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Chapter 9: Service innovation in retail and corporate finance through digital enablement

9.1. Introduction to Service Innovation

Services – both product-related and product-independent – play a fundamental role in modern economics. Not only are services driving employment growth, but their increasing share in GDP is a testimony to their role as a value enhancer through demand and stimulation of investment efforts within the broader economy. Services also ensure the particularization of consumer goods while providing the necessary supporting activities for the latter's mass marketing among final customers. The ongoing digital transformation that our economies are undergoing is acting as an accelerator for this trend. By adopting more innovative technologies – be they new or existing products as well as new or existing business processes and models – service providers aim at increasing the effectiveness and efficiency of their value-creating and value-delivery processes in order to differentiate themselves from their rivals, achieve customer satisfaction and loyalty, outperform customer expectations, achieve cross-selling opportunities, and replicate their efforts and benefits (Bunea et al., 2016; Arner et al., 2017; Brynjolfsson & McAfee, 2017).

The various canonical definitions and facets of service innovation typically appear to concentrate on value creation and value delivery with focus on improvements made to either what is offered or how an organization operates. Service innovation is a scarcely acknowledged but accepted concept referring to the adoption by service companies of new or improved service offerings or introducing new or improved processes including novel ways of delivering, supporting, designing, and developing service offerings with the aim of contemporary value creation enabling superior financial performance or prolonged competitive advantage over competitors. The essence contained in this definition may be summarized in two fundamental issues: i) understanding and grasping the many shapes and forms service innovation may take; ii) recognizing and appreciating the value and relevance of service innovation to both the service provider and its clients (Chuen & Deng, 2017; Deloitte, 2023).

9.1.1. Background and Significance

Service innovation, supported by digital enablement technologies, is needed in all areas of business – and none more so than retail banking and corporate finance. Retail banking is often described as having lost the plot, lacking innovation. Retail banks have become dull monoliths with complex structures that alienate and disempower top management, or ossify against change. Typically, the CEO of a retail bank has a career path background of investment banker, lawyer, or former central banker. Corporate finance bulge bracket banks are prime candidates for innovation, too. Operating internationally, they too have megastructures governed by central control functions: tax; capital markets; accounting; M&A. Innovative use of technology is too often wasted in processing endless paperwork without value-added. To date, innovation in retail banking and corporate finance has been timid or entirely absent.

Fig 9.1: Service Innovation in Retail and Corporate Finance

Why are service providers reactive rather than proactive in offering service innovation as an opportunity for specialization? Despite continuous breakneck speed efforts to review and improve back-office structure and function in financial and other services, not too much has been done to innovate the front office activities of obtaining and maintaining customers and revenues in a service-driven economy. Also, despite the importance of customer experience and the increasing focus of corporations on customer relationship management, not enough has been done to develop specialized service paths to promote relevant information exchange and gather knowledge for value-added.

9.2. The Role of Digital Enablement

Digitalization has become an integral part of business operations, enabling services and enhancing their impact. Digital tools and other assets have helped finance businesses as well as clients in innovation and improved service delivery experience. They foster better understanding of client needs and financial behavior, increase efficiency of internal and external operations, and enable introducing new types of corporate finance services as well as innovate existing ones. Digital reach and engagement fosters client awareness of corporate finance services, which is often low, and improves client interaction and feedback through omni-channel service delivery. Similar to other functional areas, such as marketing and client content management, services innovation in corporate finance cannot be made in isolation. It has to be based on feedback from internal clients on the performance of various input process components of the activities involved in the various service areas as well as on the experience of external clients with execution as well as with the impact of service delivery. Incorporating those into a holistic model of corporate finance services will help guide business managers in prioritization, and in allocation of resources in terms of the level of engagement, expertise and financing at different stages of a possible transaction across distinct services areas for distinct business strategies, so that offer convertibility is maximized and the firm’s brand reputation enhance. Digital enablement and enablement tools provide a supporting structure for more than just the provision of services. They can help make the essential activities of corporate finance services available to a wider external audience, fostering client interaction and broad presence of corporate client financing that might lead to new funding conversion and billing, thereby enhancing business revenues.

