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The Service Imperative

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Abstract

Services dominate the world's established economies such as the U.S., Germany and Finland and are becoming increasingly important in developing economies including China and India. Yet most companies, national governments, and universities do not put much energy into service research, innovation or education. This ironic juxtaposition of facts has led us, along with others, to promote a focus on service research and service innovation across companies and institutions. We call this the "service imperative." In this essay we present our view of the service imperative as a burning platform that is giving birth to many hopeful directions for the future of the global economy. We believe that companies, nations, and individuals who embrace the service imperative will prosper and benefit. We also believe that widespread embracing of the service imperative can lead to improved quality of life for individuals worldwide.

THE SERVICE IMPERATIVE

Few would argue with the fact that services dominate the economies of the world's most advanced nations. In the U.S., services represent over eighty percent of our GDP and labor force. Further, it is apparent that services are increasing as an economic force in countries such as China, India, and other fast-growing and developing nations. In fact, in China, the government has mandated a focus on services growth for the next five years and further into the future. Yet, despite the economic domination of services, there is relatively little formal focus within companies and governments on service research and innovation compared to the focus on tangible products and technologies. Even today relatively few firms have formalized services R&D practices. When *Business Week* annually reports the list of the "World's Most Innovative Companies," few service companies appear on that list. A major academic review article on product innovation reveals little explicit attention to service innovation in the academic literature (Hauser, Tellis and Griffin 2006). According to a 2005 report by the Organization of Economic Cooperation and Development "Boosting innovation in services is central to improving the performance of the service sector . . . The sector has traditionally been seen as less innovative than manufacturing and as playing only a supportive role in the innovation system" (Organization for Economic Cooperation and Development 2005).

So, what does this ironic juxtaposition of facts mean for companies, countries, and institutions? First, it suggests an immediate need to focus on growth and innovation through service(s) in order for individual companies and countries to be competitive in the global economy. Second, it suggests a need for research and education to support the rapidly growing global service economy.

The "service imperative" that we will develop and explain here is immediate and applies to individuals, companies, and countries. It has both a "crisis orientation" as well as a "future optimism" component to it. The crisis is for companies and countries that must see their way to be competitive and survive in this new world of services. It is also a crisis for academic institutions that must develop the right kind of educational foundations and skills for students who will live their lives and develop their multiple careers in this new world. The "future optimism" is that if companies, countries, and institutions rally around services growth and competition, we will all benefit and, importantly, we feel individual quality of life globally will be enhanced through service(s).

Before proceeding further, we should clarify what we mean by service(s). While definitions of service(s) vary, we ascribe to a very broad view. This broad view suggests that service(s) are "deeds, processes, and performances" (or constellations of "deeds, processes, and performances") provided to customers in exchange relationships among organizations and individuals (Zeithaml, Bitner, and Gremler 2006). Service can also come in the form of customer service that supports an organization's offerings and often is the "face" of an organization to its customers. Service can also be derived from a tangible product as when an automobile provides transportation service or eye glasses provide sight (Vargo and Lusch 2004). Service(s) include the offerings of critical industries such as healthcare, education, transportation and telecommunication (to name a few), as well as services that enhance the value of

technical and manufactured products or that, when combined with tangible products, provide a total value solution for the customer.

Our essay proceeds by first describing an ever-enlarging burning platform resting on top of the rapid growth of services worldwide. We then share our growing optimism for the future of service(s), and we conclude with some practical tips that flow directly from our observations. As a bit of background, we are among a small number of academics worldwide who have devoted their careers to service research. We are co-directors of the Center for Services Leadership (CSL) at Arizona State University, and we have shepherded the growth of the CSL since its birth in 1985. We have worked closely with its forty plus member companies and have written and published research and books on services. Thus, we have a relatively rare vantage point from which to develop and comment on the service imperative. That said, what follows is our shared opinion. Our projections about the future, while we believe they are well-founded, are by no means certain. It will take the concerted and committed efforts of many individuals and organizations to realize the service imperative. We believe those who do embrace it will have much to gain, and those who do not may regret their inaction. We also believe that widespread embracing of the service imperative can lead to improved quality of life for individuals worldwide.

