



International Conference
The Service Sector Advancement:
Issues and Implications for the Korean Economy
Seoul, February 4-5, 2010

ESSEC

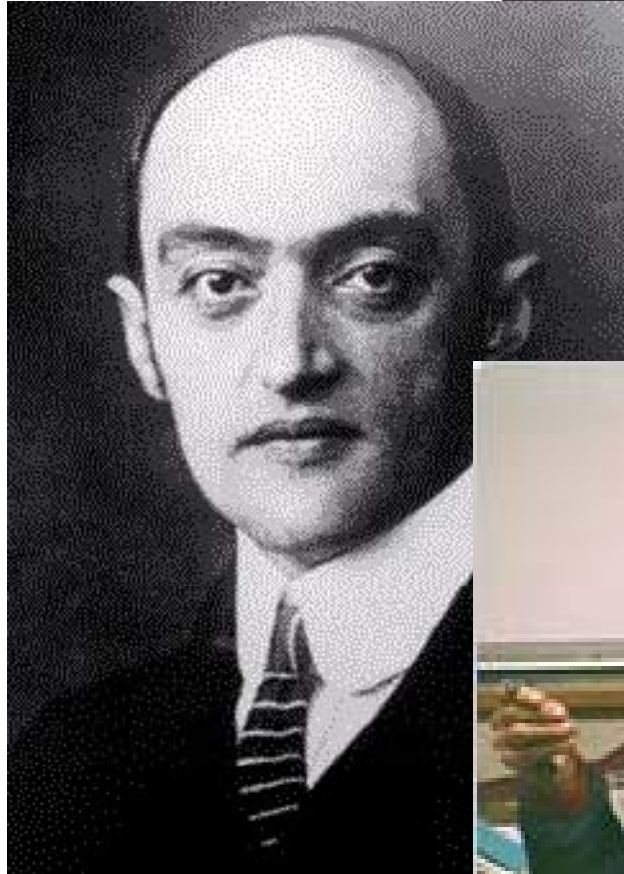
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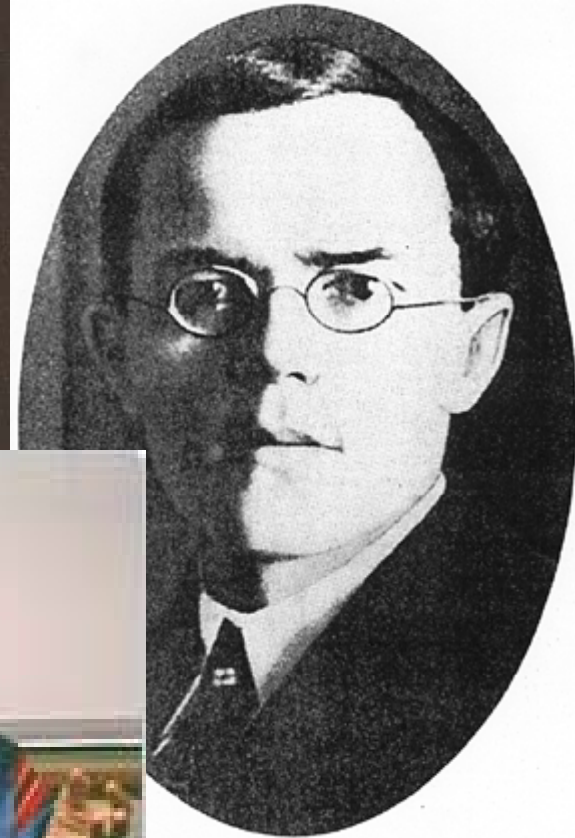
How Service Innovation Shapes the New World

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Ricardo

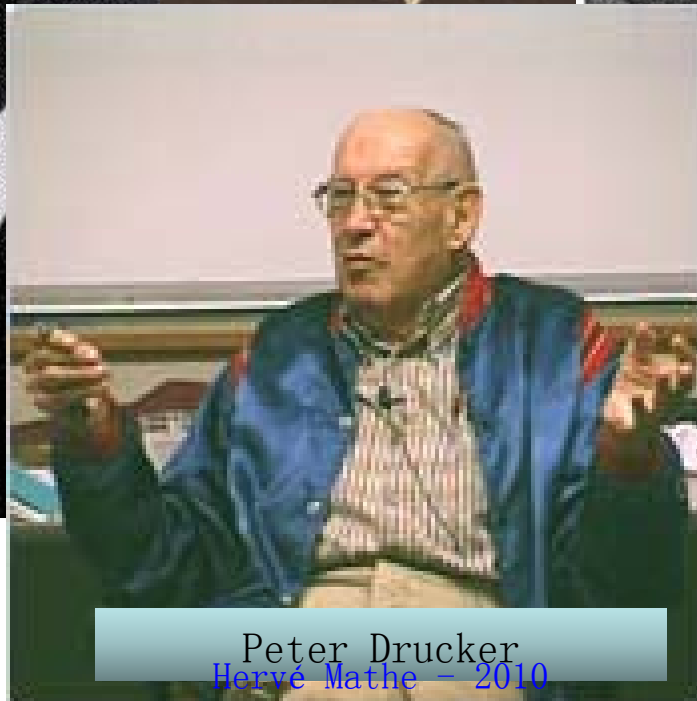


Joseph Schumpeter



Dmitriyewitsch Kondratjew (1892–1938)

