



# Servitization and innovation

Slovak Business Agency



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## Objectives & Learning Outcomes

Completion of the module will enable you to:

- Understand the servitization and innovation process
- Learn about tools and methods that support servitization and innovation process
- Learn about good practices/case studies
- Identify business opportunities arising from new technologies and principles

# **Content**

## **Servitization and Innovation**

**What is  
Servitization**

**What is  
Innovation**

## **What is servitization?**

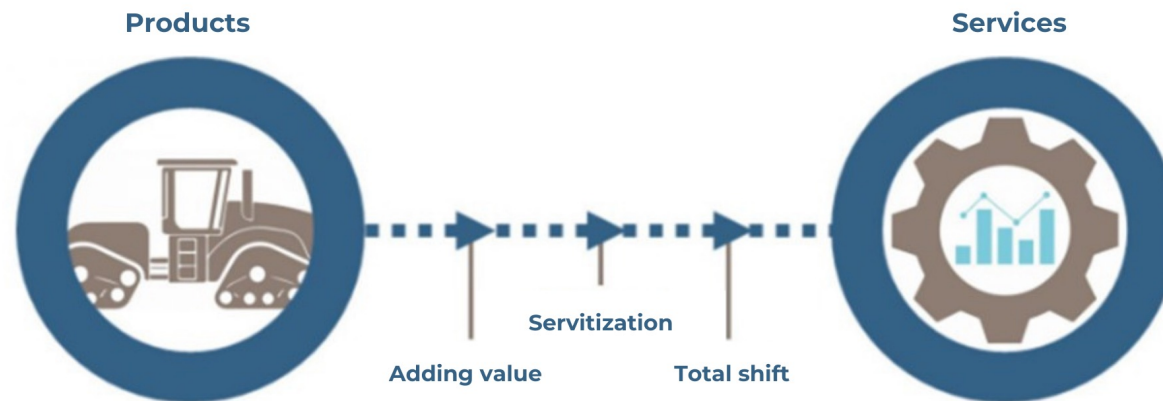
## Definition & key aspects

- Transformational process of shifting from a product-centric business model and logic to a service-centric approach´ (C. Kowalkowski et al., 2017).
- Growing importance of services → service becomes a crucial factor in servitization process.
- Product firms, manufacturers, but also companies from the service sector can servitize.

## Definition & key aspects

### Example: Apple

- ✓ iCloud where users can store data, photos, and backups paying for storage on a subscription basis.
- ✓ AppleCare providing extended warranty and support services, ensuring customers have access to technical support and repairs.



## Before implementation

### Is servitization suitable for your business?

Consider if you are able to  
following goals:



Building  
a company vision  
focused on selling  
service.