The Burning Platform

The growth of service(s) is a relentless, global phenomenon that is shaping the world's economies and profoundly affecting people's lives. Projections suggest that service(s) will grow rapidly even in countries such as China that have previously focused their energies on manufacturing. Clearly, the world's developed nations are all service economies already and the growth of services in these economies will continue unabated.

Many national governments already recognize that they must be innovative in services, broadly defined, to survive in the global economy and to provide better quality of life to their citizens. Countries such as Germany, Finland, and Norway have invested heavily in R&D infrastructures and research aimed at innovating through service. More recently, China is looking to do the same with its plans focused on service growth, particularly in Shanghai. In the U.S., although our economy has the highest percentage of services in the world, our research and innovation infrastructure has historically been grounded in hard technologies and hard sciences rather than service(s). To be prepared for the future, all nations that expect to compete globally will need to invest in service innovation in terms of basic and applied research and research infrastructures.

Similar to the burning platform for national economies, individual companies that compete in the global marketplace are increasingly doing so through service(s). Yet, as pointed out above relatively few companies have formal R&D infrastructures for services. A major exception is IBM who through its research centers is now invested heavily in service research and service innovation. Similarly, individual companies such as Bank of America and Mayo Clinic have developed experimental practices around service(s) to stay on the forefront of competition in their respective industries. A well known consulting and design firm, IDEO, now has a practice devoted totally to service design and innovation. However these examples are still relatively rare.

As companies develop a focus around service innovation they tend to build their business case for service innovation around two primary foci. Sometimes the focus is on service innovation that will increase productivity and efficiencies making services more cost effective. In other cases, companies choose to focus on growing revenue through service innovation by developing new services or improving the service experience to increase customer loyalty and market share. Service businesses as well as manufacturing and technology companies are recognizing that they must compete on service(s) to survive and grow in the future. Yet many still struggle with how to do this effectively.

Universities and educational systems have a huge role to play in the global service economy as partners in innovation, technology transfer, and education of the workforce for the future. Yet, historically, few universities have focused their efforts on service research or service innovation. As with governments and industry, the focus within universities has been on the hard sciences, tangible products, and technology when it comes to innovation research and education. If universities want to be true partners in shaping the global service world, they will need to develop curricula and encourage research that is focused on business models, productivity, quality of life, and competition and innovation through service(s). Because of the nature of service(s) it is critical that this research and education cut across disciplines including business, engineering, information technology, computer science, and the social sciences (Chesbrough and Spohrer 2006; Maglio et al., 2006). While interest is exploding worldwide, there are many hurdles to overcome in shaping academic disciplines, research, and education to support service innovation globally (Bitner, Brown, Goul and Urban 2006).

The unrelenting growth of service(s) is creating an ever-larger burning platform for nations, companies, and universities to spur them toward service innovation and research. Clearly there are sparks of optimism lighting up around the world to seize the moment and address these burning platform issues. In the next section we discuss our optimistic view of the future and what we believe is on the horizon for service research and innovation.

Growing Optimism - What is on the Horizon?

A push to compete and innovate through service

As companies and nations recognize and respond to the challenges, we believe there will be an increasing push to be competitive through service(s). We already see this beginning to happen. While our Center for Services Leadership at ASU has existed for over twenty-two years, we have observed in the last five years a noticeable growth in interest among firms seeking to find ways to be competitive and grow through services. This desire spans all industries from traditional services such as health, education, finance, and telecommunication to manufacturers and high-technology. It is clear that this quest to find ways to compete through service will not stop anytime soon, and in fact we believe it will escalate.