Nikolai Kondratieff



Peter Drucker
Hervé Mathe - 2010



How the **Service Age** takes over the Economy of the **21th** Century

*Change is the process by which
the future invades our lives*

Alvin Toffler



As they face uncertainties, political instabilities in many regions, a continuous flow of emerging technologies, an evolving role of business in society, as well as new consumption patterns, governments, companies, and individuals are re-examining the source of their comparative and competitive advantages

Key sectors have to be restructured; new strategies that stimulate innovation and encourage partnerships have to be deployed. The necessity to invest in sustainable development and to accommodate an outstanding growing world population, the scarcity of raw materials and the energy constraints leads to a reversal of the traditional logic of value creation

The economy is turning its focus toward a demand-driven production of utility rather than goods alone

Services should no longer be viewed as supporting the transformation and the consumption of goods.

More and more, manufacturing systems have to be monitored to perfectly respond to the requirement of a continuous delivery of positive service experiences

Services constitute the very heart of responsible value creation in the 21st century global economy

The expansion of services certainly stands as the most spectacular business trend of the past three decades. Western economies continuously add positions in services but shed jobs in manufacturing

After a long period of stagnation due to the predominance of manufacturing, international trade in services is now dramatically taking off: from US\$2.8 trillion in 2006 to US\$3.7 in 2008

Wealth is also created in the service economy, thanks to the “capitalization of innovation”. Leading brands emerge in services; and many prove strong enough to carry astonishing value

OECD distinguishes between four categories of service

- **Distributive Services**

Wholesale and retail trade, transportation and storage

- **Producer Services**

Communication, finance, insurance, real estate, equipment renting, business services and broadcasting

- **Social Services**

Public administration and defense, education, health care and social welfare

- **Personal Services**

Hotels and restaurants, movies and entertainment, other recreational services, cultural services, repairs, and other personal services

adapted from Bank of Korea report, 2009.

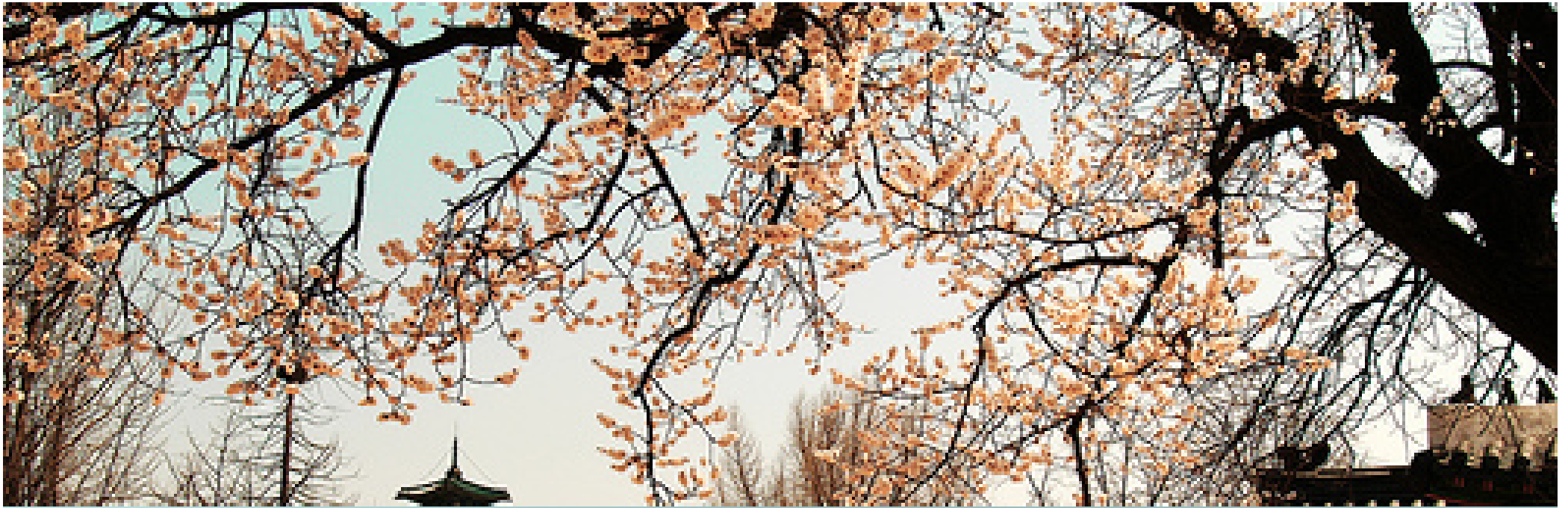
Service-focused innovations may actually reinvent entire sectors of the economy; while significantly transform the codes of communication and relationships in our societies

