



Guidebook Series

How to support SME Policy
from Structural Funds.

The Smart Guide to Service Innovation

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How to better capitalise on service
innovation for regional structural change
and industrial modernisation

This guidebook has been produced by the Clusters and Support for SMEs unit of the European Commission's Enterprise and Industry Directorate-General in consultation with the Smart and Sustainable Growth unit of the Directorate-General for Regional Policy. It is based on the information gathered in a number of projects and studies executed in this field. Although the work has been carried out under the guidance of European Commission officials, the views expressed in this document do not necessarily represent the opinion of the European Commission.

For further information please contact :

European Commission

Directorate-General for Enterprise and Industry

Unit D.5 : Clusters and Support for SMEs

e-mail : ENTR-CLUSTERS-AND-SUPPORT-FOR-SMES@ec.europa.eu

URL : <http://ec.europa.eu/enterprise/policies/innovation/support/>

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This guidebook is part of a Series. The titles published so far are :

Nr.1 Building Entrepreneurial Mindsets and Skills in the EU

Nr.2 Using standards to support growth, competitiveness and innovation

Nr.3 Facilitating Transfer of Business

Nr.4 The Smart Guide to Service Innovation

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Foreword



Boosting growth in Europe's regions needs entrepreneurs and talents to be provided with the right environment and support to make use of opportunities from new business models and service offerings.

To achieve sustainable growth and jobs across Europe, a broad concept of innovation will need to be followed. This is why the European Commission has included in its proposals for the future Cohesion Policy regulations the requirement for regions to develop smart specialisation strategies. Service innovation has an important role to play in such strategies. This should in particular contribute to providing small and medium-sized enterprises with favourable regional eco-systems and helping them to be competitive in global value chains. Service innovation should be seen in a strategic and integrated manner in order to shape new industries and restructure old ones.

This smart guide presents examples of potential instruments to unlock the transformative power of service innovation that can be used by regions in designing and implementing smart specialisation strategies and related innovation support services for SMEs. This guide shows the way how service innovation can be used as a catalyst for economic change and a facilitator of cross-sectoral fertilisation and new business models.

We hope that you will find this guide a valuable source of inspiration.

Antonio Tajani
Vice-President of the European Commission
Responsible for Industry and Entrepreneurship

Johannes Hahn
Member of the European Commission
Responsible for Regional Policy

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1

Introduction

This smart guide is addressed to all national, regional and local stakeholders interested in promoting regional structural change and industrial modernisation, and in particular to decision-makers in the Managing Authorities of Cohesion Policy Funds. It should be of interest to all regions, irrespective of their regional structure, strengths and weaknesses. Regions with an industrial base that is not positioned at the technological frontier are equally targeted – as service innovation offers opportunities to advance their competitive position and that of their businesses.

The guide aims to illustrate how strategic regional public support can offer small and medium-sized enterprises a favourable environment and support them to better capitalise on service innovation in view of staying competitive in global value chains that include both manufacturing and services. As this is the focus, the guide will neither cover all forms of innovation nor all aspects of regional innovation strategies that may be supported at regional level. It should rather be seen as a practical toolbox with ideas and fresh input

from the work of regional stakeholders. The objective is to look at what environment, institutions and support tools can be put in place in order to facilitate a transformation of regional industrial structures and sectors “through” service innovation.

This smart guide is mainly filled with examples of potential instruments that can be used in implementing regional strategies in this direction. Many of the examples have received co-financing from the Cohesion Policy Funds, whereas some have not. They do, however, all illustrate how Cohesion Policy Funds could be used to support a more strategic use of service innovation. The guide complements the Policy Handbook by the Working Group of EU Member States experts on cultural and creative industries on “How to strategically use the EU support programmes, including Structural Funds, to foster the potential of culture for local, regional and national development and the spill-over effects on the wider economy?”¹

The preparation of this guide was supported by the “TAKE IT UP” project² – which is the

¹ <http://ec.europa.eu/culture/our-policy-development/documents/120505-cci-policy-handbook.pdf>

² <http://www.takeitup.eu/>

promotion pillar of the Europe INNOVA initiative for better innovation support –, through a mini-study conducted by Jan Runge from Spectrum. Innovation policy stakeholders have been consulted on the content of an earlier version of this guide via the PRO INNO Europe® website.³ Moreover, the following stakeholders have also been consulted:

- the Mirror Group, an advisory group composed of high-representatives of networks, international organisations and international academic and corporate experts. Its role is to advise the Steering Team of the smart specialisation, S³ Platform on its work, both at a more general level including priority setting, and at a more detailed level on specific activities aimed at assisting policy-makers and practitioners.⁴
- Partners of the EPISIS project.⁵ The project's main objective is to facilitate transnational cooperation between policy-makers and innovation agencies in the field of service innovation through parallel policy, strategic and operational level activities.
- INNO Partnering Forum.⁶ The INNO-Partnering Forum's aim is to identify, develop and exploit synergies between public innovation agencies in Europe and propose new approaches to innovation support for SMEs. The project focuses, in particular, on exploring and testing new ways of service delivery, aiming to accelerate the take-up of the most advanced innovation mechanisms with proven efficiency and impact.
- Participants of the KIS Partnering Forum on the theme "New ways to promote service innovation in Europe: the role of the Structural Funds", held on 27-28 January 2011 in Warsaw, Poland, who peer-reviewed and voted upon some of the examples in this guide.