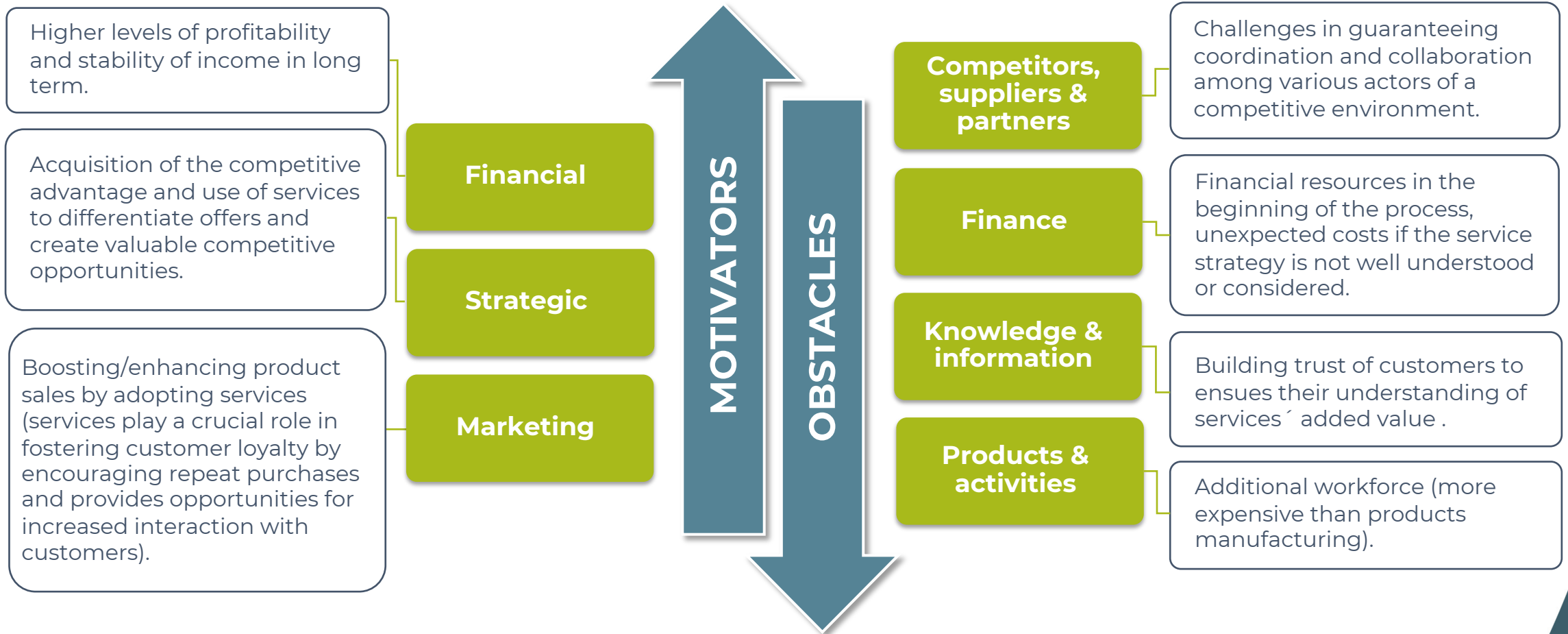


Offering customers  
targeted and  
extraordinary  
experience.