Technology advancement plays a key role in service innovation; however it must be integrated coherently and synergistically into a broader plan whose elements support the service vision

In order to stimulate their capability to innovate, Services have to deploy the five key drivers of innovator's motivation: Acquire; Connect; Comprehend; Defend; and properly Manage.

Strategic attempts, organizational mechanisms, and innovation models have to be carefully aligned.

Finally, a renewed mode of company's leadership driven by the idea of "customer capitalism" may be required to succeed



Are **Services** going to lead the future economic direction of **South Korea**?

Never waste a good crisis
Lee Myung-bak

South Korea is the world's **fastest growing major developed free market economy, with an impressive 8,7% annual expansion from 1960 to 1990**

- One of the first economy to grow again in 2009
- Highly industrialized and technologically advanced
- With a well educated and motivated workforce
- Home of leading global manufacturing companies
- Samsung Group is the world largest conglomerate
- Hyundai-Kia surpassed Ford as the fourth largest automaker
- World largest shipbuilder and dominant in construction
- World's most wired country, with the highest broadband internet access per capita and the fastest internet connections
- South Korea is ranked as the world's most innovative country among major economies in the Global Innovation Index
- In 2010, it will chair the G-20 major economies

However, the contribution of **services to value-added** in South Korea is **lower** compared to many other OECD countries

- Manufacturing industry in Korea employs 25,1% of labor, and constitutes 39,5% of GDP in 2008
- Services in Korea have grown their workforce from 34% in 1970 to almost 70%, but produces only 57,6% of GDP in 2008
- According to « *The shift toward a service economy* » BoK 2009 report, the share of high-value producing services to the total value-added in Korea is 5 to 10 percent lower than in the UK, France, Italy or Japan
- Services should account for 67% of the South Korea's total value added in 2010, a significantly lower amount than Germany's 75% and United States 84%, according to McKinsey&Co.
- Significant productivity differentials between Manufacturing and Services still exists in the country, possibly due to the relatively small size of the domestic market, the complexity of the regulations, and the poor inter-sector linkages.

As South Korean manufacturing industry matures, the country deploys efforts to **upgrade** and **nurture** the **service** industries

- In the mid-1980's, the largest service sector in South Korea used to be an inefficient retail trade, now surpassed by a very active knowledge intensive business service sector
- The information technology sector has firmly positioned itself as a growth engine for the Korean economy along the 2000's, with its GDP portion increasing from 8.6% in 1997 17% by 2007
- The rate of penetration of telecommunication devices and the development of the internet service industry proves dramatically high, with a multiplication of e-commerce platforms
- Also, the growth of Korea's franchising sector, which has developed rapidly over the last ten years, is being backed by public authority in view of propelling leaders overseas

Finally, the government has announced measures to **boost** a series of **strategic** sectors, including **five services**

South Korean authorities insist on the greater development potential of the service sector relative to manufacturing in terms of employment creation, market expansion, and export opportunities

To nurture the high-value added services, the government enact on **legislation** and **education**. It is working at creating an appropriate atmosphere for the growth of **converging services**, and provide more comprehensive support to **service exporters**



How to stimulate **Service innovation** for sustainable value creation?

*The only way of discovering the limits of the possible is
to venture a little way past them into the impossible*

Arthur C. Clarke

Generating **Sustainable Value**
requires the engagement of five essential gears

"You need creativity and invention, but until you can connect that creativity to the customer in the form of a product or a service that meaningfully changes their lives, I would argue you don't yet have innovation"