In this quest, there are plenty of lessons that can be learned from the world's most successful service competitors and from existing research (Brown and Bitner

2006; Bolton, Grewal and Levy 2007). Yet, what companies are searching for is not fully developed—within academics or the business world. We optimistically believe the next five to ten years will witness the development of such comprehensive frameworks and tools coming from many different directions including business, engineering, computer science, and the social sciences. We also optimistically believe that many companies will take the time to learn about existing research and service frameworks and to emulate some of the well-founded practices of progressive companies who already successfully compete through service. Here we capture some of these successful practices and also speculate on the future.

Focus on the customer

An underlying feature of the most successful service businesses we know is an unrelenting focus on the customer. This means that all strategies around innovation, quality, and service improvement take into consideration the customer's perspective and that this customer perspective is integrated across all functions of the organization (Zeithaml, Bitner and Gremler 2006). There are many ways that this is done spanning basic customer research, customer experience observation, and rich customer information systems that can tie preferences and evaluations to satisfaction and customer loyalty. Increasingly, companies are also recognizing that, particularly in service contexts, customers are actually “co-creators” of the service and that the value derived from service(s) comes through usage and co-creation rather than exclusively through service provision or delivery in the traditional sense (Vargo and Lusch 2004; Michel, Brown and Gallan 2008). Despite the proven value of these customer-focused frameworks and tools, we see many service businesses still focusing their decisions exclusively on internal, operational criteria aimed at productivity improvements. While important, this limited focus can result in an unhealthy over-emphasis on costs and cutting the overall competitive pie into smaller and smaller pieces. Research suggests that firms that develop quality and service strategies with a customer focus emphasizing revenue expansion will be more successful than firms with a cost and operational focus (Rust, Moorman, and Dickson 2002).

Five ways firms compete through service

Through our research work with companies over the past twenty plus years, we have observed many ways that firms successfully compete through service. We believe firms just getting into service—whether B2B, B2C, manufacturing, high-tech, or pure service—can learn from these proven competitive strategies. All of these are customer-focused, but each represents a slightly different approach to competition. Of course, the five approaches mentioned here are not mutually exclusive, and it is certainly possible to pursue two or more simultaneously. As companies of the future look for ways to successfully compete, we expect they will gravitate to some of these well-founded strategies that are still (surprisingly) not widely practiced.

Exemplary customer service. There are some organizations whose competitive advantage is their reputation for “out of the box” customer service, and they have been

successful by innovating on this dimension. Southwest Airlines, Mayo Clinic, Gallery Furniture (a hugely successful furniture store in Texas), Zanes Cycles (a small bicycle shop in Connecticut)—these are just a few examples. These organizations focus on going out of their way for customers and providing customer service in unique ways. This is one of the primary ways they compete and stand out in their industries. Every year *Fast Company* magazine publishes its list of “Customer First Awards” and many of the exemplary companies that appear on that list are there at least in part because of the “out of the box” customer service they provide.

New, innovative services. Other organizations compete through providing innovative and cutting-edge services—being the first and/or best in their industry, on the forefront of new service inventions, technology or science. Examples here include Amazon.com, the first to introduce us to really effective and innovative online retailing. Mayo Clinic falls into this category as well. They are on the leading edge of medicine in the U. S. and typically only see patients who have hard-to-diagnose or complex problems. Their research based, team-oriented, consultative model of medicine keeps them on the forefront.

Being innovative doesn’t necessarily mean the organization invents something totally new—perhaps what they do to compete is simply new to their industry. This is true for YRC Worldwide, an old-line trucking company that reinvented itself as a global transportation company by successfully introducing guarantees, express, and time-definite delivery into this somewhat stodgy industry.

Services as revenue-producing offerings in non-service industries. A major trend in manufacturing, information technology, and other non-services industries in recent years is the introduction of value-added, revenue-producing services. Firms in these industries have recognized that they cannot compete on the sales and margins produced by their manufactured and technology products alone. Many firms such as IBM, Hewlett-Packard, Siemens, Xerox, and General Electric have integrated services into their mix of offerings. In some cases, as with IBM, services have actually taken over as the growth engine for the company.