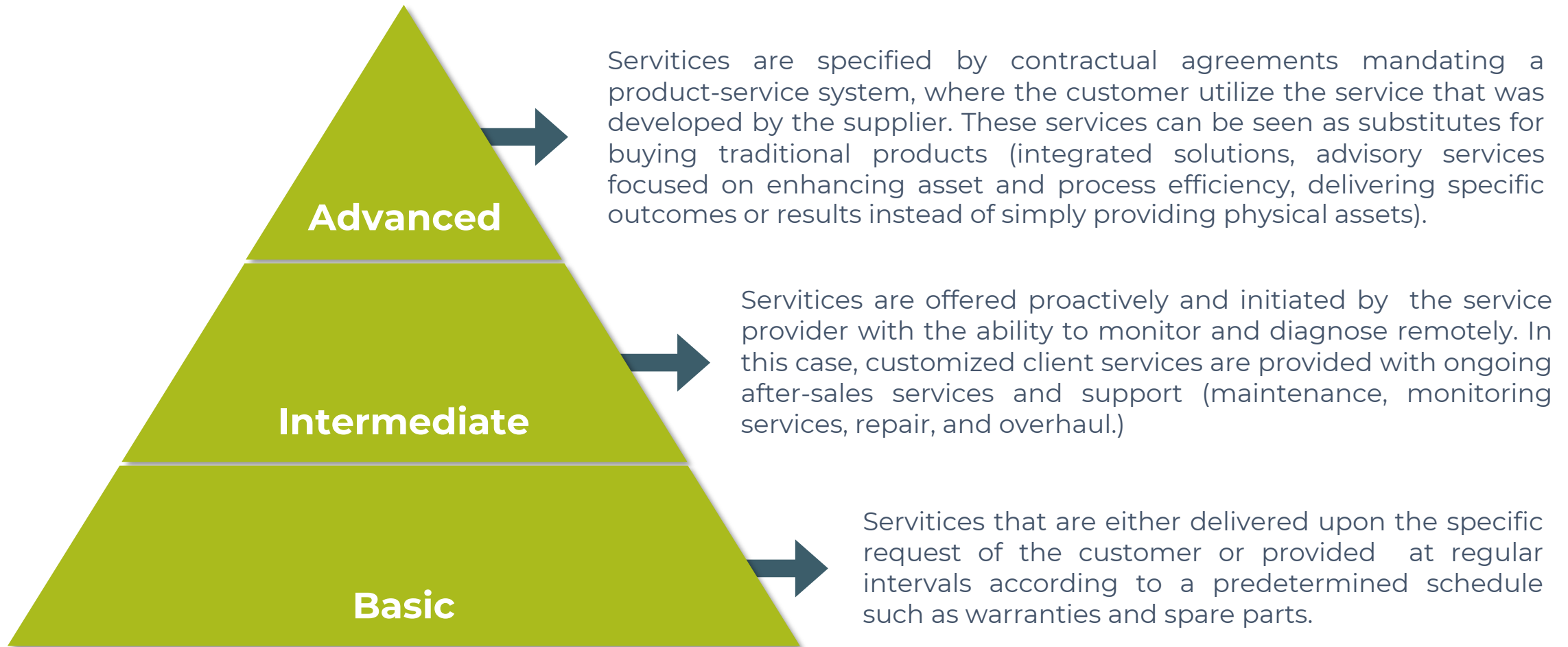
Understanding  
customers' needs  
over solely focusing  
on the features of a  
product.