This Smart Guide is to be presented during the 10th edition of the European Week of Regions and Cities – Open Days – in Brussels in October 2012.⁷

³ <http://www.proinno-europe.eu/episis/newsroom/invitation-public-consultation-draft-text-smart-guide-service-innovation-how-better->

⁴ http://ipts.jrc.ec.europa.eu/activities/research-and-innovation/s3_mirror.cfm

⁵ <http://www.proinno-europe.eu/project/episis>

⁶ <http://www.proinno-europe.eu/projects/partnering-forum>

⁷ http://ec.europa.eu/regional_policy/conferences/od2012/index.cfm

Setting the scene

2.1 A few clarifications to start with...

Services and the service sector are increasingly important growth motors in the economy and account for more than two thirds of employment and gross value added generated by the EU. They also provide most of the growth in Europe.⁸ However, services are not a panacea. They cannot alone address Europe's competitiveness issues or replace manufacturing industry. Europe still has, and needs also in the future, a strong industrial base and technological leadership in many areas. The question is thus neither whether manufacturing or services sectors are more important nor whether technological innovation or service innovation is more important. They all are vital for the European economy.

What is, however, important to underline is that traditional boundaries between manufacturing and services are increasingly being blurred.⁹

The success of manufacturing depends, for instance, very much on innovative services like design, marketing and logistics as well as on product related after-sales services and vice versa. More and more service firms are manufacturing goods that build upon or are related to their service offerings or distribution channels. But regional and industrial development policies and tools still do not often take sufficient account of these changes.

Service innovation is in fact a driver of growth and structural change across the whole economy. It helps to make the entire economy more productive and provides fuel for innovation in other industries. It even has the potential to create new growth poles and lead markets that have a macro-economic impact. Service innovation thus can bring about structural and economic change in our societies by transforming the way we live, do business and interact with each other.

⁸ Commission Staff Working Document SEC (2009)1195 entitled "Challenges for EU support to innovation in services – Fostering new markets and jobs through innovation", available at www.europe-innova.eu/c/document_library/get_file?folderId=261559&name=DLFE-10729.pdf

⁹ Expert Panel on Service Innovation in the EU (2011), "Meeting the challenge of Europe 2020: The transformative power of service innovation", available at <http://www.europe-innova.eu/web/guest/innovation-in-services/expert-panel/publications>

Box 1: Definition of service innovation and the transformative power of service innovation

Service innovation comprises new or significantly improved service concepts and offerings as such, irrespective of whether they are introduced by service companies or manufacturing companies, as well as innovation in the service process, service infrastructure, customer processing, business models, commercialisation (sales, marketing, delivery), service productivity and hybrid forms of innovation serving several user groups in different ways simultaneously.

The **transformative power of service innovation** is understood as the process when services “disrupt traditional channels to market, business processes and models, to enhance significantly customer experience in a way which impacts upon the value chain as a whole”. In this way, service innovation is shaping emerging sectors, industries and markets and contributes to structural change and industrial modernisation.

This “**transformative power of service innovation**”¹⁰ has already taken place in many sectors. It has fundamentally changed some value chains, like in the music industry. Anticipating and utilising this transformative power can not only enhance the competitiveness of businesses but also that of regions if they manage to host large or central parts of new industrial value chains. Providing a favourable environment and incentives for service innovation may thus facilitate structural change within a region.

Such change can, however, be disruptive and may even face opposition from vested interests. Transformation always has winners and losers: it offers new opportunities to some but also brings “creative” destruction to established actors, if they fail to adapt adequately. Facilitating change thus requires conscious decisions, priority-setting and clear communication to have a chance to succeed.

To do so makes sense from a regional perspective because not reacting to global and industrial

development often leads to regional structures becoming too narrowly focussed on the traditional set of competences.

Pursuing to unleash the transformative power of service innovation offers regions a chance to strengthen their existing industrial base and to facilitate the development of new sectors and industries. For example, a region with a strong industrial tradition can benefit from industrial design centres with a specific mission to add value to and renew existing industries. By attracting talents and providing incentives for people with different backgrounds, experience and competences to work together, a region can help its industries to modernise and to create new jobs.

By affecting all sectors and markets, the transformative power of service innovation not only contributes to the **transformation of traditional industries** but it also **shapes emerging industries** at the borderlines of different competences and industries. As these emerging industries are often characterized by high growth rates and further market potential, they hold the key to future competitiveness and prosperity.

Box 2: Definition of traditional industries and emerging industries

Traditional manufacturing industries can be understood as sectors involved in the processing and production of goods and services that have existed for a long time without much disruption or change and without having faced a major transformation by merging with other sectors or being challenged by new business concepts and service innovation. They are usually referred to as the “secondary sector” of industry within industry classification systems. Classical examples of such traditional manufacturing industries are automotive, food and beverage, textile, consumer goods, chemicals, metal production, etc.

¹⁰ Expert Panel on Service Innovation in the EU (2011), «Meeting the challenge of Europe 2020: The transformative power of service innovation», available at <http://www.europe-innova.eu/web/guest/innovation-in-services/expert-panel/publications>

Emerging industries can be understood as either new industrial sectors or existing industrial sectors that are evolving or merging into new industries. They are most often driven by key enabling technologies, new business models such as innovative service concepts, and by societal challenges such as sustainability demands that industry must address. Many emerging industries like creative industries, mobile and mobility industries or eco-innovative industries have in common that they grow out of already existing industries and hence cut across different traditionally defined sectors in building new industrial landscapes and value chains that integrate cross-sectoral competences and linkages.