This focus on revenue-producing services also extends to retailers. For example PetSmart, the largest pet retailer in the U.S. has introduced a host of new services in recent years as a way to compete effectively in this relatively low-margin industry (Dalton 2005). The company targets “pet parents” in its advertising and special services include pet training, grooming, PetsHotels, and Doggie Day Camp. The company has enjoyed tremendous growth and success due to the introduction of these innovative services.

A service culture that differentiates. Some firms compete based on nurturing a service culture that attracts the very best workers in the industry. Through internal services, training, and treating employees like customers, these firms become “best places to work” and following the logic of the service profit chain they create a loyal band of customers, increasing firm profitability (Heskett et al., 1994). In attracting the best workers, the company has a leg up on the competition in terms of providing the very best services and thus becoming both the “employer of choice” and the “provider of

choice” in its industry. This is the case for Southwest Airlines (again), Mayo Clinic (again), and Marriott Hotels to name just a sampling. At Marriott the underlying company philosophy is “take care of your employees and they will take care of your guests, and the guests will return.” This philosophy permeates all of the Marriott brands from Fairfield Inns to the Ritz Carlton, giving Marriott a competitive advantage in its industry worldwide.

Technology-delivered and technology-enabled services. Another way that firms have shown they can compete through service is the more recent trend of offering services through technology which allows the expansion of service into global markets, ease of access for customers, and increased productivity for companies. For example, services that were previously only available to local audiences and had to be delivered in person such as travel advice, accounting services, engineering and design services, education, and even some health services, can now be delivered via the Internet from any location in the world. Innovative companies have shown these types of business models can be successful both in terms of profitability and growth. The success of companies like Travelocity and Expedia are two good examples. There is also a growing sector of small entrepreneurs around the world offering their services (such as tutoring, individual web design, video production, etc) to individuals worldwide. Technology has also resulted in the introduction of new-to-the-world services. Companies such as eBay, Amazon, and Craigslist have attracted millions of customers with innovative services unimaginable until recently. Technology has also allowed organizations to shift service production activities to their customers through self-service technologies that can make them more competitive both from productivity and customer-value perspectives (Bitner, Ostrom and Meuter 2002).

Service innovation centered on customers

Everywhere one looks these days, the word “innovation” pops up and the need to be innovative and grow through innovation is paramount in the strategies of business leaders worldwide. Given the dominance of services, much of this innovation must necessarily occur within the service arena. Yet, as pointed out earlier, innovation within services has lagged innovation in tangible products and technology. How can innovation in services occur most successfully and what does it mean exactly?

When speaking of service innovation, we may mean the development of new offerings within an industry (e.g., guaranteed, express-delivery services within the trucking industry noted earlier), or “new to the world” innovations (e.g., Amazon and E-Bay offered these types of innovations in their early days). Beyond these types of “new service innovations,” there can be innovation in any of the five competitive tracks described in the preceding section. For example, a company may focus on customer service innovations through technology (self-service on the web) or other clever changes in the customer experience (e.g., customer experience innovations in car dealerships). Or a traditional manufacturing company or retailer might innovate by expanding its offerings into revenue-producing service arenas that enhance its customers’ experiences and provide growth opportunities for the company. Or, we may mean bringing existing offerings to new markets through technology or actual physical

expansion of the service to a new locale. Another way to think about service innovation is to consider changes in the customer's usage or co-creation role as innovations. Frameworks for understanding customer-focused service innovation are just beginning to develop (Berry et al., 2006; Michel, Brown and Gallan 2008).

How service innovation comes about is another important question. Relatively few businesses have formal processes for "service innovation" or "service R&D" when compared to product or technology R&D, although growing attention is being paid to these possibilities. For example, the Mayo Clinic in Rochester has developed its SPARC Innovation Lab where the organization experiments not with medical interventions but with service delivery innovations that are intended to improve medical outcomes for patients.

