

Chapter 11

Service Innovation along the Chain of Service Process in Airline Business

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ABSTRACT

This chapter aims to explore the airline service processes which relate to the issue of outsourcing for service innovation. With this, airline managements are able to identify the part of the service process that necessitates outsourcing. The decision to outsource some service processes to the supplier is intended to allow airlines to focus on their core business. This chapter looks at the service encounter approach to analyse the possibility of the innovation during service processes. The results indicate that there are four major groups who have experienced service encounters in which innovations originate and evolve. These four groups interact in the service process which identifies the fact that the service process can be outsourced and innovated (e.g. web-integrated system, mobile phone application for check-in, maintenance, repair and overhaul (MRO), multi-sorting baggage handling system). Airline management has been suggested to make improvement of the services offered by considering safety, cost aspects, and enhance customer service experiences. This effort is expected to come up with an airline business strategy that will create sustainable competitive advantage.

INTRODUCTION

The airline business focus shifts from being profit-driven to market-driven, where the demand for airline service quality with a cost-efficient manner is increasing. The management also has been suggested to seek a literal strategy to

keep the cost of service production lower and to update various technologies. This strategy aims to ascertain customer loyalty and attract the new ones. Airline managements have argued that where their business principle is concerned, when they carry more customers than the existing competitors, it will create sustainable competitive advantage in the marketplace. However, airline managers often struggle with the question on how

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to attract more passengers to fly with affordable ticket price. Which part of the airline process needs to be considered when an airline management outsources to the suppliers? Perhaps, these questions will lead the airline management to delve more into the ideas of service innovation and outsourcing. Airline management has been facing two challenges as they are trying to formulate a better service strategy. The challenges are service innovation and cost effectiveness. Other than trying to keep their prices unbeatable, airline managers have attempted to differentiate their airlines from their competitors by concentrating on service innovation.

In fact, service innovation is relatively difficult to develop in the airline industry compared to their manufacturing counterparts. One of the reasons is that airline companies tend to share many similarities. Their core business is moving people, services and goods from one place to another. Besides that they also need to raise safety as the utmost priority and strategise ways to make their passengers feel secure. Indeed, service innovation is an option that opens the door for an airline company to deliver service quality to the customers. Reid and Sandler (1992) argue that the service innovation enhances service differentiation and induces financial gains. Service innovation is desired by the customer and is also economically beneficial to the firm. From the marketing perspective, innovation plays an important role that gives the service firm the ability to stay ahead of its competitors through new market offerings (Victorino et al., 2005). Service innovation relates to the cost of production. With respect to the low cost, the airline management also requires a reliable partner to lower the cost of service production. Airline managements need to know where to place their focus along the service chain processes and maintain good relations with suppliers such as the IT service provider as well as third or fourth party logistic services providers (3PL or 4 PL). With this way, airline managements are able to identify part of the service process that necessitates outsourcing.

The purpose of this chapter is to explore the airline service processes and the issue surrounding outsourcing for service innovation. This will assist academics and practitioners to make an informed decision about the part or aspect in the service process that can be outsourced to other parties, so that airline service innovation can be applied to render service diversification among competitors in the industry. With this, the airline can focus on the market and deliver service quality and added values and enhance customer service experiences. The existing literature has shown that studies on service innovation is lacking in comparison to product innovation research (Chesbrough, 2004). Thus, the airline practitioners need to exert considerable effort in creating service innovation, and at the same time also consider saving the cost. This chapter has the potential to contribute some novel ideas for airline managements, in order for them to be more proactive in pursuing service innovation, as one of the useful strategies to contribute to the diversification of qualities of airline companies.

BACKGROUND

Global competition within the service sector has only just begun in recent years (Dörner et al. 2011). The management has to face the challenges of upfront investments to innovate. Nevertheless these could be addressed without having to invest on a large scale in certain infrastructure and facilities, if they have a partner that meets the needs of the company. Thus, company can share the risks and benefits with partners and will consistently focus on respective strengths. The company needs to select a business partner that demonstrates its compatibility with specific expertise to successfully innovate (Ja-Shen et al., 2011). Forsman (2011) has studied innovation development and argues that the dominant items of innovation capacity are capabilities and external input through networking. To get better understanding of some of the issues discussed,

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