# Open Services Innovation

## Co-creating new services with partners and customers

'Open innovation' assumes that organisations should use external ideas as well as internal ideas to design and develop new products and services. And companies that provide services, and whose customers are very often already part of the service-creation process, are especially well-suited to reaping the benefits of the open innovation model.

# "Service industries are especially well-suited to reaping the benefits of the open innovation model."

## CLOSED VERSUS OPEN INNOVATION

In the not too distant old days, companies built their own scientific divisions in order to develop all the technologies they needed to produce their products. Innovation was a tightly guarded secret, kept closed within the boundaries of the organisation.

The times – and technologies – have been evolving at a lightning pace in recent years – to the point that the boundaries between a company and its environment have become more permeable. Today, knowledge is rapidly and widely distributed, and innovations can be easily transferred into and out from a company's boundaries.

With the pace of change and the rise of the knowledge economy, companies can no longer afford to rely solely on their own research for the elements they need to create a product. Instead, they should look outside the company and buy or license processes or inventions from other companies. Furthermore, internal inventions that a company is not using in its business should be transferred outside the company through licensing, joint ventures or spin-offs.

The new paradigm is called **open innovation**, and it assumes that organisations should use external ideas as well as internal ideas and that innovating with partners includes sharing risks as well as rewards. Service industries – whose 'products' are intangible and whose customers are very often already part of the service-creation process – are especially well-suited to reaping the benefits of the open innovation model.

## A FRAMEWORK FOR STRATEGISING OPEN INNOVATION

Through the Flanders DC Knowledge Centre at Vlerick Business School, Prof Marion Debruyne, Prof Wim Vanhaverbeke and researcher Livia Pijakova have conducted a study of companies engaged in open innovation initiatives. They have distilled their findings into a simple and powerful framework that companies of all sizes can use to define and launch their own open innovation projects.

### Open Innovation in Services



Upstream open innovation = with Partners

YOUR COMPANY

Downstream open innovation = with Customers
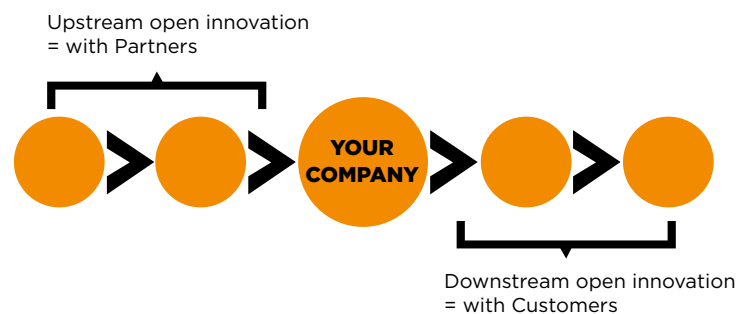
The authors point out first of all that a company can engage in open innovation anywhere along its supply chain. The authors refer to open innovation conducted upstream – with the suppliers and knowledge organisations that provide the raw materials or components that flow into the company – as open innovation with partners. When engaged in downstream – where the goods and services flow out of the company – open innovation is conducted with the company's customers.

In the open innovation model, value is no longer created by the company alone and then delivered to the customer. Rather, it is co-created, collaboratively, with one or more partners or with the customer himself. From this perspective, the market becomes a forum for conversations between customers, companies and communities. Consider, for example, a conversation between you and your bank's representative to determine the best financial product for you, or even to tailor a product to your specific needs.

## Upstream & Downstream Possibilities

|  | DESIGN | CO-PRODUCE |
|---|---|---|
| **WITH PARTNER** | | |
| **WITH CUSTOMER** | | |
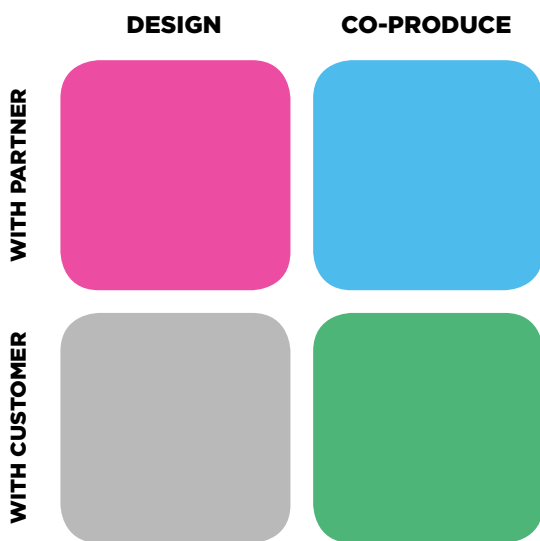
This 4-quadrant framework illustrates the upstream / downstream paradigm: innovating with partners or with customers. In addition, a distinction is made between 'designing' and 'co-producing':

> **Designing** together with a partner or customer entails envisioning and thinking through the new service to be provided;
> **Co-producing** means that the service is delivered with the active involvement of a partner or customer.

### Design with Partner

A couple of examples will illustrate the different co-creation possibilities represented in the 4-quadrant framework. Let us look first at open innovation in the Design with Partner quadrant – where companies work with (upstream) partners to design and create a new service.