A.G. Lafley, Chief Executive Officer, Procter & Gamble

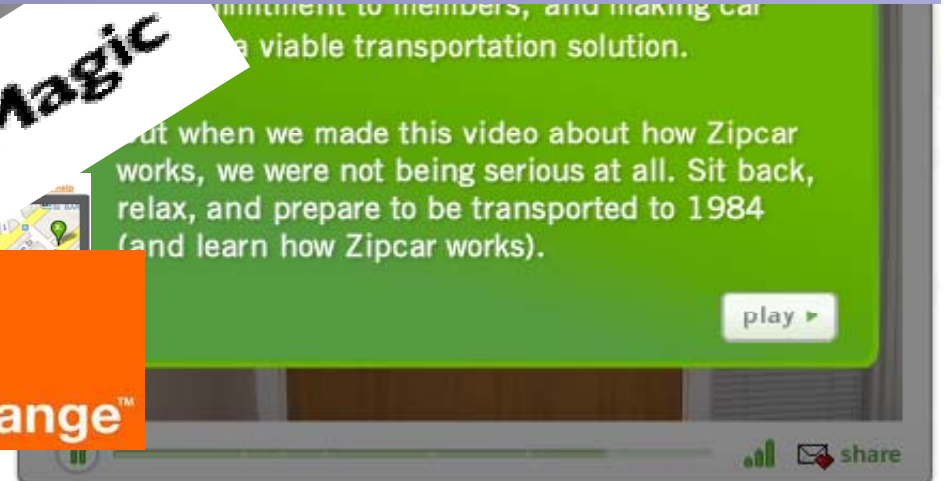
Unwinding the cycle of **innovation** leads to **progress** and **prosperity** for Nations, Organizations and Individuals



So much **creativity** in services those days!
 So many exciting cases could be discussed!



Hervé Math





Innovation guiding an **evolution** toward an efficient **platform interface** model which drives **creativity**



2001, Apple introduces the **iPod** as a stand-alone product with the ability to

technologically store music obtained from multiple sources. At this stage Apple chooses not to develop the interface of the iPod in its economic model.

2003, the introduction of the **iTunes Music Store**, which is integrated with the iPod. This system enables the purchase and uploading of music in a user-friendly method, connecting the client directly with the “music rights holders”. Apple is catapulted into the position of **no. 1 worldwide music supplier**.

2008, Apple strengthens the interface platform by launching its **App Store** for the hugely popular **iPhone**. The user can choose and acquire applications, including those from the **iTunes Stores**. The developers launch their applications via the **AppStore**, with Apple collecting 30% of royalties. In 2010, it's time for **iPad**



Innovation in the **continuous delivery** of relevant and efficient **solutions** to meet the complex challenges of **cities**



1969

A new concept

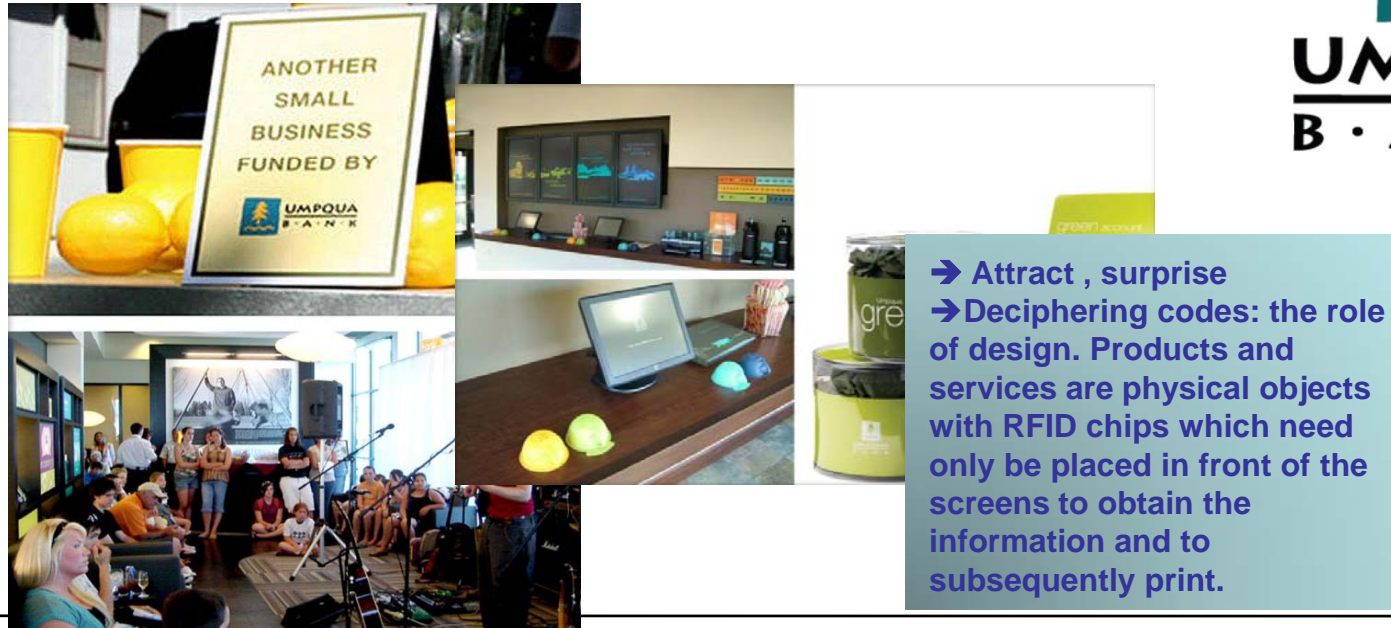


1964, a company founded by JC Decaux on the concept of the supply and maintenance of **bus shelters**, completely financed by revenue generated by advertising. Based on this concept, a process of **perpetual innovation** was implemented in the company.