## Before implementation – pros and cons



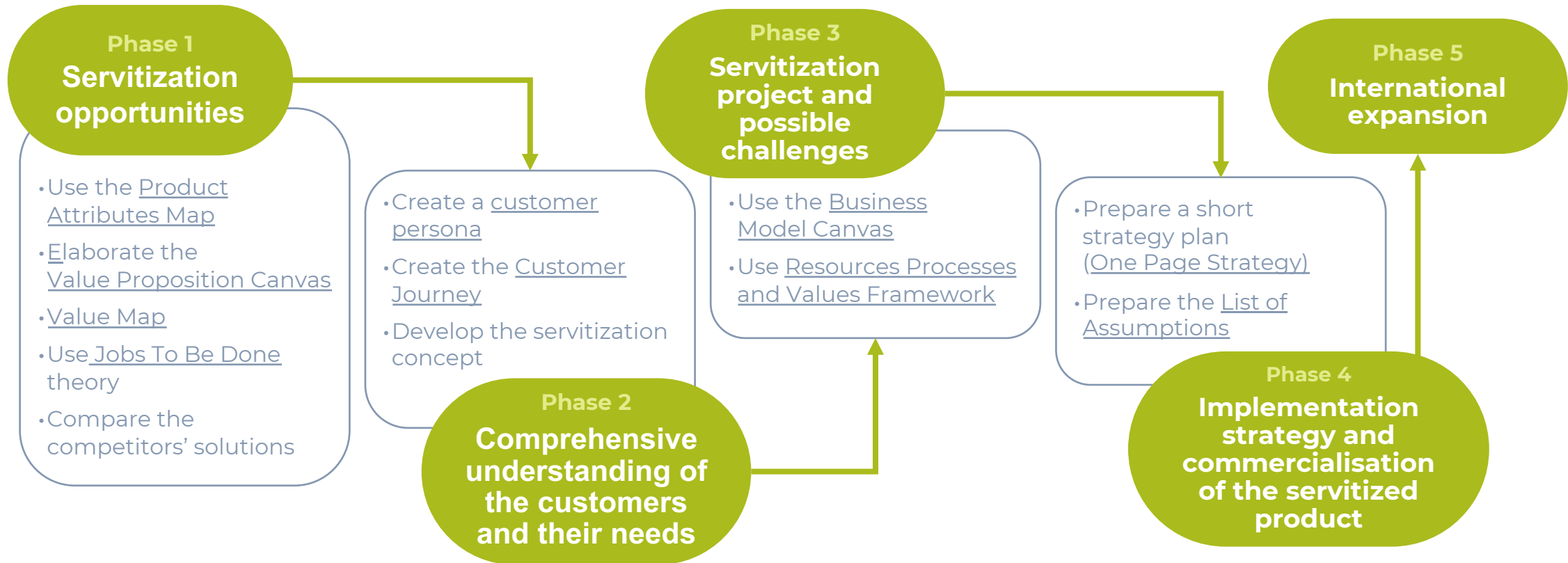


## Leveles of servitization



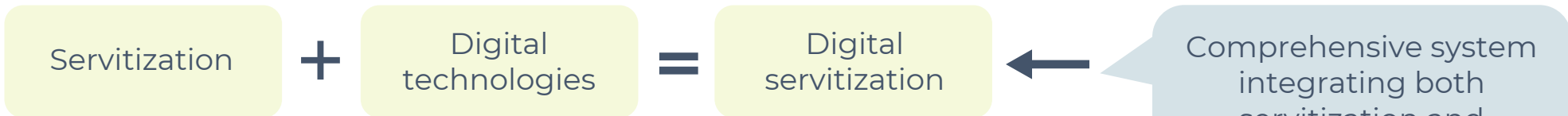
# Methodology for the implementation

Service Innovation Methodology developed under THINGS+ project



# Methodology for the implementation

## Digitalization



- ✓ Helps make products and services more service-oriented by incorporating digital elements, which improves the overall user experience
- ✓ Supports servitization by integrating advanced digital features into products, which allows companies to offer more sophisticated and efficient services to their customers
- ✓ By digitizing certain features, digitalization reduces the physical nature of an offering (digital parking solutions transform traditional manual parking spaces as cameras scan vehicle licence plates, and parking fees are charged electronically or service platform that can servitize existing offerings as the hotel service replacement by the service platform AirBnB)

### TIP

Software Servitly enables you to build and configure all the software components needed to support new product-service offerings. This is your DPS (Digital Product-Service) system.

# What is innovation?

## Definition

Innovation is “The successful development and application of new knowledge”. *(OECD)*

Innovation isn't limited to products, it can also involve developing new services, business models, processes, and functions.

- ✓ Starbucks uses its own unique terminology for cup sizes like grande and venti, instead of the usual small, medium, and large. Additionally, they have developed their own payment app.

# Types of innovation

Various types of innovation can be recognized based on their scale or intensity, influence on markets and value chains:

## Process innovation

Enhancement of production technologies or new improved methods of supplying services and delivering products that can lead to cost reductions.

It involves rethinking and redesigning the workflows, procedures, and methods used within an organisation.

Starbucks: seamless and customer-oriented ordering and order fulfilment process; using the modern digital technologies, mobile ordering systems that allow customers to conveniently place orders and pay via smartphones.

## Product innovation

Introducing new products to market or enhancing existing ones, which involves modifying their features or attributes

IKEA: selling innovative products in flat-pack format, which improves purchasing and its logistics for customers.

## Sustaining innovations

Preserves the level of improvement in features adding value to products.

Regular updates to smartphone models with improved camera features and processing speed

## Disruptive innovations

Unpredictable improvements bringing significant, unforeseen changes to the markets that appear irregularly.

It involves innovations and technologies that help make high-cost or complex products and services affordable and accessible to a broader market