For Europe as a whole and for individual regions, it is important to put in place a coherent framework to unlock this potential of service innovation for structural change and economic growth. This needs to be placed at the heart of regional, industrial and innovation policies at all levels in order to meet the challenges of Europe 2020, as stressed by the recommendations of the Expert Panel on Service Innovation in the EU.¹¹

Under the next Cohesion Policy funding period 2014-2020, European regions will be asked to draw up national and/or regional innovation strategies for smart specialisation.¹² Services and service innovation will play an important role in this respect and regional stakeholders and policy makers should be aware of the potential that lies within the transformative power of service innovation when designing new or improved “smart” regional policies.

Box 3: Definition of smart specialisation

Smart specialisation is an important concept for better and more targeted innovation policy that has been taken up in post-2013 Cohesion Policy. The foreseen mandatory National/Regional Research and Innovation Strategies for Smart Specialisation (RIS3 strategies) are integrated, place-based economic transformation agendas that...

- focus policy support and investments on key national/regional priorities, challenges and needs for knowledge-based development;
- build on each country/region's strengths, competitive advantages and potential for excellence;
- support technological as well as practice-based innovation and aim to stimulate private sector investment;
- get stakeholders fully involved and encourage all forms of innovation and experimentation; and
- are evidence-based and include sound monitoring and evaluation systems.

The aim of this guide is not to provide policy makers with evidence that showcases this “transformative potential of service innovation” or provide examples of new emerging industries or most promising emerging sectors for regional development and industrial change. Such evidence will be captured and made available to regions and Member States by the European Service Innovation Centre¹³ and the European Cluster Observatory¹⁴ which will map and analyse the transformative processes and emerging industries in Europe. Their work should help to identify those showing the most robust characteristics and to depict “what” they are and “where” these industries are placed.

Instead, the aim of this guide is to provide examples of “how” the **implementation** of smart specialisation strategies can take place by taking advantage of the “transformative power of service innovation”.

The reason for this specific focus is that regional innovation policies still largely focus on technological innovation and on the funding of research activities rather than supporting all forms of innovation, knowledge and creativity.

¹¹ Expert Panel on Service Innovation in the EU (2011) Meeting the challenge of Europe 2020: The transformative power of service innovation, available at <http://www.europe-innova.eu/web/guest/innovation-in-services/expert-panel/publications>

¹² <http://ipts.jrc.ec.europa.eu/activities/research-and-innovation/s3platform.cfm>

¹³ The European Service Innovation Centre will be established in 2012 by the European Commission through a call for tender. Its main task will be to raise the awareness of the potential and impact of the transformative potential of service innovation and to provide customised advice to model demonstrator regions on how to practically better exploit and support it.

¹⁴ Website of the European Cluster Observatory: www.clusterobservatory.eu

As a result, resources are not optimally allocated and there are many missed opportunities. It is not sufficient to just **open-up traditional instruments** to also include service innovation and increase service companies' access to these. This is needed but not enough.

2.2 Scope for policy action to unlock the potential of service innovation

The comprehensive approach advocated by this guide requires altogether **new instruments** to be developed and designed that take better account of service innovation in the first place. Examples of such new instruments are those focusing on the promotion of spill-over effects between industries and the emergence of new service concepts, regardless of whether these take place in manufacturing or service companies.

Specific instruments that may be chosen to support a better use of service innovation can be implemented at different levels:

- (1) at **activity** level, for example, through research projects and financial support for the development of new business models;
- (2) at **company** level, by promoting an overall entrepreneurial culture, by enhancing the capacity of companies to innovate faster and better, or by supporting start-up's, improving the innovation management of firms or facilitating access to finance;
- (3) at **sectoral** level by creating a favourable business environment for service innovation to happen, such as through clusters and business networks; and
- (4) at **market** level through the liberalisation of service markets, effective consumer protection or standards that support the trust and interoperability of innovative services.

The following box provides a more detailed overview of various types of policy measures that can be applied to these four levels.

Box 4: Scope for regional and industrial innovation policy for service innovation

	Activity level	Firm level (Enterprise)	Sectoral level (Business environment)	Market level
Assimilation policies	<ul style="list-style-type: none"> - Innovation metrics - Support to public RTD - Facilitation of knowledge transfer 	<ul style="list-style-type: none"> - Business incubation, growth support & internationalisation - IP support and innovation management - Access to finance and investment readiness 	<ul style="list-style-type: none"> - Sectoral innovation metrics - Technology and service innovation foresight - Cluster mapping and analysis 	<ul style="list-style-type: none"> - Market foresight & emerging industries watch - Industry-led self-regulation, interoperability standards & certification - Legal & regulatory framework for services (eCommerce)
Targetted policies	<ul style="list-style-type: none"> - Specific RTD programmes - Promotion of ICT use (eBusiness) - Promotion of new business models in services and new service concepts in manufacturing 	<ul style="list-style-type: none"> - Specific enterprise and industrial innovation support schemes for service firms - Specific risk financing schemes for services - Voucher schemes to support the service innovation capacity 	<ul style="list-style-type: none"> - Sectoral industry and cluster policy initiatives in service sectors (user involvement, cooperation, cross-sectoral linkages, new forms of clustering) - Public private partnerships demonstrating service and organisational innovation 	<ul style="list-style-type: none"> - Lead Market Initiatives on new services - Voucher schemes to enhance spill-overs - Awareness raising activities - Deregulation / liberalisation of specific services
Soft & hard infrastructure	<ul style="list-style-type: none"> - Research institutions for services - Specialised training institutions for services 	<ul style="list-style-type: none"> - Service parks and incubation centres 	<ul style="list-style-type: none"> - Strategic infrastructure projects (e.g. broad-band access, logistic & service hubs, co-working spaces) - Living labs, design centres 	<ul style="list-style-type: none"> - Supervisory authority
Horizontal policies	<ul style="list-style-type: none"> - Tax incentives - State Aids - Education & training - Public procurement 	<ul style="list-style-type: none"> - Entrepreneurship policies for start up's - Mobility programmes 	<ul style="list-style-type: none"> - IPR policies - Sector-specific standardisation, such as in ICT 	<ul style="list-style-type: none"> - Internal Market for services (e.g. Services Directive) - Competition policy, including merger controls