2003, JC Decaux introduced the **Cyclocity** in Cordoba and Vienna, which was followed shortly by Gigon in 2004, then Lyon in 2005, before the large-scale implementation in Paris in 2007. **The Velib** was born and quickly developed rendering JC Decaux the leading renter of bicycles in the world.

2009, by simultaneously and logically addressing **the needs of the community and those of their markets**, JC Decaux is now present in 50 countries and 153 airports; the company is the N°2 worldwide in terms of outdoors communications, and the leading specialist for free internet access in public transport. They have just launched the '**pollumetre**' .

« Welcome to the **World's Greatest Bank** »

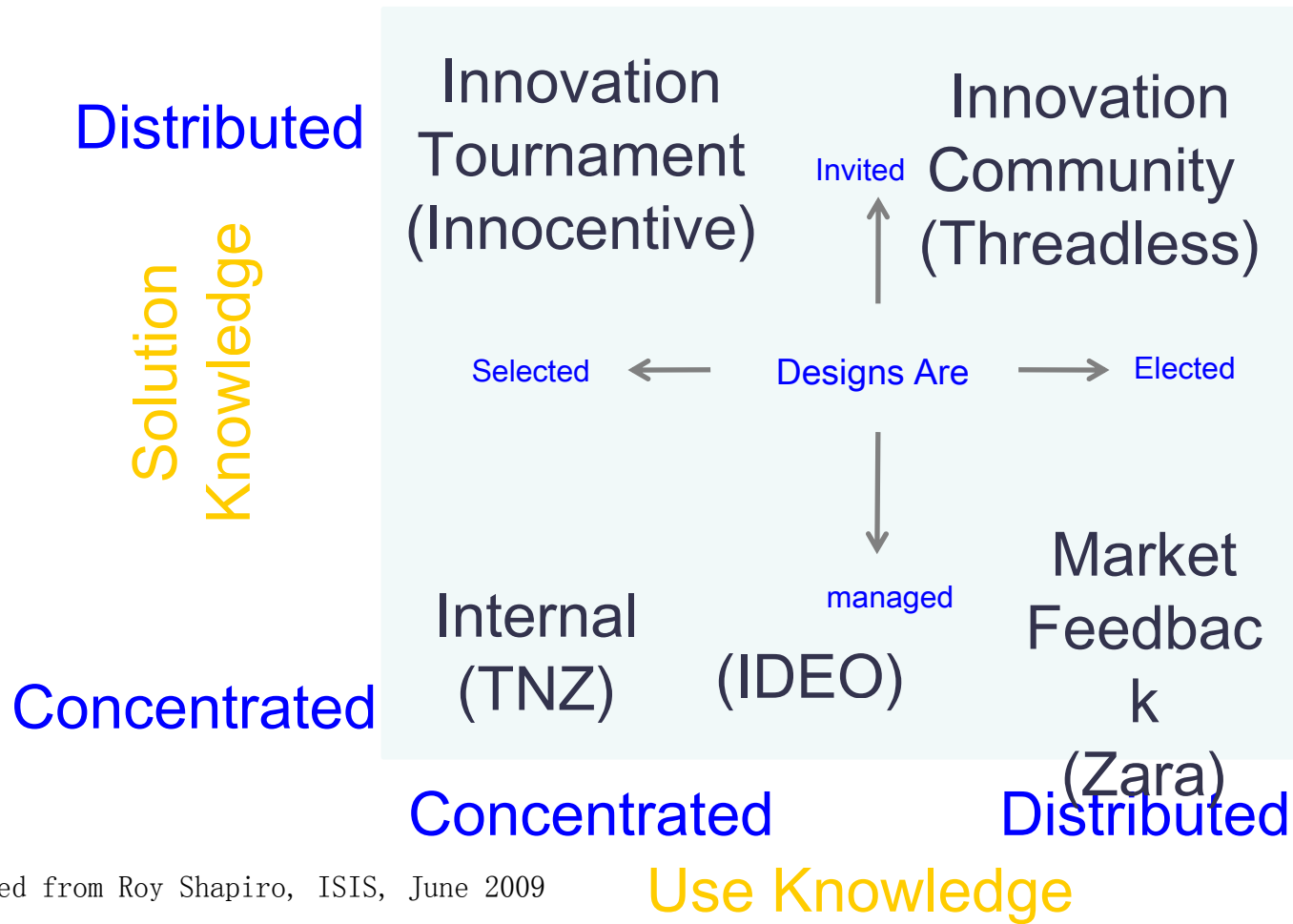


1953, A local bank based in Oregon, which began redeveloping its **client** experience since 1996, was floated on the stock-exchange in 1998. It repositioned its branches as a “**community center**” to bring about a completely revamped client experience; since then, it has experienced a continual development which the crisis has not slowed down.

