Design
Management
Review

From Small Ideas to Radical Service Innovation

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by Mark Jones and Fran Samalionis

The quest to discover and implement strategies on the frontiers of service design demands a measured blending of creativity and discipline. Mark Jones and Fran Samalionis probe challenges and pitfalls in the process and outline five steps that leverage positive results. Their commentary addresses the nuances of such an effort, as well as the big picture—insights they illustrate with a case study on 1st Source Bank in South Bend, Indiana.

To compete in the marketplace and maintain relevancy, service companies need to innovate constantly. Most top service company executives will tell you that the introduction of innovative new services is a priority. In fact, a global survey by McKinsey in October 2007 of a broad range of companies (including service companies) found that more than 70 percent of corporate leaders named innovation as one of their top three priorities for driving growth. But while there is a desire to innovate, actually getting innovative new services to market is rare, and what we call radical innovation—new services that dramatically change the marketplace—is even rarer.

When asked about the pathway to radical innovation, service company

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executives will also tell you that ideas are a dime a dozen. What's more important is the execution: the alignment of the right idea, the right team, the right development process, the right leadership, the right level of risk management, the right target, the right time to market, and so on. In this article, we talk about this *pathway to innovation*. It is not just a matter of "Aha" ideas; it is rather a process that requires a disciplined approach to rigorously identify and execute the most promising ideas.

IDEO has developed a staged innovation process that allows good ideas to be pushed and refined and turned into great ideas that can change markets— before those ideas are killed.

Structural barriers to innovation

There are several well-documented structural barriers to innovation in service companies, some of which are:

- Service organization silos that are designed to support operational efficiency rather than rapid change; particularly true in service companies
- Many competing agendas within the organization, all vying for the same resources
- Lack of a consistent team or champion for the long time period between idea generation and bringing those ideas to market
- Measures of success (and accountability) that are ill-defined
- The large scale of some service organizations, which makes it hard for them to match the nimbleness of the marketplace
- Last but not least: the fact that change is expensive

Common mistakes

It's not that service organizations don't try to introduce innovative new services. On the contrary, companies are aware of these structural challenges and proceed with a concerted innovation effort nonetheless. But they are rarely successful. Following are some common mistakes they make on their path to innovation.

- Even when companies talk about radical change, they tend to mean incremental service improvements that do not affect the marketplace in the same way truly radical change would.
- Ideas get killed too soon for the wrong reasons. They might not fit within the current operating paradigm; there is no clear filtering and prioritization process; people might not be able to dissociate the rough sketch of the idea from the real value proposition… the reasons are infinite.
- The ideas that make the cut are sometimes chosen based on operational viability or existing technologies, rather than on real customer need. The result is a repackaging of existing services that don't offer any new value.
- The team developing the new service concept does not have a strong enough champion within the organization to get the resources required to develop the new service and get it to market.
- The design development process is not carried out with due diligence, and companies fail to reduce the risks of innovation through experimentation and prototyping before bringing new services to market.
- The absence of an overarching goal might lead to a lack of focus or too narrow a focus; both are detrimental to innovation.

How can we avoid these mistakes? IDEO has developed strategies that service organizations can employ to raise their chances of developing a truly innovative service and get it to market with perfect alignment.

The pathway to radical innovation

Radical innovation implies radical change for a service organization and the marketplace. Think about new services that have turned the world upside down —JetBlue, Netflix, Progressive insurance. The companies that introduced them had to be truly open to changing the nature of the marketplace. They had to consider new touch-points, new revenue models, new technologies, and new relationships with customers. Focusing too much on the current reality makes it hard to envision a world that is different.

Once teams have developed some real ideas for new services, it is natural to start looking ahead to see the implications for business and operations (viability and feasibility). But it is the degree of weight that is put on viability and feasibility that is important. It is too easy to kill an idea early in its development because it does not fit easily into the current operational model or does not meet the typical threshold for a business case. Indeed, good ideas often overcome challenges inherent in the current operating processes, and radical innovation may require a new way to develop a robust business case.