The difference between supporting service innovation at activity level and at company level is that, in the first case, the development of specific new business models is supported, whereas in the second case the innovation capacity of a company is targeted in general – irrespective of the type of service innovation introduced. Supporting service innovation through cluster initiatives at the sectoral level even goes a step further, by improving more generally the business environment in which companies operate and innovate.

In other words, instruments in favour of service innovation implemented at activity level result in projects. Implementing instruments for service innovation at the firm or company level means, in most cases, to subsidize companies to innovate more and faster. Finally, instruments supporting service innovation at the sectoral level require more strategic choices and dedicated efforts to improve the business environment for specific groups of companies more fundamentally. Like innovation in general, also service innovation flourishes best where a conducive regional “eco-system” or cluster exists that supports a steady flow of new ideas and their implementation. Also in services, new ideas can be nurtured systemically.

While a lot of efforts are still needed to further complete the internal market and to improve the overall regulatory environment for all companies – especially services –, such legal and regulatory measures at horizontal and market level are probably more efficiently addressed at European level than at regional level.

However, a lot of efforts can take place at the regional level to unlock the transformative power of service innovation to facilitate entrepreneurship and industrial change. Typically, regions can have the **strongest impact on service innovation** with policies and instruments addressed at **company and sectoral levels**. The main interest of regions here lies in strengthening regional development and competition by supporting

start-up companies that make use of service innovation and by promoting a favourable business environment for SMEs.

2.3 Impact through implementing a systemic approach

In order to fully benefit from the transformative power of service innovation, a **holistic and strategic approach** must be followed. Such an approach combines horizontal policies with specific policies aimed at putting in place better infrastructure and better support for innovative companies by providing them with a favourable business environment and addressing specific market failures to exploit service innovation.

An example of such a holistic approach is what the Expert Panel on Service Innovation called a “**large-scale demonstrator**”. The “large scale” does not refer to the amount of financial support provided for a particular project but to the extent of the roll-out of a staged process of experimentation and implementation with accompanying support. This approach aims at “demonstrating at large scale” the potential impact of service innovation and “service system” solutions to specific challenges.

For instance, the Expert Panel proposed the launch of demonstrators to show how to transform and enhance the competitiveness of heavily industrialised regions (Demonstrator 1A: industrial areas in transition) or to support sustainable tourism and the experience economy in rural areas (Demonstrator 2: creating dynamic regions). The need to create sustainable communities through resource efficiency, carbon emissions reductions, smart urban transport solutions, or to facilitate the development of emerging industries and structural change driven by new technologies, sustainability demand and service innovation are common challenges amongst regions.

Box 5: What is a “large-scale demonstrator approach”?

According to the Expert Panel on Service Innovation in the EU, **large-scale demonstrators** “represent a powerful means for de-risking the development and scale-up of novel service systems, encouraging engagement with stakeholders and users, sharing experience across Europe, identifying clusters of expertise and opportunities for partnership...».

It is an approach that moves from small-scale prototypes or pilot projects to large-scale near-market projects in which a range of solutions are tested under real-life conditions with a view to better exploiting the transformative power of service innovation to tackle societal challenges, address specific problems or needs, or support a vision for change for the better. The concept is outcome and user experience orientated and calls for a clear “owner” of the challenge or problem, such as a municipal authority, to take the lead.

Such policy-making is about how regions can provide incentives for changes and entrepreneurial activities to take place both in industry and society. This therefore supports the restructuring of existing industries and the creation of new competitive industrial structures. It entails an effective use of public investments as it concentrates scarce resources on a few areas that promise to maintain or develop a competitive advantage for the regional industrial base. In order to strengthen the region’s innovation capacity and thus to boost economic growth and prosperity, regional policies need to be reviewed and refocused to better capture the “transformative power of innovation”.

As such, the concept of large-scale demonstrators is a new approach for stimulating innovation. It provides regions with a tool to better link all public and private actors, notably industry, knowledge service providers, research institutions, regulators and

users/citizens to share knowledge, contribute practical experience, and articulate their needs and competences. At the same time, it offers a context and incentives for developing, testing and implementing new approaches in addressing specific challenges and problems. In this way, traditional innovation policy is turned on its head. Instead of supporting the commercialisation of research and innovation as such, large-scale demonstrators support the testing of solutions to address a specific challenge. In other words, the concept starts with the problem and not the solution.