We would argue that no matter what the service innovation and whether or not service R&D is formalized, the customer's view point and value to the end customer must be considered throughout the innovation process. There is considerable evidence that businesses incorporating the customers' point of view into their product development processes are most successful (Henard and Szymanski 2001; Edvardsson, Gustafsson et al., 2006). And, given the co-creative aspects of services, we believe customer involvement may even be more important for service innovation than for other types of innovations.

Improving quality of life through services

While competing through service and service innovation are driven in large part by the desire to grow and profit in the world economy, an important potential outcome of customer-focused service innovation is improved quality of life for the world's citizens. If service research and innovation is carried out from the customers' point of view and applied in some of our critical-need industries (e.g., healthcare, education), then this optimistic outcome seems quite likely. If service innovations are truly co-created with customers so that value in use is the paramount focus, then this optimistic outcome seems even more likely. Everyone knows there is a tremendous need for innovation to improve healthcare and enhance that industry's productivity. Yet, at times the innovations in healthcare seem to forget about the individual patient. Examples of applying service strategies and customer-focused service quality ideas to healthcare are beginning to appear and the benefits to organizations and patients alike are encouraging (Berry and Bendapudi, 2007). As another example, there are great needs for services focused on the world's poor—those who cannot afford the luxuries that many of us consider necessities today. What types of services should be developed for this "bottom of the pyramid" population? What if researchers and innovators were to focus on this challenge (Prahalad 2006). What if researchers and innovators were to put their minds to solving social problems through services that also were environmentally friendly and sustainable? The quality of life benefits could be multi-fold—both short and long term. In another realm, service innovation directed at improvements in the quality of work life could also have tremendous societal and individual benefits. Often work innovations are geared toward organizational productivity without necessarily taking into account the effects on individual quality of life. Improving work life service experiences through internally-driven service innovation

could also have multiple benefits for individuals as well as the organizations they work for. It is not a coincidence that many of the organizations sited in rankings as the “best places to work” also rank high when it comes to external measures such as service quality, customer satisfaction, and profitability.

Service Science – an emerging discipline?

As organizations and countries increasingly recognize the need for service growth, innovation, and research, they will look to hire people who can help them with these tasks. Yet, where are the “service managers”, “service scientists”, and “service engineers”? There are few degree programs that can claim to develop these types of people, and most graduates still come out of universities steeped in technical, scientific, or management expertise that has little recognition of the service economy in which these graduates will live and work. For several years now, IBM has called attention to these stark facts. We are a service economy, yet we don’t train service economy workers. They have coined a term SSME, Service Science, Management, and Engineering, for the types of graduates they believe are needed for the future (Maglio et al., 2006). These graduates will be “T” shaped in that they will have a depth of understanding of a particular field (e.g., business, engineering, computer science, psychology, anthropology), the vertical part of the T. But, these graduates will also have a fundamental understanding of service economy issues, other core disciplines that interact with their core knowledge to solve world problems, and the ability to see applications across industries for their knowledge, the horizontal part of the T. This is fundamentally a different type of graduate than we see coming out of universities today. In addition to this basic “T” shaped knowledge base, workers in a service economy need stronger communication and teamwork abilities than ever before in order to succeed in complex, global organizations and networks.

Beyond education of the future workforce, there is a tremendous need for basic and applied research that addresses service innovation and global service economy issues. The complexity of these problems and issues suggests that the research cannot be narrowly defined within one discipline. Perhaps there is a need for “T” shaped researchers just as there is a need for “T” shaped university graduates. For example, a problem described above related to providing services for the bottom of the pyramid might require understanding of individual cultural differences, geography, service delivery configurations, customer preferences, costs, technology, and sustainability. Or, improvements in healthcare services would require researchers with knowledge of service quality, health economics, technology, customer values and experience, etc. Yet, most researchers today, particularly within academic settings, define themselves by their narrow specialties and are rewarded for solving narrow problems and publishing the results in discipline-specific journals.