We advocate looking ahead to inform and improve new service concepts rather than kill them. A theme that runs through the discussion at each of the stages is how to maintain the discipline to focus the development team's efforts on the stage at hand. This allows a rigorous exploration at each stage to uncover truly valuable new services without letting conventional

business and operational assumptions derail the process. It takes a little leap of faith and deep trust in the process to protect a fledgling innovation from the encroachment of convention.

The five-stage framework

We will now detail the framework for a process that has allowed IDEO to successfully collaborate with a broad range of service companies in designing and piloting radically innovative services. Our basic philosophy is that, during the early stages, it's necessary to let go of reality—to be expansive and inspirational and root your efforts in market insights. And when you've developed a rich portfolio of promising ideas, the next step is to put those ideas under the lens of maximizing consumer desirability, technical feasibility, and business viability. But all the while, you must maintain your focus and rigor so as not to derail the innovation process.

This process can be broken down into five stages:
- Develop insight about the market.
- Create radical value propositions.
- Explore creative service models.
- Bend the rules of delivery.
- Iteratively pilot and refine the new service.

1. Develop insight about the market

Innovation is based on a deep insight about the marketplace that inspires great ideas. Much has been written about this of late, and many companies we work with routinely conduct customer insight research. In addition, many have begun to integrate observational and ethnographic methods into their toolkits, as well. This is great news for services, and we expect the trend to continue.

Develop insights about customers, the business, and technology in parallel. Simply observing customers may not be enough to drive the kind of
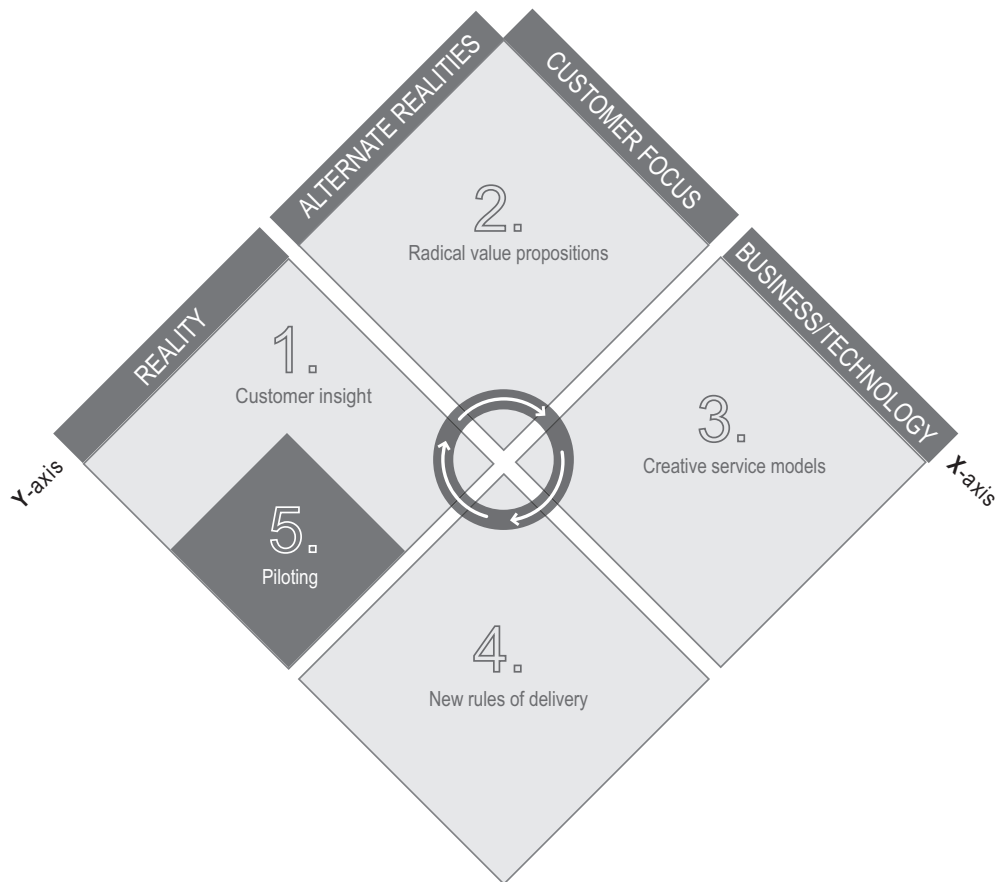