A new service offering or a new industrial value chain will put in danger the stakes of current stakeholders and question established administrative procedures. Without being accepted as **a learning environment for the region** that is encouraged to trigger institutional changes, no demonstrator will improve competitiveness and create jobs in larger number. Therefore, a **lasting political commitment** to the demonstrator as part of long-term strategies is a must. Expecting companies to exploit foreign markets with new services while not being willing to question structures at home will likely not have a real impact.

Service innovation that successfully addresses regional and structural challenges has, most likely, the potential to be implemented elsewhere and realise a larger market potential. **Marketing, dissemination and policy learning** have to be an integral part of systemic large-scale demonstrators in order to raise international awareness and local public recognition. Encouraging the reproduction of successful new service concepts beyond one’s region can be supported through sharing of experiences and learning between and among regional stakeholders.

2.4 Lessons from the past: what mistakes to avoid

Policy makers and practitioners alike constantly search for the “next practice” to improve their policies and instruments. The outlook beyond

own activities and regional and national borders is crucial to achieve this. However, extracting the right lessons is not always a straight forward exercise.

As there is no one-size-fits-all model and “best practice” in support of innovation doesn’t exist, all regions must find their own way to build competitive advantages based on their local strengths and assets combined with inspiration from global networks and trends. Sometimes, “better strategies” can be found in regions that have to struggle the hardest to offer a future perspective to their citizens.

Innovation often only happens when actors are challenged and a solution is needed to solve a particular problem. And, in fact, many regions already practice what others may consider impossible. The challenge is to reproduce these success stories and positive experiences as widely as possible and leverage them into effective regional policies while taking the specific local and regional particularities into account.

All regions are under pressure to demonstrate the effectiveness of their investments in programmes and projects – ever more so in the current climate of tight public resources. It’s thus normal that success stories are widely advertised and that others are keen to study them for inspiration. That not all of these cases stand the test of excellence is nothing new, this is the nature of excellence. One can also not always know what part of the success claimed was due to the measure highlighted and what part was caused by chance. Looking closely at the evidence base is therefore important but not always possible as monitoring and accompanying evaluations are not every time planned from the start.

Even more difficult to find out is what not to do. In order to be able to avoid mistakes already made by others, one needs to be aware of them. And that’s where the problem starts. The inherent tendency of not reporting upon failures is not a surprise – yet a missed great value to others. For this reason, the following section presents some common pitfalls that should be avoided.

Blind copy-paste: Forgetting to adapt measures to regional particularities

The most common mistake is the attempt to reproduce the success of others by copying a supposedly successful programme or project one-to-one without much adaptation. This may work in some instances but in the vast majority of cases it is likely to lead to a waste of public funding. Each region’s objectives, challenges, systemic constraints, resources and industrial structure need to be carefully considered. If policy measures and initiatives are not customised to the particularities of each region, they are likely to fail to achieve their aim. The blind copy-pasting of measures that do not correspond to a region’s development level and/or specific profile should thus be avoided.

Doing it alone: Duplication and isolated solutions

Regions have to address complex challenges in order to find quick solutions to pertinent problems. The problem is that they often go it alone and undertake action in isolation without considering partners or alternative solutions. This can lead to suboptimal solutions and, again, a potential costly waste of public money. Regions should therefore be encouraged to cooperate and seek synergies in their actions, e.g. when implementing larger infrastructure projects that would require important investments. The sum is bigger than its parts.

Not only should the sharing of experiences and learning from each other be strongly encouraged, but even more so, joint activities for cross-border cooperation at the regional and trans-regional levels should be initiated. This could avoid duplication and would allow for testing a larger number of potential service system solutions. Having different options explored at large scale in real-life settings leads to better, informed decision-making and promises a higher success rate for implementation. An ex-ante impact assessment should compare possible private service provisions with public services and explore alternative implementation concepts.

Keeping it simple – too simple: Infrastructure investments and nothing else

Many infrastructure investments such as in conference centre, airports, etc have been made or are being developed without accompanying support measures and service concepts to boost entrepreneurial dynamism around them. A strategic consideration of the potential of service innovation in the design of these measures and an integration of related support measures within their implementation offers scope for higher impact. This also applies to investments serving other policy priorities such as cultural diversity. For instance, infrastructure investments in museums are often combined with accompanying cultural events. Yet, they should be equally combined with measures to foster opportunities for entrepreneurs active in the field creative industries, e.g. by integrating co-working spaces or launching innovation voucher schemes to encourage new opportunities, spill-overs and cooperation with others.

Moreover, when undertaking public procurement, regions should always carefully consider the full product life-cycle costs and compare the price with alternative service provisions such as leasing.

Avoiding change: Sticking to a traditional innovation focus

Most often, innovation support is still mobilised predominantly to focus on fostering research and technology-driven innovation. While this is an important and crucial orientation that regional policy should follow, it is not sufficient to reap the full benefit of the regional innovation potential. All forms of knowledge and innovation need to be considered and their potential unlocked. It is often the strategic hybrid combination of both technological and service innovation that leads to the best results.¹⁵

Starting without the beginning: Following trends and not own strengths

Another common mistake is to burst into action without knowing the wider context. What may be perceived as a regional strength might internationally not be competitive and, vice

versa, a little niche competence in a region might be world-class. To allow evidence-based policy-making, advice should first be sought from available analysis and international comparisons for those having to take decisions to be able to assess the scope of the problem and the capacity to address it.