Netflix; introduction of digital music downloads

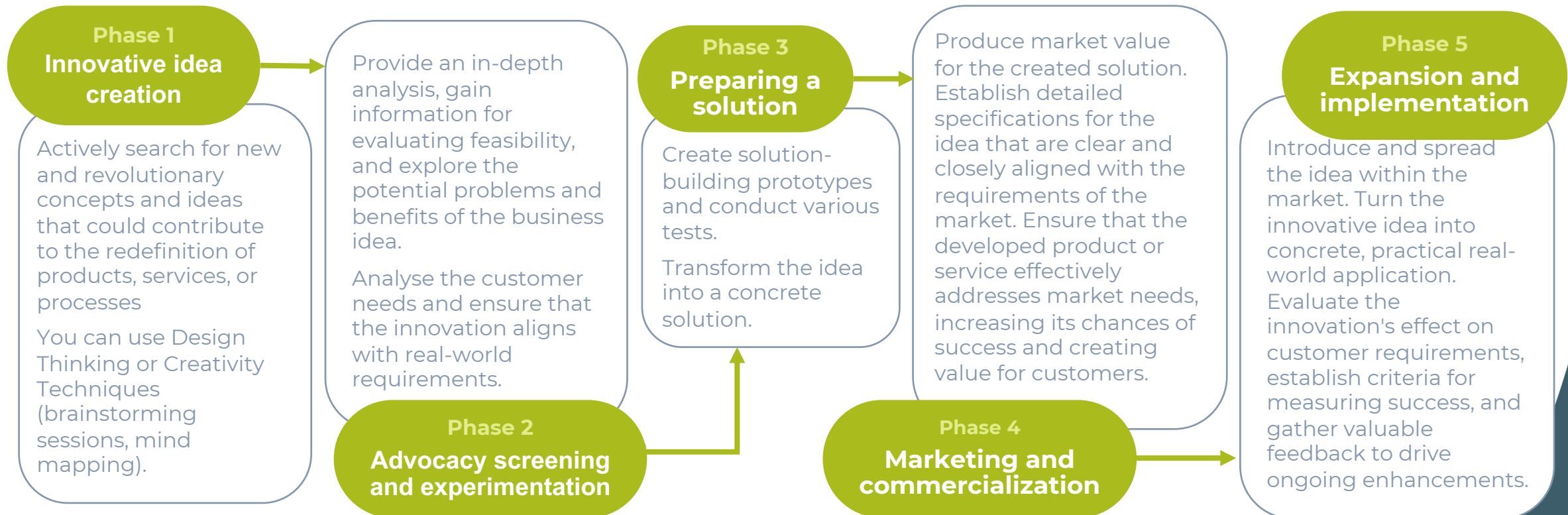
# Prepare for your innovation journey

## Key preparatory steps for innovation initiatives:

1. Define what innovation means and ensure it is understood in the same way within your company.
2. Set concrete objectives for innovation you would like to introduce into your company, which can be measured and reached.
3. Pay attention to diversity when it comes to forming a team. Build a team consisting of members with various skills and backgrounds that can provide different perspectives as it leads to more comprehensive and effective solutions driving innovation. Create teams that encompass members from diverse departments within the organisation to foster collaboration and profit from a variety of expertise to achieve common goals and innovation outcomes.
4. Allocate an appropriate amount of funds to cover various stages and aspects of the innovation process, including research, development, and implementation.

# Innovation process & its phases

The innovation process is a structured and carefully managed sequence of strategic actions accompanied by the application of creative and novel approaches. It involves introducing innovative methods, exploring different sources of supply, entering new markets, developing.





## Innovation process & its phases

You can check mentioned questions that can help you on your innovation journey and see the examples of innovative ideas.

Get inspiration on how to come up with innovative business ideas in this video.

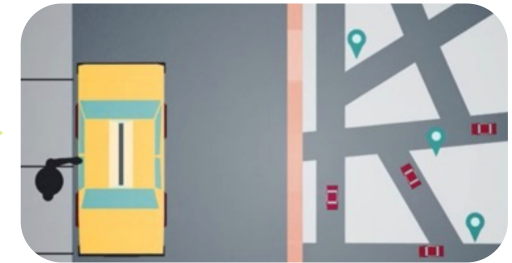
**Can I make it more accessible?**

**Airbnb**



**What can I improve about this?**

**Uber**



**Is it time to pivot?**

**Netflix**



# How to boost the innovation process

## Open innovation

- ✓ Helps companies to enhance its innovation process by sourcing ideas both internally and externally
- ✓ Can help organizations discover new ways to solve problems and challenges while also building a positive reputation even during the crises as COVID-19
- ✓ Can serve as a foundation for future collaboration
- ✓ LEGO's open innovation approach through the LEGO Ideas platform where a community of fans and enthusiasts can submit their own ideas for new products allows the company to crowdsource product ideas while strengthening its relationship with a dedicated customer base.