Many universities (including our own) and governments have heard IBM’s call for a “service science” and there is a gradual awakening to what that might mean (Bitner, Brown, Goul and Urban 2006; Spohrer et al, 2007). While perhaps still an ideal and a somewhat cloudy vision whose definition and boundaries are yet to be fully developed, the “service science” ideal seems worth pursuing given what is at stake.

The Service Imperative - Practical Guidance

Given the service innovation imperative, and our predictions for the future, what does this suggest in terms of practical guidance for businesses? And, in a related vein, what does this suggest for governments and educational institutions?

For companies

First, we would suggest that there are many “tried and true” best practices from the world’s leading service companies that can be applied by firms seeking to compete through service in the future (Brown and Bitner 2006; Zeithaml, Bitner and Gremler 2006). We also believe there will be new models and approaches developing as the leading firms continue their quest to be innovative and as more firms begin to put their energies into service growth and innovation. Here are a few observations and things we believe firms can do to engage the Service Imperative immediately.

Focus on Customers. Focusing on customers means more than just doing market research; it means integrating a focus on customers throughout the organization and through every function. It means involving customers in service design, but also taking into account their point of view in hiring decisions and involving them throughout the process in co-creating value as follows.

- Know your customer; dream with your customer
- Co-create services with your customers
- Design and deliver services from the customer’s perspective

Invest in Service R&D. Still today few firms have formalized their processes for service innovation and the idea of service R&D is still very new and not totally defined.

- Create structures and avenues for service innovation
- Integrate the customer and customer value propositions into innovation activities
- Measure success of service innovations

Recognize the challenges of competing through service(s). Being successful with service(s) is as much, or more, about execution as it is about innovation and planning. The companies that are most successful will recognize the inherent challenges and complexities of competing through service by finding ways to do the following things.

- Excel at execution and recovery
- Consider the customer’s total experience
- Integrate services into existing systems
- Communicate across functions
- Practice internal and external marketing

Hire and develop leaders with service expertise. As pointed out earlier, those employees and leaders with specific service skills and expertise are relatively rare compared to those who have technical and product knowledge. Companies who are successful will compete for the best among this group and also develop ways to train and develop service champions internally.

Foster a service culture. A strong service culture, achieved through a multitude of small and large practices, can lead to many of the critical behaviors and outcomes discussed in this paper. A strong service culture is one where “an appreciation for good service exists and where giving good service to internal as well as ultimate, external customers is considered a natural way of life and one of the most important norms by everyone” (Gronroos 1990). If service is the natural way of life, then many of the recommendations noted in preceding paragraphs come naturally as well. If not, then it is much harder to implement service-oriented strategies.

For universities

As the world’s economies and businesses focus more and more on service and service innovations, universities can play an important role in the service imperative by developing graduates who understand service(s) and by integrating knowledge across disciplines to support the innovation process. Encouraging trans-disciplinary service research is another way that universities can play in this game as well as promoting the need for service knowledge and research to government and other funding agencies. Specifically, we believe universities can contribute in the following ways:

- Foster a focus on service across disciplines including business, computer science, engineering, and the social sciences.
- Consider the value of service science as a discipline in terms of shaping the future of the world’s economies and quality of life worldwide.
- Encourage trans-disciplinary education and research and the development of “T” shaped students and researchers.

For governments

Governments also will have a very important role to play within the service imperative. A number of countries have already figured this out (e.g., China, Germany, Finland and others) and the U.S. government is also moving in this direction on some fronts. Governments can support the service imperative as follows:

- Acknowledge services as the dominant engine of developed economies
- Recognize the limitations of current funding mechanisms
- Develop funding for services research across disciplines through both existing funding mechanisms (e.g., NSF) and also through new funding mechanisms

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