interactie, Utrecht, the Netherlands.



Hertog, P. den, van der Aa, W. and de Jong, M.W. (2010), “Capabilities for managing service innovation: towards a conceptual framework”, *Journal of Service Management*, Vol. 21 No. 4, pp. 490-514.

Holbrook, M.B. (1996), “Customer Value – A Framework For Analysis and Research”, in Corfman, K.P. and Lynch, J.G. Jr. (Eds.), *Advances in Consumer Research*, Vol. 23, Association for Consumer Research, Provo, UT, pp. 138-142.

Holbrook, M.B. (2006), “ROSEPEKICECIVECI versus CCV – The Resource-Operant, Skills-Exchanging, Performance-Experiencing, Knowledge-Informed, Competence-Enacting, Co-producer-Involved, Value-Emerging, Customer-Interactive View of Marketing versus the Concept of Customer Value: “I Can Get It for You Wholesale” ”, in Lusch, R.F. and Vargo, S.L. (Eds.), *The Service Dominant Logic of Marketing – Dialog, Debate, and Directions*, M.E. Sharpe, Armonk, NY, pp. 208-223.

Holtzblatt, K. and Beyer, H. (1993), “Making customer-centered design work for teams, *Communications of the ACM*, Vol. 36 No. 10, pp. 93-103.

Jaworski, B. and Kohli, A.K. (2006), “Co-creating the Voice of the Customer”, in Lusch, R.F. and Vargo, S.L. (Eds.), *The Service Dominant Logic of Marketing – Dialog, Debate, and Directions*, M.E. Sharpe, Armonk, NY, pp. 109-117.

Jong, J.P.J de, Bruins, A., Dolfmsa, W. and Meijaard, J. (2003), “Innovation in service firms explored: what, how and why?”, Strategic Study B200205, EIM Business & Policy Research, Zoetermeer, the Netherlands.

Korkman, O. (2006), *Customer Value Formation in Practice – A practice-theoretical approach*, Publications of the Swedish School of Economics and Business Administration, No. 155, Helsinki, Finland.

Kristensson, P., Matthing, J. and Johansson, N. (2008), “Key strategies for the successful involvement of customers in the co-creation of new technology-based services, *International Journal of Service Industry Management*, Vol. 19 No. 4, pp. 474-491.

Kuusisto, A. and Riepula, M. (2009), “Customer Interaction in Service Innovation – A Checklist for Service Innovators”, in *Supporting Service Innovation Through Knowledge Management: Practical Insights & Case Studies*, Kazi, A.S., Wolf, P. and Troxler, P. (Eds.), A book by the KnowledgeBoard Community and the Swiss Knowledge Management Forum for the Global Knowledge Community, pp. 166-184.

Kuusisto, A. and Kuusisto, J. (2010), “Customers and Users as Drivers and Resources of New Service Development: Three Approaches Towards User Needs Driven Service Innovations”, in *Proceedings of the 11<sup>th</sup> CINet Conference, Practicing innovation in times of discontinuity, 5-7 September 2010, Zürich, Switzerland*.

Leonard, D. and Rayport, J. (1997), “Spark innovation through emphatic design, *Harvard Business Review*, Vol. 75 No. 6, pp. 102-113.

- Lundkvist, A. and Yakhlef (2004), "Customer involvement in new service development: a conversational approach", *Managing Service Quality*, Vol. 14 No. 2/3, 249-257.
- Michel, S., Brown, S.W. and Gallan, A.S. (2008), "Service-Logic Innovations: How to Innovate Customers, Not Products", *California Management Review*, Vol. 50 No. 3, pp. 49-65.
- OECD (2006), *Innovation and Knowledge-Intensive Service Activities*, Kuusisto, J. and Homes, A. (Eds.), OECD Publishing, Paris.
- Ordanini, A. and Parasuraman, A. (2011), "Service Innovation Viewed Through a Service-Dominant Logic Lens: A Conceptual Framework and Empirical Analysis", *Journal of Service Research*, Vol. 14 No. 1, pp. 3-23.
- Payne, A.F., Storbacka, K. and Frow, P. (2008), "Managing the Co-Creation of Value", *Journal of the Academy of Marketing Science*, Vol. 36 No. 1, pp. 83-96.
- Prahalad, C.K. and Ramaswamy, V. (2002), "The Co-Creation Connection", *Strategy + Business*, (April), pp. 114-127.
- Shostack, G.L. (1984), "Designing Services That Deliver", *Harvard Business Review*, (January-February).
- Shostack, G.L. (1992), "Understanding services through blueprinting", *Advances in Services Marketing and Management*, Vol.1 No. 1, pp. 75-90.
- Sundbo, J. and Gallouj, F. (2000), "Innovation as a loosely coupled system in services", in Metcalfe, J.S. and Miles, I. (Eds.), *Innovation Systems in the Service Economy, Measurement and Case Study Analysis*, Kluwer Academic Publishers, Boston, MA, pp. 43-68.
- Tether, B.S. (2003), "The Sources and Aims of Innovation in Services: Variety Between and Within Sectors", *Economics of Innovation and New Technology*, Vol. 12 No. 6, pp. 481-505.
- Ulwick, A.W. (2002), "Turn Customer Input into Innovation", *Harvard Business Review*, Vol. 80 No. 1, pp. 91-97.
- Vargo, S.L. and Lusch, R.F. (2004), "Evolving to a New Dominant Logic for Marketing", *Journal of Marketing*, Vol. 68 (January), pp. 1-17.
- Vargo, S.L. and Lusch, R.F. (2006), "Service-Dominant Logic.: What It Is, What It Is Not, What It Might Be", in Lusch, R.F. and Vargo, S.L. (Eds.), *The Service Dominant Logic of Marketing – Dialog, Debate, and Directions*, M.E. Sharpe, Armonk, NY, pp. 3-28.
- von Hippel, E. (2005), *Democratizing Innovation*, MIT Press, Cambridge, MA.

Woodruff, R.B. and Flint, D.J. (2006), "Marketing's Service-Dominant Logic and Customer Value", in Lusch, R.F. and Vargo, S.L. (Eds.), *The Service Dominant Logic of Marketing – Dialog, Debate, and Directions*, M.E. Sharpe, Armonk, NY, pp.183-195.

Wynstra, F., Axelsson, B. and van der Valk, W. (2006), "An application-based classification to understand buyer-supplier interaction in business services", *International Journal of Service Industry Management*, Vol. 17 No. 5, pp. 474-496.