2003, Umpqua bank entrusted the conception of a revolutionary branch model to Ziba: “**the Pearl**” concept. In 2004 the WGBU – **World's Greatest Bank University**- was developed to develop satisfaction at work, career advancement; as well as the “**Connect Volunteer Network**” .

2007, «**InnovationLab** » in Portland, an experimental agency for testing new technologies and client experiences
2009, the launch of the **eco-banking division**.

Innovation and **Selection**, Location Typology and the Necessity of **Hubs**



Adapted from Roy Shapiro, ISIS, June 2009

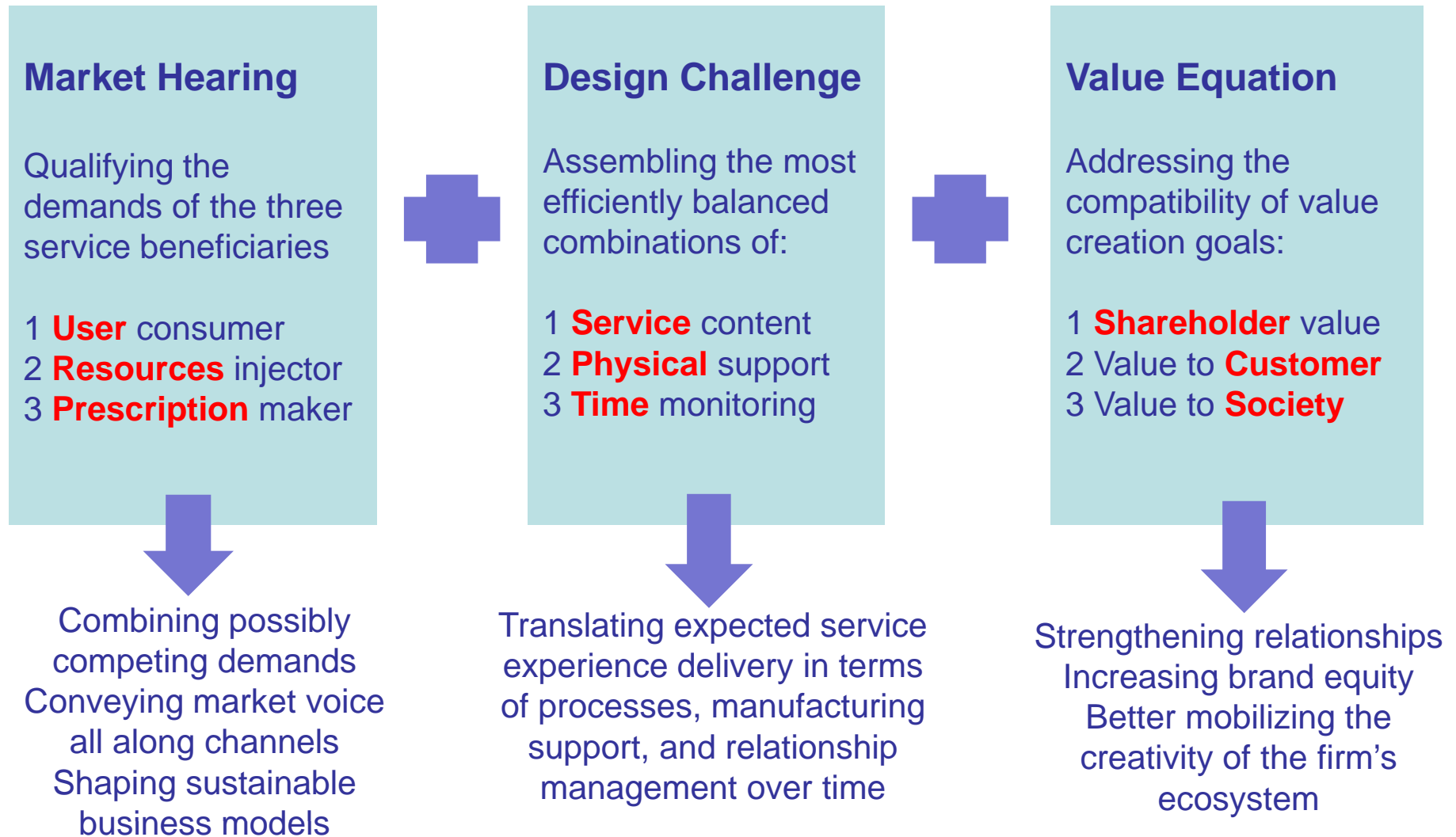
Use Knowledge

Hervé Mathe - 2010



Deploying effective **service design** methodologies and resources

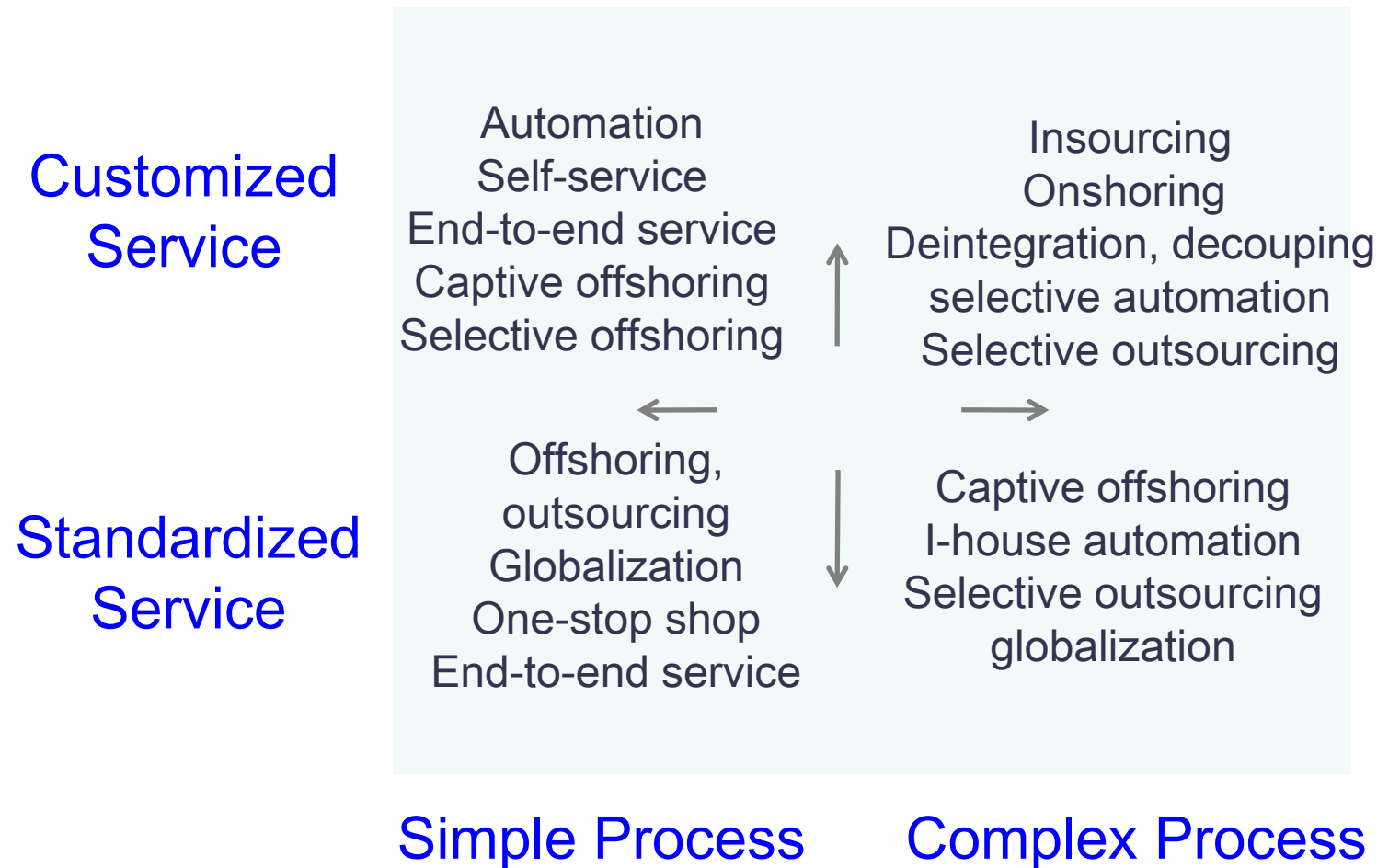
First, apply the « **Helumoa cubical matrix** » framework to define, design, and deliver breakthrough service value



Successful **innovative offerings** combine in efficiently **balanced bundles** tangible items with service experiences

*“Hybrid offerings attract new customers and improve demand among existing ones by providing superior value”
V. Shankar, L. Berry, T. Dotzel*