9.2.1. Research design

The paper adopts a structure–process–outcomes service branding model as a research framework to operationalize and guide our study of services branding in retail and corporate finance and design our interview protocol. The model is suitable as it links retailing and marketing service research, recognizes a range of influences on service brand building, acknowledges different types of branding outcomes, and has cultural representation variables relating to creating and sustaining brand equity. We apply it in its classical qualitative form, so our study purpose is exploring service brand building. Using a grounded procedure, we address these propositions. P1: Organizations in our three service sectors primarily construct their service brand image in the same way. P2:

Cultural differences affect service brand image construction in these sectors differently, and services branding in retail finance differs from corporate finance. P3: Digital enablement is not a foundational business strategy but impacts service brand image construction in these sectors differently, and services branding in retail finance differs from corporate finance. The paper starts with research on services branding in general and service brand building for retail and corporate finance in particular. We supplemented the planned literature review with a pre-qualitative study. Four preparation interviews and the literature review assist development and operationalization of the model and guide our interview protocol for the planned data collection. The ensuing supplementary qualitative studies enable detailed reporting of results pertaining to P1P3. To enhance vicarious experience while retaining confidentiality, we use brands instead of corporate names in our presentation.

9.3. Trends in Retail Finance

Retail Finance, comprising Saving and Investment, Credit, and Insurance, focuses on the relationship with the individual consumer. Such interactions tend to be standardized for a large part of a mass-consumption market. Products marketed in retail finance do not reflect the specificity of the retail-oriented consumer. Considerable reduction in the cost of communication and transaction in retail finance has been achieved during the last decades. The introduction of the telephone, followed by Automatic Teller Machines and Direct Banking, appears to have reduced the cost and increased the flexibility of transactions in retail finance. During the last decade, a new generation of technology has been emerging. These developments include more integrated and standardized payment and message systems, distributed processing for planned economy activity and national balance-of-payments adjustment, sophisticated optimization and forecasting techniques, intelligent knowledge-based systems with management and control functionalities, more flexible microelectronic hardware for communication links and workstations, large-scale centralized databases for management information with economic and financial content, and powerful simulation and modeling tools with economic and financial content. The development of emerging technologies is displacing finance from its traditional roles of providing guidance, brokerage, and intertemporal resource allocation. Electronics is redefining the offered retail services, at least the low-cost transaction ones. This liberates banking and insurance from their initial transaction cost orientation, allowing them to refine their services to the clients both in more value-added terms. Financial service firms are restructuring the human resource content of the retail finance interaction. A priority concern becomes the definition of new retail consumer service values.

9.3.1. Emerging Technologies

Financial technology (fintech) is a synonym for innovations that aim to compete with traditional financial methods and practices in their products, processes or delivery of services to achieve a more efficient functioning of the financial sector, which relies more on the use of technology as a fundamental driver. Fintech is developing rapidly thanks to the full incorporation of the Internet into the provision of services, as a result of the new technological capabilities produced by the digitization of the economy. Aspects such as Artificial Intelligence, Big Data, and the Internet of Things, among other emerging technologies such as Blockchain, Smart Contracts, Machine Learning, Distributed Ledger Technology, natural language processing, biometrics and advanced mobile devices, are revolutionizing the delivery of financial services (payments, lending, credit rating and risk assessment, management and investment advice, crowdfunding, and capital markets among others) according to their higher speed, broader reach and lower costs compared to traditional intermediaries.

Much of the traditional banking business has been under threat by Internet innovation, but the pandemic has boosted the digitalization of the economy. In three months, we accelerated five years of digital transformation, as the pandemic was a perfect storm for a big fintech push around the world, restricting almost forcefully the access to physical branches. A combination of technology disruptions was unleashed in payment models, mobile banking, customer-oriented banking experience, customer risk assessment, open banking, neobanks or virtual banks, and fintech innovation ecosystem support.

9.3.2. Customer Experience Enhancement

At the direction of the financial sector, there is an active investigation into service innovation through brand extension into the digital domain, as ineffectual and user-unfriendly digital channels can significantly diminish customer experience. Some banks surveyed are deliberating the introduction of embedded finance applications, while others are attempting to improve customer experience by incorporating gamification into their digital products. Technology-based innovations that enhance customer experience include routine task behavior employing automated decision making; new daily experiences that combine human input and automated decision making; exceptional experiences where fully enabled digital products utilize augmented reality to provide seamless enhancement of experiences in the physical world, and lastly; new interaction processes that consist of artificial intelligence-enabled machine interactions. Another trend is banks investing in data science capabilities to analyze various user behavior data in order to turn previously one-size-fits-all product innovation into personalized experiences.