The x-axis shows the continuum from "focus on customer desirability" to "focus on business viability and technical feasibility."
The y-axis shows the continuum from "looking at existing realities for inspiration" to "letting go of the existing realities to envision an alternative world."

innovation that changes markets. Inspiration can come from many areas, so don't stop at getting insight about your customers. Be as insightful as you can about alternative business models, market landscapes, and operational and technology infrastructure. Innovations will come from the union of these perspectives and will be successful when aligned with customer needs.

Develop frameworks that clearly describe the "pain point" and the opportunity space. What you do with market insights is more important than the insights themselves; too often, companies don't take advantage of their full potential. The excitement over customer insights alone can lead teams to jump the gun and start brainstorming service solutions that solve only specific issues. This tends to result in incremental service improvements rather than the more substantial leaps the team is looking for.

It takes time for a team to immerse itself in the nuances and develop meaningful frameworks that can structure ideation. A team knows it is ready to move on to ideation and prototyping when it sees an opportunity for a radically different way to serve customer needs.

COMPETITIVE LANDSCAPE
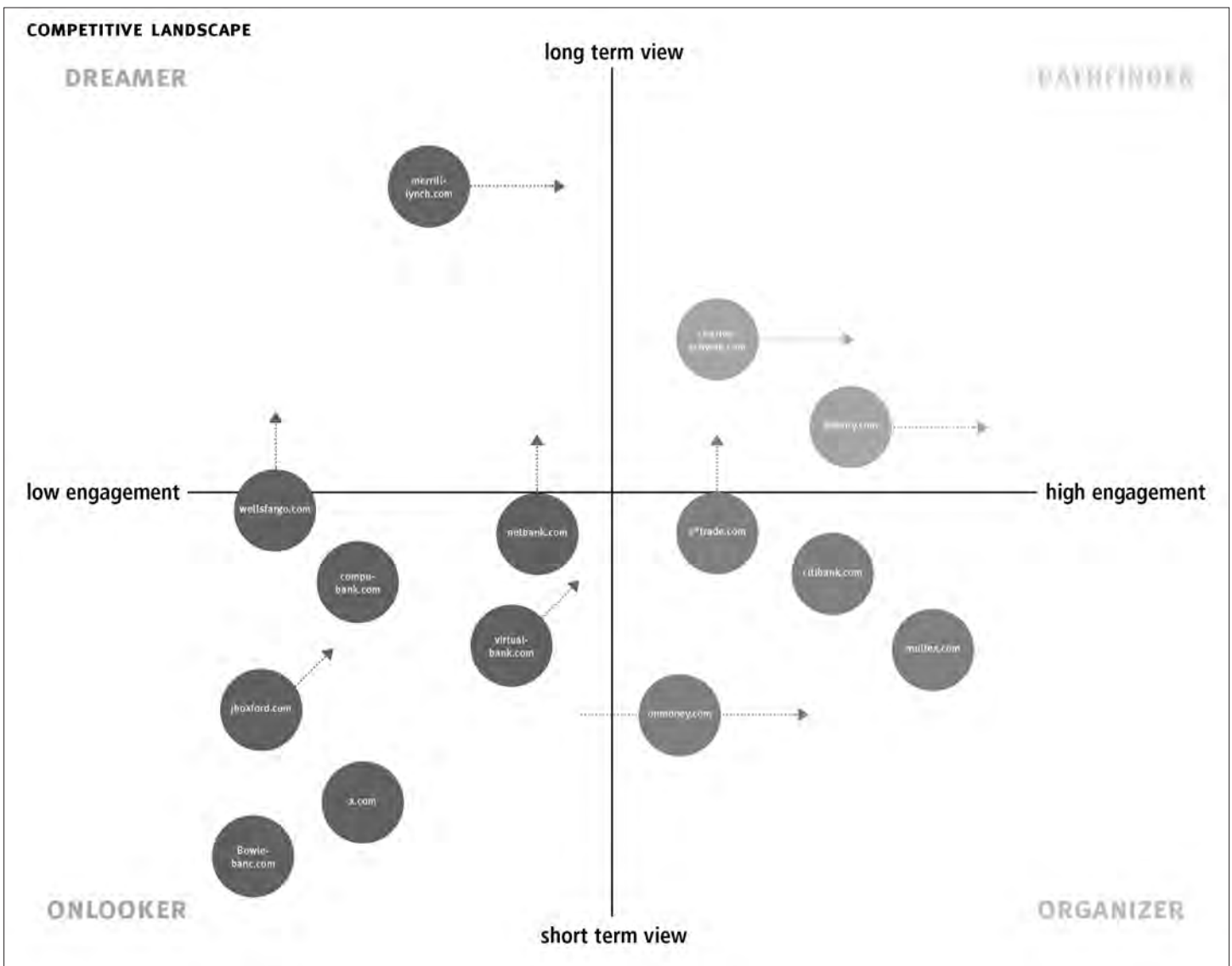
For a financial services company, our framework represented a deep understanding of how customers thought about their money. It also provided insight to the team and helped them design solutions for an underserved area in the market landscape.