Choosing an appropriate **Industrialization strategy** to handle the service information chain



Adapted from U; Karmakar, HBR 2004



Shaping Service **Innovation hubs** within companies

The first objective of the service innovation hubs is to deploy
the **drivers** of innovator's **motivation**

*The innovation point is the pivotal point moment when
talented and motivated people seek the opportunity to
act on their ideas and dreams*
Michael Porter

Second, the **role** of an Innovation Capacity building **unit** is to build the foundation

Build the 3 innovation pillars

Social network

(i.e. "innovation's facebook & twitter")

**People knowledge of innovation models and tools
(train and experiment massively)**

Challenges and objectives to meet

Then, **inject energy** and create innovation development environment

People personalized tutoring and project follow up

Finance / Venture Capital

Regional / national / international clusters (with the 4 stages organizations: ideas generators, incubators, start up, enterprises)

Finally, **lead** and manage

Innovation Governance

Communicate

Optimize infrastructure

Celebrate success and capitalize on failures



Thank you for your attention

ESSEC – ISIS Paris - Singapore
www.essec-serviceinnovation.com





Technology Innovations Powering Business (1)

- **New Media:** flexible distribution channels, self-created content and broad participation. Contents moves from isolation to interaction.
- **Living in a New Reality:** breaking free of the physical world's constraints, venturing into the virtual world, moving effortlessly in time and space, interact in new ways.
- **Social Power:** harnessing social power, putting a premium on relationships, tapping the viral capability of social networks as distribution channels.
- **Information Transparency:** information is now available in droves, shedding light on previously opaque people, processes and things; leading to more efficiency and fewer surprises.

Digital Disruptions, Leading Edge Forum 2008. Computer Sciences Corporation: Falls Church, VA.

Technology Innovations Powering Business (2)

- **New Wave of Waves:** a general purpose communications utility has formed that obliterates the products and services of telephony, TV and radio that used to ride on 20th century infrastructures.
- **Platform Makeover:** nanotechnology, molecular computing, quantum computing, optical computing will challenge silicon-based business models and markets, blowing apart current encryption techniques.
- **“Smarter” World:** a new technology landscape that understand language and can reason, with innovation in knowledge gathering, decision making and predicting. Smart virtual assistants are the future of online customer service, disrupting labor-intensive call centers.

Digital Disruptions, Leading Edge Forum 2008. Computer Sciences Corporation: Falls Church, VA.

Core Service Model Excellence

- **Service Offering:** target specific service attributes for emphasis, that is, strive for excellence on some attributes and deemphasize others.
- **Funding Mechanism:** ensure that the operations design includes explicit mechanisms for funding the provision of excellent service on those attributes.
- **Employee Management System:** set employees up to deliver the value designed into the service offering.
- **Customer Management System:** design a system to manage customers in their dual role of consumers and operators.

Assessing the Fit of a New Service

- **Service Experience Fit:** Does the new service extend current experience or move in a new direction? If experientially orthogonal, what is planned to compensate for the mixed message?
- **Operational Fit:** The core service model is in alignment when a firm's operations support its service offering(s). Lack of operational fit with the core service is a signal that using the same operating system to deliver the operationally incompatible new service will predictably yield negative results.
- **Financial Impact:** dependent on its operational implications and its impact on customer discretionary behavior.

Adapted from Frances Frei, Harvard Business Review, 2008

<http://www.progressive.com/commercials/progressive-commercials.aspx> (progressive)

<http://www.progressive.com/claims/>

<http://www.umpquabank.com/Home.aspx> (umpqua bank)

<http://www.umpquabank.com/1.0/pages/ulLive.aspx?prodCAT=ulLive>

<http://www.youtube.com/watch?v=aTk4RYYxos&NR=1>

<http://www.ziba.com/Products.aspx?currentNav=3&pid=8>

<http://www.umpqualab.com/>

<http://www.youtube.com/watch?v=q-xjiTs5pj8>

<http://www.youtube.com/watch?v=zmVDR6k8LTY>

<http://www.youtube.com/watch?v=nCtbNk6lOSk&feature=related> (zipcar)

<http://www.youtube.com/watch?v=k835E4PUtlk&NR=1>

<http://www.youtube.com/watch?v=-WdD1b2FFOc&NR=1>

http://www.youtube.com/watch?v=U68BAkMKN_8

http://money.cnn.com/video/technology/2009/08/26/fit_zipcar_ceo_griffith.fortune/

http://www.olivegarden.com/default_f.asp (olivegarden)

<http://www.olivegarden.com/culinary/cit/tour.asp>

<http://www.olivegarden.com/recipes/demonstrations/>

Service Innovation Forum: European Experiences

Seoul, July 15th 2009

Service Innovation: an Introduction

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