A good example is a project currently being conducted by Janssen Pharmaceutica to create a way to provide holistic treatment to children with ADHD. Janssen has partnered with a psychiatric clinic (Yulius), a computer game developer (RANJ), and a patient organisation (ZITSTIL). The result is an innovative approach to behavioural therapy: a computer game (to be used as a complement to pharmacotherapy) that trains children in time management and planning.

The product is still in the pre-launch phase, but pre-clinical trials show promising efficacy in achieving the learning goals. Children with ADHD are undergoing behavioural therapy sooner and in a playful way. The initiative has also opened new doors to the gaming market for Janssen – and games geared towards other therapeutic areas may follow.

One of the most important lessons learned from this initiative so far is: trust your partners, and do not be afraid to step out of your comfort zone to innovate.

### Design with Customer

In another example – this one from the Design with Customer quadrant – Best of Travel, a small, family-owned travel agency in Roeselare, Belgium, took an innovative step out of their comfort zone and invited eight of their customers to a 2-day workshop. Best of Travel specialises in tailor-made long-distance trips, so they brainstormed with the customers in the workshop to think of new service concepts for customising the travel experience anywhere along the customer journey – that is, from thinking about taking a trip to booking with an agency. The result: 4 new, intriguing travel concepts were selected for implementation. One of them is to develop a website where travellers can create their own diary of their trip – complete with photos, of course – and share it with friends and family.

A key lesson learned: even small companies can engage in co-creation initiatives. Furthermore, as customers are your best ambassadors, do not underestimate how willing customers will be when you offer them the chance to contribute ideas for your business. And equally important: involve your employees directly in the co-creation exercise with the customers to promote buy-in of the new ideas.

## COMBINING UPSTREAM & DOWNSTREAM POSSIBILITIES: THE AIR FRANCE KLM CASE

Having trouble choosing which quadrant to work with? A company can work with all 4 if it so desires. Here are examples of how a single company – Air France KLM – has produced service innovations from each of the 4 quadrants:

**Design with Partner: KLM & EC Solution**

KLM partnered with EC Solution, a developer of innovative display-enabled smart card and baggage tag solutions, to envision the future of air travel. The result: a new application for smart baggage tags – permanent tags with an interactive display and smart frequent flyer cards with comprehensive travel information, which can also be used as travel documents. The tag significantly improves process efficiency, simplifying and speeding check-in and check-out, and decreasing investment costs for KLM's drop-off machines. Plus, it reduces the amount of disposable materials used every day.

**Design with Customer: KLM In-Touch Community**

Started in 2008 as a virtual frequent flyers club, this customer community currently counts about 550 members, from all over the world, interacting in English. KLM uses input from this community for qualitative market research and new product development. The members feel that KLM cares, so they remain loyal; while the innovation has made KLM's entire organisation more customer-centric.

**Co-produce with Partner: KLM YourAirportTransfer**

This innovation is a door-to-door airport transfer service, in which KLM's partner provides a 1-stop shop for organising the traveller's entire trip. The seamless transport from door-to-door saves the customer time and makes the whole journey more comfortable.

**Co-produce with Customer: KLM Meet&Seat**

Launched in February 2012 for certain long-distance flights, the Meet&Seat programme matches passengers through their social network profile so that they can sit together on the plane. Upon booking, passengers have the option of sharing the details of their Facebook or LinkedIn profiles, and they then get to view the profiles of the other travellers on the flight. Result: more fun and more meaningful networking en route!

## HOW TO GET STARTED

Want to launch your own design or co-produce initiative? The authors outline a 3-step process for getting started with open services innovation. Each step includes key questions companies need to ask themselves in order to identify opportunities for innovation and potential partners.

**Step 1 – Look at the customer's decision-making journey**

The customer's decision-making journey entails: searching for, and selecting, the right service; making the purchase; and the service experience. Key questions in this step include:

> Where does your customer seek value?
> Where is value being created for the customer now?
> What costs and risks do customers face in each step of the journey?
> What are the opportunities to:
  - add additional value
  - reduce costs
  - reduce risks for the customer

**Step 2 – Examine your company's value chain**

Examining your company's value chain reveals your readiness to capitalise on the opportunities for innovation.

> What are the capabilities needed to capture the opportunities in the customer journey?
> Do you possess these capabilities?
> Can customers be involved to capture the opportunities in the customer journey?
  - through peer-to-peer services
  - through do-it-yourself
  - through customisation
> Can you involve partners with the necessary capabilities to capture the opportunities in the customer journey?

**Step 3 – What ecosystem do you need to build?**

Building an ecosystem means determining who you need to involve in your service innovation initiative and how the players will need to interact.

• Can partners be involved in design and/or production of the service?
• What are the roles and responsibilities in the ecosystem you need to build?
• Which partners will enable you to co-create the value?
• How can your role in the ecosystem enable you to capture value?

**Reference**

*Open services innovation* by Marion Debruyne, Wim Vanhaverbeke & Livia Pijakova, Study by Flanders DC Knowledge Centre at Vlerick Business School, 2012, presented during session 8 of the Creativity Talks series 2011-2012, 19 June: Connect to serve: how to successfully implement open innovation in services.