# How to boost the innovation process

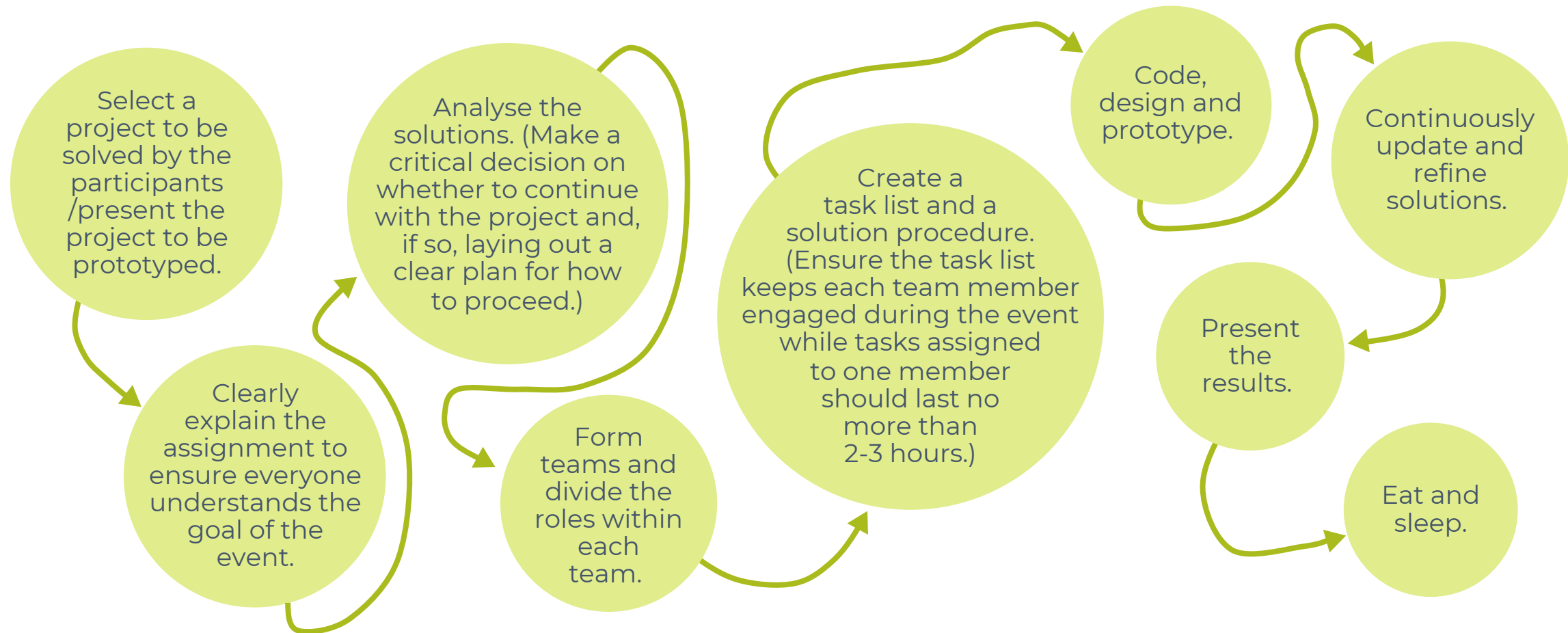
## How to apply open innovation in your organization?

### Hackathon

- ✓ Event where people from various fields come together to address specific challenges by developing solutions within a set time frame.
- ✓ Events can range in duration, typically lasting from one day to a week, but can also extend over several weeks, especially in an online format.
- ✓ You can organize a hackathon as an internal or external event.
- ✓ An internal hackathon is exclusively for the employees of the company or organization hosting the event.
- ✓ During the external hackathon the company invites external experts to participate in a competition to solve a specific problem.
- ✓ The challenges in these hackathons often relate to marketing strategy issues or product innovation.

# How to boost the innovation process

## How to organize a hackathon?



# How to boost the innovation process

## TIP

**You can use a new tool aimed at assisting company leaders in optimising their allocation of resources toward innovation initiatives.**

It consists of two parts: a strategy summary framework and an innovation basket. Leaders begin by defining and understanding the strategy of their unit or organisation and identifying what changes are necessary to achieve it. The identified change needs are then converted into specific innovation objectives and leaders establish their 'innovation basket' by mapping out each project against these objectives. It helps to exclude projects that are not aligned with the objectives and create new ones that are aligned.

## BENEFITS

**Innovation can impact your organisation in a positive way as you can.**

- Get a competitive advantage.
- Better address a customers' needs which enables you to attract new customers and maintain existing ones.
- Identify new opportunities for your company, increase its revenue, expand market share, and enhance its overall success.
- Enhance the effectiveness and productivity of your company.
- Be more prepared to handle changes.
- Attract and maintain skilled professionals and talented employees.
- Build sustainable practices and resilience to actively encourage and support the ability of your business to withstand challenges and maintain its operations over time.

## CHELENGES

**Innovation involves experimentation, trying new approaches, and taking risks in order to push boundaries and achieve progress. Therefore, it is absolutely natural that some mistakes and failures may occur along the way.**

- Failure of an innovation - new technology concept, or product upon market introduction. Smaller-scale tests and launching prototypes that enable post-trial adjustments before mass production are recommended.
- Financial difficulties or constraints as companies allocate resources to support innovations without seeing immediate profits. Expected profit should be evaluated and innovation should be in line with the company's long-term goals.
- Innovation fails to resonate with customer needs and preferences, resulting in poor performance or lack of success in the market. Before investing in innovations, conducting market research is necessary.
- Capacity lack of implementation when searching for strategic partnerships may help.
- Challenges arising within the company's structure and operations following the launch of innovation connected with the possibility of allocating excessive resources to innovation. Therefore, effective planning and resource distribution by top management are crucial.
- Unforeseen challenges that arise based on external factors. Therefore, having a contingency plan that helps to overcome these challenges is important.