Fig 9.2: Customer Experience Enhancement

Banks and fintech firms are also focusing on building emotional engagement with users alongside usable functionality. Research indicates that adoptive trust diminishes feelings of vulnerability or uncertainty, which encourages user engagement while performing task-based actions. As a counterpoint to a hyper-productivity-dominated model, the focus is on enhancing customer well-being and emotional engagement. Organizational ethnographers advise these providers to incorporate enriching the capacity for attentional engagement, cultivating the ability to share pleasurable experience, and balancing distraction with mental stillness into their banking design principles to enhance and emotionally connect with their customers, especially the Gen Z and Millennial cohorts. Some banks are even going as far as implementing virtual shopping assistants to ensure stylish look and guide purchases while growing bank sales through commissions or partnerships with shops.Vitalization of creative accounting and corporate finance perspectives across several perspectives, combined with Information Technology enablement for prompt updates, deliberate dissemination, and back-end security breach elimination, can aid decision making of stakeholders. Creative accounting innovation could catch attention of the relevance and reliability faculties of the users. Building on past works in the corporate governance domain, the particular governance object of this work is Risk Management Innovations, about the systems to support the organization's implementation and control of risk-taking. Risk Management Innovation is Governance in Finance Silk Route: the guardians who priest and guard, who can help simultaneously make reward and risk-taking better enablers of the electronic economic enterprise, while neither is safe nor disabled.

9.4. Corporate Finance Dynamics

Corporate finance dynamics cover the discipline about managing funds, resources, and investment, typically on behalf of corporations, industries, or businesses, to innovate in improving the firm's value for shareholders or other stakeholders. Corporate finance is in primary areas including corporate investment, capital structure, and risk management. Corporate investment decisions concern the investments, and the optimum investment level and portfolio, to innovate in increasing benefit or profit. Capital structure decisions concern the optimum financing mix and giving optimum funding and resources of the company's operations.

Digital enablement is opening new corporate finance avenues for value addition. Digital transformation strategies in corporate finance cover applied creative accounting and external financial communications. The function of accounting is ensuring that investors and other stakeholder groups make decisions based on accurate information about the company's performance. Organizations employ the discipline of accounting to report both financial performance and value chain activities: what has been bought, sold, and transformed into marketable products or provided services through rainy seasons. Accounting connects stakeholders with behind-the-scenes business personas. Computerized accounting or Information Technology enablement eases software-driven obsolescence.

9.4.1. Digital Transformation Strategies

Digital Transformation strategies in Corporate Finance are detailed in nine different strategy options. In a multichannel strategy, firms invest to facilitate onboarding and standard banking operations through multiple channels; invest in alternative systems to execute high-volume, low-risk transactions; explore new channels for information dissemination, marketing, and customer feedback, launching campaigns, newsletters, and surveys. They usually build a presence on social media. In a brand refresh strategy, firms launch new brand campaigns or renovate their premises to emphasize professionalism, trustworthiness, business expertise, attractiveness (the ease of entering into a relationship with the bank), low costs, and technology ability. The use of third-party user review sites may also be part of this strategy to reinforce good feedback from customers. In a core wholesale banking capabilities strategy, banks invest in big corporate clients' services, providing better liquidity management and cash management products, also investing in the implementation of multi-currency accounts; document preparation for large investment projects financing; tax optimization and fiscal consulting; development of complex guarantees and counter-guarantees systems; risk evaluation and mitigation on equity connected to commodity-prices volatility.

In a new products development strategy, banks conceive pilot versions of new banking services, which might include new advanced payment technologies; private equity and venture capital services; microcredit initiatives for social impact; specific insurance solutions; fee-exempt accounts; facilitative tax accounts; bundle offers of related banking and financial services for medium- and small-sized businesses; stock and debt raising services with minimal transaction costs.

9.4.2. Risk Management Innovations

In addition to transforming payment processes, digital innovation enables financial services firms to offer a large variety of novel risk management solutions, from insurance to investment services. Digitalisation of risk management reduces time to quote or place a risk, improves processing for simpler risk placements and fosters new, more interactive relationships around risk between risk-takers and providers. At the same time, digital innovation also changes the way risk protection is provided and who can provide it, as startups invade traditional safety business areas. Existing underwriters need faster and simpler underwriting processes for smaller risks, increased relevance of risk protection, better and faster loss recovery and lower costs of servicing and handling claims. The digital innovators have also advanced into risk investment, namely via algorithmic automated investment advisors which are increasingly gaining market penetration. The digital advantage is particularly evident for less complicated service offerings, where personal interaction and sophistication of an investment strategy have lower values.