2. Create radical value propositions

Radical innovation is about acquiring new customers and tapping underserved markets, as well as retaining those people once they become customers. Giving people a reason to try your service in a crowded marketplace requires going a step above what they experience with their current service. And if what you are offering is a new class of services—think of Zipcar, for example—then you'll have to help your customers recognize the value of trying something new. Sometimes, radical services fill an obvious gap in the marketplace—think Google 411 and SMS information services. At other times, they help steer markets in new directions capitalizing on existing but fragmented behaviors—think Apple's iPod and iTunes.

Involve front-line personnel and executives simultaneously. Many executives are experts at tracking the profitability of their services, as well as how they rate against the competition. So you would think that these executives are familiar with the challenges faced by their front-line personnel in delivering a high-quality service. But that is not the case. We have found that few executives truly know what their front-line employees think and are often in the dark about how they might leverage them to support a new service. This is a big gap, because those personnel are a very important part of the service ecology.

How do you mind this gap? Deep collaboration is key. Just telling executives about what front-line personnel think and can do is not enough. We have found that executives need to hear ideas about new services directly from their employees. Many executives are surprised and inspired at how nimble and flexible their customer-facing employees can be.

Prototype extreme service propositions early to stretch the organizational mindset. Quick, low-cost mock-ups allow emerging ideas to be expressed, explored, modified, and shared with customers, experts, and stakeholders in a very tangible and emotive way. They encourage informed decision-making more than a paper description could ever do, and they encourage the idea to continually evolve. Since they often deal with the intangible, service ideas may also require simulation or even the acting out of a scenario. For example, simulating a customer's experience of interacting with a service can be an invaluable tool.

Stickpix was a service concept that allowed users to send images taken with their mobile phone in order to receive those pictures back as stickers they could stick anywhere. This image is one of a series of images that were mocked up to visualize how the service might come to life at various touchpoints of a consumer's journey.

Experience prototypes that look like and behave like—but are not built like—the innovative new service allow a diverse range of customers, as well as stakeholders (those involved with brand, marketing, technology, customer care, delivery, and so on), to engage with and build on the new service from their specific perspectives. A good prototype will prompt questions around consumer desirability, business viability, and technical feasibility.

Conduct formative research to tease out desirability, viability, and feasibility. Formative research employs prototypes to get feedback from potential users to refine and improve a new concept. Many service companies are used to some form of concept testing. However, in most organizations concept testing is done to either kill ideas or to validate them, rather than to build on them and make them stronger. In contrast, formative research involves bringing ideas to life as prototypes and exposing them to customers, experts, and stakeholders for feedback. The goal is to understand how well the customer and business needs are addressed, and the tone of the research is exploratory and positive rather than judgmental and negative.