In this respect, there is a common order that is usually followed by many policy-makers and practitioners. They first identify growth trends – the golden honey pot – and then search for the way to get there by picking likely growth sectors to be promoted, for which a growth strategy is then developed. Much more promising might be to start fully assessing regional strengths and then to identify linkages, first, between sectors and competences within a region that could be combined and, secondly, with those in other regions, both nationally and internationally. A strategy that aims to better capitalise on all regional strengths and to facilitate cross-sectoral fertilisation may yield better results and have the potential to give rise to new niches, sectors and markets that others may not yet serve and thus boost future growth.

Forgetting about the adequate support institutions that can facilitate change

Change requires active agents to implement it. These cannot always be the same and may differ depending upon the challenge, objectives and constraints. Regions should, for instance, tap into the resources and multiplier function of so-called cluster organisations that represent groups of specialised businesses and other innovation actors in a particular area. If no specialised organisations and counterparts exist in a region as partners to implement an agenda for change, then the region needs to consider who would be best entrusted with such a role or whether it is necessary to create a new organisation for that purpose.

These common mistakes have been brought together in the following simplified list of principles to be followed when taking action.

¹⁵ See results of the IMP³rove II Study - Gaining Competitiveness with Innovations beyond Technology and Products: Insights from IMP³rove, July 2011, available at <https://www.improve-innovation.eu/sme/valuable-links/publications/>

Box 6: Ten Do's and Don'ts for successfully implementing transformation through service innovation

Don'ts	Do's
Focus only on research and technological innovation	Focus on all forms of knowledge and innovation
Support service innovation as such	Support transformation through service innovation
Support individual specialised firms	Support clusters or networks of related firms
Focus on a given set of service sectors	Focus on manufacturing and services
Copy-paste best practice	Search for the next practice
Follow growth trends without reflection	Capitalise upon regional competences for the development of emerging industries
Follow a horizontal approach without specific target	Follow a systemic approach
Follow a narrow sectoral approach	Follow a cross-sectoral approach
Launch pilot projects in isolation	Launch large-scale demonstration projects through a systemic approach
Find a problem for an innovation (i.e. searching commercialisation)	Find an innovation that can solve a problem (i.e. addressing challenges)

3

Unlocking the transformative power of service innovation

Based on the principles outlined in the previous section on how to best capitalise on the potential of service innovation at large scale, the highest impact can be achieved by a combination of various instruments and tools. This mix of instruments to choose from will depend on the set of challenges and opportunities that have been identified and that should be addressed. Each region will end up with its own policy-mix depending on an inward-looking process and benchmarking carried out during the preparation of a wider strategy for the region.

The implementation of such strategies to unlock the transformative power of service innovation may be supported under Cohesion Policy, namely the European Regional Development Fund (ERDF), the Cohesion Fund, the Instrument for Pre-Accession Assistance (IPA) and/or the European Social Fund.

Box 7: Funding the exploitation of service innovation from Cohesion Policy Funds¹⁶

In general, the EU legal framework regarding the use of Cohesion Policy Funds is relatively broad and support for a better use of service innovation falls within the scope of several objectives and expenditure categories. When designing operational programmes, re-assessing investment strategies or drawing up smart specialisation strategies, each region and Member State across Europe is therefore free to put more emphasis on service innovation. Diverse eligible instruments exist under the current 2006 ERDF Regulation (in force until 2014), notably under §3 “Scope of Assistance”, §4 “Convergence”, §5 “Regional competitiveness and employment” and §6 “European territorial cooperation”. Thematic and investment priorities of the next programming period (2014–2020) for Cohesion Policy Funds in general and the ERDF in particular also allow to support investments and actions in favour of service innovation.

¹⁶ Council Regulation (EC) No 1083/2006 of 11 July 2006 laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund and repealing Regulation (EC) No 1260/1999. Available at: http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/newregl0713_en.htm. For details after 2014, please refer to the proposals for a Council Regulation for the next programming period, 2014–2020, COM(2011)615, thematic objectives, set out in Art. 9 as well as specific investment priorities specified under the proposal for a regulation on specific provisions for the ERDF (Art 5), COM (2011)614. Available at: http://ec.europa.eu/regional_policy/what/future/proposals_2014_2020_en.cfm#1

When looking around in Europe, much of the innovation support mobilised through Cohesion Policy funds is still focused mainly on fostering technological innovation. But good examples of existing or new instruments that focus on service innovation and that are implemented through the EU's regional funds, can be found. This section provides concrete examples of such good examples that have been or could be implemented by using Cohesion Policy instruments.

The instruments and tools are presented under the headings of three types of levels at which support can be given: (1) at the company level,

(2) at the sectoral or business environment level and (3) by supporting actions favouring spill-over effects and acting at the market level. The following table gives an overview of the examples provided in the next chapter that address regional challenges or problems through service innovation. Some of the support measures like design centres and innovation vouchers are referenced more than once as the examples serve different objectives and were implemented at different levels.

Box 8: Overview of support instruments to unlock the potential of service innovation

Support instruments at the company level	Support instruments at the sectoral, business environment level	Support instruments at the market level and to promote spill-overs
Design innovation clinics	Design centres	Regional awareness raising measures
Supply-side innovation vouchers	Living Labs	Incentives for cooperation between manufacturing companies and designers
Innovation management support	Support to clusters in emerging industries driven by service innovation	Demand-side innovation vouchers
Facilitating access to finance	Innovation assistance	Public procurement initiatives
Service incubation centres		
Supporting a holistic approach		

3.1 Support instruments to boost service innovation at the company level

Innovation thinking in many manufacturing companies is still dominated by engineers and technology-minded staff while there is scope that service innovation can become a natural part of the innovation processes and key to success for all enterprises. Service innovation can be realised, for instance, through a new

marketing concept or as improved after-sales service, but it can also take the form of new business models that shift the focus away from selling products to maintaining service contracts for their use (leasing).