## Innovation and resilience

Organisations can enhance their capacity for resilience by effectively managing innovation.

Innovation resilience refers to how well an organisation can handle the uncertainties that arise during its innovation process by adapting both stability and adaptability playing an essential role as key elements.

Example:

### TIP

Find useful tips and suggestions on how to increase innovation resilience in your innovation team here.

- ✓ Huawei established a special self-critical system known as the Red and Blue Army. The Red Army represents the existing strategic plans and approaches of the company. On the other hand, Blue Army embodies an innovative strategic model or strategy model adapted by competitors. The main responsibility of the Blue Army is to offer alternative perspectives, identify potential issues, and even provide warnings. This confrontative system enables the company's management to get a variety of valuable recommendations. Thanks to this approach, the company can make informed decisions and steer innovation initiatives toward success.

## Female entrepreneurship and innovation

Women generally possess significant levels of creativity and innovative capabilities. Therefore, women entrepreneurs can achieve great results when it comes to innovations. However, sectors where women are predominantly active typically lack high-tech innovations.

Women are usually excluded from participating in networks focused on technological innovation and they are commonly perceived as passive participants who merely use or receive innovations, rather than being recognized as innovators.

Examples :

- ✓ Estée Lauder with her innovative approach towards the sale of her cosmetic products;
- ✓ Ninna Granucci, winner of the Prize for Women Innovators for an innovative fermentation process transforming food and vegetable by-products generated by the food processing industry into valuable food ingredients.



## **What to remember**

## WHAT IS SERVITIZATION

- Servitization is the transformational process of shifting from a product-centric business model and logic to a service-centric approach. It means that in the servitization process, service becomes a crucial factor.
- Servitization is not just for product firms or manufacturers.
- Service Innovation Methodology can help you to implement servitization in 5 phases.
- Based on different factors as, for example, technology used and product type, we can recognize 3 levels of servitization: basic, intermediate and advanced. The different levels refer to the varying degrees to which a product can be enhanced with these services.

## WHAT IS INNOVATION

- Innovation involves the development and implementation of new ideas, methods, or processes that bring positive change, increased productivity or value creation.
- There are various types of innovation based on scale or intensity, value chains, and influence on markets.
- Innovation involves experimentation, trying new approaches. Therefore, it is natural if you experience failure during the innovation process.
- To boost the innovation process in your company, you can use various methods, for example open innovation and hackathon.

## Self-assessment test

## What is servitization?

- ☐ The transformational process of shifting from a service-centric approach to product-centric business model and logic.
- ☐ The transformational process of shifting from selling to buying services.
- ☐ The transformational process of shifting from a product-centric business model and logic to a service/centric approach.

## Which factor does not belong among the motivators for servitization according to this training module?

- ☐ Financial
- ☐ Strategic
- ☐ Educational

## How many levels can be recognized in servitization?

- ☐ Three: Basic, Intermediate, Advanced
- ☐ Just one (servitization does not have any level)
- ☐ Two: Basic and Advanced

## Choose the correct answer for the statement: Servitization is just for product firms or manufactures.

- ☐ Yes
- ☐ No

## **What is process innovation?**

- ☐ Enhancement of production technologies or new improved methods of supplying services and delivering products leading to decrease in the market share.
- ☐ Enhancement of production technologies or new improved methods of supplying services and delivering products that involve rethinking and redesigning the workflows, procedures, and methods used within an organisation.
- ☐ Introducing new products to market or enhancing existing ones, which involves modifying their features or attributes.

## **Is it possible to enhance the company's capacity for resilience by managing innovation?**

- ☐ Yes
- ☐ No

## **What is the first phase of the innovation process?**

- ☐ Advocacy screening and experimentation.
- ☐ Innovative idea creation.
- ☐ Marketing and commercialization.

## **Is failure acceptable in the innovation process?**

- ☐ Yes
- ☐ No

## **Correct answers**

## **What is servitization?**

- ☐ The transformational process of shifting from a service-centric approach to product-centric business model and logic.
- ☐ The transformational process of shifting from selling to buying services.
- ☒ The transformational process of shifting from a product-centric business model and logic to a service/centric approach.

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- ☒ Educational

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- ☐ Just one (servitization does not have any level)
- ☐ Two: Basic and Advanced

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- ☒ No

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**Thank you for your attention!**



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