It is critical that this form of research is done at the right time and at the right level of fidelity during the innovation process. The prototypes need to be strong enough that they can be visualized to elicit feedback. However, the visualization should not be too polished because that can hinder the feedback process in two ways: one, the customers and stakeholders will get judgmental or will hold back; and second, the design team gets too invested in their own ideas and are unable to use the feedback constructively.

3. Explore creative service models
Established business and operational constructs are not always useful in supporting radical innovations, since they are tailored for existing services. Innovations that have the ability to change the marketplace usually require radical or fundamental changes inside the organization, as well as creative solutions to make these new service offerings viable from a business perspective and feasible from a technology perspective.

Challenge the existing operational realities. Successful innovation requires business and

technology team members to be as creative as their design counterparts—think of YouTube's or Google's service model, which allows them to monetize their offerings through ad revenue without compromising the value provided by the service. It is critical to remember that the success of their offerings rejuvenated the advertisement industry, which was not showing too much promise at the time.

Champion customer desirability as viability and feasibility are modeled. It's easy to revert to traditional benchmarks and models of viability and feasibility, but doing so dramatically reduces the innovation from radical to incremental. Championing the desirability of an innovation forces the organization to build new constructs that will nurture radical innovations. And this is not an easy task.

4. Bend the rules of delivery
Service companies are, at their heart, operationally focused organizations. Delivering consistently high levels of service requires an operations mentality that enforces rigorous processes, standards, and training. Introducing new services almost always requires changing the rules, sometimes significantly. Because the production and the consumption of a service happen simultaneously, changing the way a service operates is even harder.

Get permission to fail. Radical innovation is risky in the sense that getting it right the first time, every time, is highly unlikely. Companies should expect failure as a part of the innovation process. Teams need to have buy-in from leaders so that they feel confident trying new service concepts that have many unresolved questions. Teams that are afraid to fail make radical innovation, by definition, impossible. Set up for successful experimentation by getting buy-in from leadership, and then use that buy-in to get permission to fail.

Design new metrics for measuring success. Rules about metrics can be a huge barrier to innovation. This is especially true within service organizations that have adopted Six Sigma methodology. Funding guidelines that work well for the evolution of incremental improvements to services are often at odds with the scale and ambiguity of radical innovation.

Radical service concepts may not have a business case that meets Six Sigma guidelines; waiving off those criteria can open up opportunities that would normally be squelched. Innovation efforts are likelier to be successful if they are funded and measured separately from the rest of the organization.

> When we worked with a health-insurance service center, the team developed service concepts that would actually significantly lengthen the average call time—exactly the opposite of most call center initiatives. The top team had to reframe the call center's metrics, which had been primarily customer satisfaction and handling time. The new metrics were centered on the call center's role in changing health outcomes and how it functioned in getting members to make choices leading to healthier outcomes and more cost-effective care. This affected the entire funding structure of the service center.

5. Iteratively pilot and refine the new service

Radical innovation is inherently risky as it involves new-to-the-world offerings. Piloting a service is the best way to manage this risk—before it is scaled. But most service organizations are paranoid about exposing their intent to the market. Therefore, they are reluctant to pilot in order to protect their first-mover advantage. That reluctance needs to be balanced against the advantages that pilots offer in informing investment decisions.

Don't wait for the service to be perfect; get comfortable with beta. Radical innovation is fundamentally based on evolving customer behaviors and market trends. These changes are hard to predict accurately, and the success of a service can hinge upon a small nuance that is hard to pinpoint unless it is highlighted in a pilot. A works-like prototype can be easily piloted on a small scale to drastically reduce development cost, and it allows for iterative refinement that is critical to risk management.

Use the time during piloting to prepare for large-scale rollout. Any new service will remain radical only for a short period of time. Design teams need to be cognizant of this and act

accordingly. To maintain first-mover advantage, organizations should use the time spent on the pilot phase to invest in the infrastructure required to roll out the service on a larger scale. This will ensure that the infrastructure will be ready when the service is fully worked out at the end of the pilot.