Life insurers have adopted risk data and risk analytics innovation. Digital technologies are used successfully to enhance data generation and harvesting for life underwriting designs, international risks and cross-border underwriting operations for tax optimization-based products. The applied digital risk innovation enables use of both external data and internal data. In property & casualty insurance, digital solutions are being employed throughout the insurance value chain: on the front-end side, enhanced online quote/fill-in processes and online price comparison, risk assessment, exposure tracking, complex risk underwriting, servicing and claims handling are provided, and algorithmic peer-to-peer insurance start-ups are challenging traditional providers. On the back-end side, innovations comprise enhanced underwriting processes, new distribution channels and improved physical risk assessment.

9.5. Case Studies in Retail Innovation

Service innovation, enabled by digital technologies, is important to succeed in competitive markets, like digital retail. The case studies highlighted build on the Service-Dominant logic of marketing and include various types of service dominant retail service innovations teachings to the domain of Strategic Management and Digital Marketing. A service focus provides an additional, broader lens on the ecosystems surrounding these innovations, and contextualizes them conceptually. Whether the innovation is called

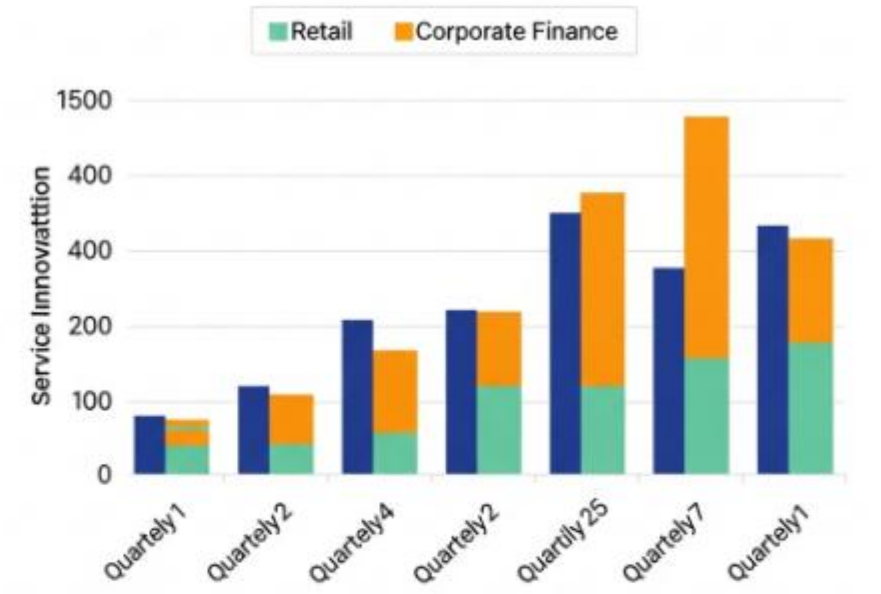

Fig : Corporate Finance through Digital Enablement

Space Exchange for branded kiosks in supermarkets, or Store Within a Store for branded sections inside retail stores, the idea is similar. Third party brands provide their branded kiosks or branded sections inside the stores of the retailer, and provide sales staff or outsourced services for customers. They have access to the large numbers of customers these stores attract, and the convenience of being able to buy complementary products in one single shopping trip. The retailer transforms a section of a store which was previously used to sell their products into a beautiful branded store to sell additional products customers are interested in, without any additional costs or operations linked to these third party brand products. In fact, the third party brands cover the cost in exchange for paying a percentage of their sales to the retailer. Various supermarket chains, especially in Europe, offer that kind of dominant retail co-creation service innovation to companies interested in selling their products there. Heavyweight brands have created megastores inside other retail stores for some of their products.

9.5.1. Successful Implementations

A first successful case of store digital enablement is a supermarket format in China, which started to operate in 2016. Customers can use a mobile app to order items to be delivered to the home, already pre-packaged by employees in-store. Mobile applications help customers while shopping in store, providing product information, promotions and suggestions. Digitally enabled stores also facilitate inventory management, as customers can receive a notification if a demanded item is out of stock. In addition, each store has a delivery team which brings mobile orders to the nearby houses. In those stores, online and in-store shopping are fully integrated and the line between the two channels blurs. On average, stores have 30% of their sales coming from mobile app-purchases. The second successful case is a retailer who has added an online shopping channel to its stores, including the take out option. Using a mobile application, customers can explore for products by categories and subcategories and can search for any product, from different brands or countries. They can filter by mentioning search or product country. Then, a store employee picks the purchased items from the shelves and prepares the order, which will be ready for the customer to take out or for the delivery team to take to its destination.