A study by the “IMP³rove European Innovation Management Platform” (see good practice example below) has shown that innovation champions that outperform others are “hybrid innovators” that combine product and service

innovation in their innovation projects.¹⁷ Innovating in such a comprehensive manner is a complex management process and it is recognised that many SMEs do not have processes in place to use all of the knowledge and creativity that is available in their company and lack experience and skills to realise service innovation. Better innovation support for SMEs could address these shortcomings. Traditional, public innovation support providers are only beginning to address these needs, while many private service providers – many of them small and micro-enterprise themselves – face difficulties to gain access to clients.

The next section presents the following measures and instruments that can be used for this purpose as part of implementing regional strategies to unlock the transformative power of service innovation:

- Design innovation clinics
- Supply-side innovation vouchers
- Innovation management support
- Supporting access to finance
- Service incubation centres

3.1.1 Design innovation clinics: helping companies to develop attractive and user-centred products and services

In a networked economy, where the value of a brand is an essential component of commercial success, do design services help companies to develop attractive and user-centred products and services in an incremental way. Companies that invest in design tend to be more innovative, more profitable and grow faster than those who do not.¹⁸ There is a link between the use of design and competitiveness. This means for regions and Member States that the role of design and user-driven and user-centred non-technological innovation should thus be acknowledged and adequate support measures be offered.

Design innovation clinics are light-touch support mechanisms that are characterised by an easy and fast application process for participating

company. They treat ideas and business models rather than patients. An innovation clinic can be offered by a public innovation agency or by a private knowledge-intensive service provider such as a business consultancy. It typically provides innovation-related analysis and advice to an organisation, business or individual entrepreneur in a condensed period of time (typically 1 – 2 hours but also even up to one day). Such advice may be related to identifying an innovation-requirement, pointing clients towards potential, yet unknown, collaborators, or sketching out an innovative road map in relation to a business opportunity. Design innovation clinics provide such service in relation to design-led innovation and have the objective to make business models, products and services more user-friendly and outline new routes to market. As illustrated by the example below, they often help to build bridges between the world of business and the world of design.

Design Pressure Cooker – Noord Brabant Region, the Netherlands

The Design Pressure Cooker (DPC) is a design innovation clinic offered by Syntens – a non-for-profit innovation agency set up by the Dutch Ministry for Economic Affairs.

The method used connects a designer to an SME or entrepreneur who has a design need. During a session of one day, they work together on the design issue. At the end of the day, a new idea or product concept has to be developed. This instrument is a way to get acquainted with the use and possibilities of design. The focus is equally divided between focussing on design thinking and design processes as on the visual aspects of design, which many SME entrepreneurs have in mind when hiring a design agency.

¹⁷ See results of the IMP³rove II Study - Gaining Competitiveness with Innovations beyond Technology and Products: Insights from IMP³rove, July 2011, available at <https://www.improve-innovation.eu/sme/valuable-links/publications/>

¹⁸ Commission Staff Working Document "Design as a driver of user-centred innovation" Brussels, 7.4.2009, SEC(2009)501 final
See <http://ec.europa.eu/enterprise/policies/innovation/policy/design-creativity/>

Examples of services offered are:

- Design Pressure Cooker Leisure – examining innovations in leisure industries
- Design Pressure Cooker Health – health related innovations
- Design Pressure Cooker Green – development of smart and sustainable environmental solutions

Research into the impacts of the programme suggest that the major benefits are:¹⁹

- Increased awareness concerning the innovation impacts that design can have (88% of the participants reported a positive view of design)
- Participating companies were able to decide on their design-led innovation strategy after a short period of time
- Many SMEs continue to work with matched designers after the DPC
- About 50% SME's participating in DPC realise a market introduction of a new products or services and improve their innovation processes.

The Design Pressure Cooker method was used in the regional project “MKB Design. Brabant”, during which about 70 SMEs participated in a Design Pressure Cooker. The MKB Design.Brabant project ran during 2010 and 2011. It was funded by Provincie Noord-Brabant, Syntens Innovatiecentrum, CapitalD, Chamber of Commerce Zuid-West Nederland and the Brabantse Ontwikkelingsmaatschappij (BOM). The amount of funding was 1,2 million €. ²⁰

Further information: www.andersdoen.nl/syntens/flashletter/2011-01/en/ and www.mkbdesignbrabant.nl

3.1.2 Innovation vouchers: giving access to service innovation intelligence

Innovation constraints among SMEs are often related to a lack of expertise in a specific field and sometimes connected to a certain institutional bias towards certain innovation practices. For example, a company that may be a leader in technology-driven innovation such as an engineering company may underestimate the potentials of service innovation. By offering SMEs advice through external experts on service innovation, these constraints can be overcome in an effective way with little administrative burden. Public intervention remains light-touch and recipients of the vouchers decide which expert or service providers to work with.