> While developing a group communication service for a wireless carrier, we piloted a works-like prototype with a small number of customers for a limited time. The goal was to understand how they used the service and how their behavior changed as the result of being part of a group. In order to get the pilot out sooner, the prototype was developed on stand-alone technology instead of the company's core systems. Through customers' use of the prototype, we were able to determine that customers would indeed behave differently in groups; in addition, we learned that the new service would not necessarily cannibalize other revenue streams such as text messaging.
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> The organization not only tested desirability and viability with a works-like prototype but also developed, in parallel, the software required to enable group communication services across multiple technology platforms. As the design of the group communication service was refined to better meet customers' needs, the insights from the pilot informed the development of the technology platform.

Summary

Today, the market landscape for services is evolving constantly and rapidly. Frequent and radical innovations are key to being relevant in such a landscape. Both the market and customers expect nimbleness when it comes to innovative services, and service companies are interested in delivering it. The process we have described here is a pathway to delivering this kind of innovation. It will allow companies to introduce radical services to the marketplace predictably and at lower risk. The result will be a dynamic and a more customer-centric service landscape.

Case Study: 1st Source Bank

In 2004, 1st Source Bank, a regional bank based in South Bend, Indiana, hoped to increase the number of branches in its system by 50 percent in a short period of time. The potential expansion prompted the bank to examine how it might change the customer experience in its branches before it invested in building new branches. At that time, the 1st Source branch experience was driven by industry-standard operations rather than by customer needs. The processes and facilities upon which they were based were complicated and tended to be impersonal.

1st Source's CEO championed the idea of collaborating with IDEO on the challenge of designing a paradigm for a new branch banking facility. This was immensely helpful, since it gave the development team the permission to explore radically new service concepts. The CEO successfully communicated to the rest of the organization how important it was to commit the time and resources needed to ensure success, and key personnel were drawn from various parts of the bank to be part of the team.

A key insight that emerged from the initial research was that 1st Source could leverage its brand as a local bank in ways that national banks could not. We also found that tellers felt constrained by their role and were frustrated by not being able to act more broadly and effectively on conversations they were having with customers. We found that customers connect to people that work in banks, not to banks as institutions, and that customers want to be treated with respect and concern. While bankers intuitively understand this need, the bank's service model and facilities did not support it. The team agreed that a solution should support bankers in building relationships with their customers and bridge the gap between routine banking and episodic activities, such as getting a loan.

We brought a wide range of bank stakeholders, including the management team, as well as front-line personnel, into a workshop setting for joint ideation. Tellers were the first to see the difference that getting out from behind the teller wall would present, and they quickly role-played how they might use technology to interact with customers in an open space. The top executive team was surprised at how the tellers could envision themselves working in such a different way. Side-by-side banking emerged as a key component of the new service model.

Removing the teller walls presented a number of challenges. To further understand and tease these out, we built a full-scale foam-core mock-up of core elements of the entire proposed configuration to explore what the new service offer might be like. We brought in bankers, as well as customers, in a simulation of the new process. This confirmed that side-by-side banking could work, but it also highlighted issues such as security and privacy that would need to be addressed in further iterations.

The concept was ready to go live. Instead of building the entire infrastructure to pilot the new banking process, 1st Source introduced the new service model in a part of one branch, using an adaptation of existing software and fixtures. That experiment was followed by a new branch design that fully employed the new service model.

This foam core mock-up of a new banking concept for 1st Source Bank allowed the development team to quickly simulate routine banking activities with the side-by-side banking configuration The feedback from customers and tellers helped resolve issues around privacy, cash management, and orientation.

This shows the first branch that employed the side-by-side banking configuration. The final realization of the concept is a substantial departure from conventional banking.

The branches that have been converted to the new concept have performed significantly better on key metrics than the older 1st Source branches. New accounts, deposit growth, and loan sales are all more than 30 percent higher than for similar branches lacking the new service model and facility elements. ∎

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