The two chapters of this section present two examples of successful products implementing some of the innovation routes resulting from the service innovation framework derived for retail services. Both cases deploy several service innovation routes together. Consequently, they represent particularly complex and successful examples of real-life service innovation implementations, proving the value of the proposed framework for innovation in services.

9.5.2. Lessons Learned

The concept of digital enablement for innovation has proved successful. However, some nuances must be taken into account that directly reflect the service differentiation offered by the innovation and the degree of customer participation in the innovation process. In the area of service differentiation, when products are perceived as basic by clients or do not enjoy high levels of differentiation from competitors, the expense on digital innovations tends to be introduced to achieve moderate cost leadership in the service delivery. The degree of collaboration of customers in the innovation process also influences the decision to invest high levels of resources and technology to innovate. Many times, collaborative innovation processes initiated by clients come to fulfillment without demanding high investments in technology from the bank. The area of application of the digital innovations can also be taken into account from the commercialization model of the products. In the area of mass products, the applications align more towards reducing costs of internal processes that imply higher operational costs for banks or enable a more efficient digital interaction with the client excluding the bank's physical branches. In the case of chain banking, the Internet channel on a developed operational base is used as a strategic promotion tool of the advantages offered by electronic services and a point of support for the inter-relationship between the client and the branches. In value or exclusive banking, the use of digital technology is directed towards the automation of management processes and the improvement of the commercial offer personalized for the client in order to enhance greater service differentiation.

9.6. Conclusion

The ability of small, fast, and agile challenger companies to identify emerging consumer wants and needs that enhance the shopping experience is drawing attention to retail and corporate finance service innovation. By bringing bank services closer to the customer in themes such as convenience and service differentiation under the stimulus of digital enablement, we can see trends that will further accelerate the movements in the categories of customer journey and digital experience. Fintechs connected to the repositioning of retail banks in services that are consumer-facing, such as personal finance management, options, and other convenience features such as instant credit approval for small transactions, and integrations with social media and e-commerce platforms are inciting the digitization of retail banking services.

In the closing chapter, this work examines final thoughts on the area and the most immediate future trends for service innovation in retail and corporate banking. It aims to highlight key and outline trends for areas of opportunity and analysis of growth. It is a consideration on final thoughts that focus on process and practice, driven by demands for deliberate process, detailing, and structure for development and business activity in the area of service innovation. Its emphasis is on recommendations for engaging with innovation in developing services work and activities for value creation and recreation. There is an identification of a need for capabilities in dealing with knowledge, platforms, networks, and organizational involvement in developing and implementing service innovations.

9.6.1. Future Trends

In times of uncertain viability, acting with confidence often gets organizations into difficulties. The status quo is defined by clear business rules and a transparent environment. In such situations, there is a tendency to stick to the basics of available quantitative data and develop on the basis of proven success patterns. In balance, the better the reliability of an environment, the higher the probability of current results being predictive for the future. In this case, organizations do not seek innovation. But rather possibilities for improvement. Once the living environment becomes dynamic, organizations rely more on responsiveness and less on hard facts. Once the environment becomes more unpredictable, the degree of uncertainty increases. In this case, organizations focus more on internal consensus than on external facts. They establish teams, which are able to gather qualitative insights about the user's needs.

The later stage describes increasing demands for service innovation in types of business as finance. The need to cope with the strong volatile environment leads service providers to qualitative and transformational innovation. Hereby, proactive only formalized service principles are not sufficient any longer. The comment is obvious that an increasing number of journey paths likely leads to a variety of highly customized service propositions, which can be transformed again into service bundle concepts for further customer segments. In the finance business, increasing volatility will shape the roles of providers as well as customers. Clients on the procurement side constitutionally adapt to growing waves of volatility. Providers shall no longer invest into possibly expanding costs; the customer will request a piece of advice on operating issues. Also from the customer side, inhabiting future risk lies in getting accessible, predictable, and affordable. Most demand will not ever just wait for qualified expert judgement. The basic question for both sides will rather be "who and how takes the pain away?"

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