Innovation vouchers are a hands-off approach to encourage organisations to embrace new ways of thinking and doing. Public innovation agencies can grant companies or other public organisations a voucher, which they can then spend to obtain certain predefined external innovation services. Thereby, recipients of the voucher as well as the providers are nudged towards more collaboration and – ideally – new or improved products or services will be developed. In the context of service innovation, vouchers can be used to enable organisations to rethink their service models or develop new approaches to engage with their business partners and customers.

The so-called “Riga Declaration”²¹ proposes some general guidelines for the design of innovation voucher programmes in order to fully realise the potential of these micro-grant schemes for SMEs’ diverse innovation activities. If managed well, innovation voucher schemes can be a highly effective tool for innovation support.

¹⁹ Berends, H et al., External designers in product design processes of small manufacturing firms, Design Studies (2010) and Noteborn & Berends (2012).

²⁰ Data provided by Cees Hogendoorn, Senior Innovatieadviseur at Syntens, by email on 06.09.2012.

²¹ http://www.europe-innova.eu/c/document_library/get_file?folderId=132988&name=DLFE-9801.pdf

GreenConServe²² – France, Germany and Norway

The GreenConServe voucher is a new funding scheme to offer technical and business support to green service innovators in the construction industry that is tested by the public innovation agencies OSEO (FR), Projektträger Jülich (DE), Innovation Norway (NO) and the Norwegian Defence Estates Agency (NDEA). The project is part of the European Commission's Knowledge Intensive Services Innovation Platform (KIS-IP). Most partners have issued vouchers over a period of 12 months since spring 2010. The average value of a voucher is €15 000.

The voucher allows construction service companies and facilities management SMEs to hire technical and business expertise and thereby conduct impact assessments, market studies, price offers of specific ideas or regulatory assessments.

The project offers a simple and quick application and selection process:

- The application form is two pages long and available online
- Feedback within two weeks is guaranteed
- Should the application be approved, applicants can immediately start collaborating with the chosen expert

The total cost of the action amounts to € 3,9 million, with a EU contribution from the Competitiveness and Innovation Programme (CIP) of € 1,7 million. The action started in September 2009 under the Europe INNOVA initiative and ends in December 2012.

Further information: <http://www.europe-innova.eu/greenconserve/>

3.1.3 Innovation management coaching and training

Managing innovation in SMEs is complex as innovation processes are rarely linear. Successful innovation management depends on mobilising many skills and a careful balance between improvisation, experimentation and rigorous project management. Entrepreneurs and managers of SMEs often lack the tools and resources to steer their company through these innovation processes. External advisory services and benchmarking with other SMEs' innovation performance can therefore help them improve their own approach to innovation management.

Innovation agencies can assist SMEs to develop and improve their innovation management through benchmarking, coaching and training. This can be done through various advisory services provided by external service providers (public or private) as well as by enabling companies to assess their performance and compare it with those of peer enterprises.

IMP³rove – EU-wide plus Israel and Australia

The IMP³rove-platform aims to assist SMEs in improving their internal innovation management processes. The support measure was initially developed the European Commission through a large consortium of partners and is currently coordinated by the international business consultancy AT Kearney and operates in numerous EU Member States in collaboration with individual innovation consultants.

The approach of IMP³rove combines a comprehensive online platform for self-assessment and e-learning with an individual face-to-face consulting process. Using the online platform, companies undergo a comprehensive benchmarking of their innovation management performance. They can assess their performance against that of peer companies.

²² Case study partly based on information provided by Katharina Krell, MD of Greenovate, on 30th May 2011.

A comprehensive network of experienced innovation management consultants accompany the SME in this process and offer consultancy services in relation to improving innovation management capacity inside the company. A structured feedback interview is offered to SMEs once the online process is completed.

As of September 2012 more than 495 consultants in all Member States have been trained on the IMP³rove toolbox and almost 3200 SME have completed the assessment of their innovation management performance. A number of Member States have integrated IMP³rove and its model of innovation management in SMEs in their public support programmes, in academic teaching programmes – like MBA courses –, or have trained staff in public innovation agencies.

As a result of its success, the **“IMP³rove – European Innovation Management Academy”** is currently being established as an independent, not-for-profit entity. The Academy will continue to provide four distinct services:

- (I) Training and certification services for innovation management consultants;
- (II) maintaining and securing the quality of a platform that allows SMEs to benchmark their innovation management performance and develop action-plans to enhance performance together with the trained consultants;
- (III) assisting ministries and innovation agencies to integrate aspects of innovation management into their SME support programmes; and
- (IV) assist academic institutions to integrate modules on innovation management for example in their MBA courses in order to continuously increase the supply of skilled innovation managers to European Industry.

The establishment and initial operation of the IMP³rove platform was contracted by the European Commission for 4.9mio € in 2007. In 2010-12 it was supported under the Europe INNOVA initiative with an additional grant of 1.95 million € from CIP that was complemented by more than 1 million € by the project partners.

Further information: www.improve-innovation.eu

3.1.4 Facilitating access to finance

To roll out and fully capitalise upon specific service innovations, dynamic entrepreneurs and SMEs require better access to finance to deploy them. The public sector can promote the development of a financial environment that is favourable to service innovation by offering investment readiness support to these companies (i.e. help for writing adequate business plans), by facilitating networking with public and private investors as well as by establishing publicly supported investment instruments for existing and emerging industries driven by service innovation.

Companies looking to raise finance for their activities to use service innovation often find this to be a challenge. Public and private funding often favours technological product innovation with valuable intellectual property rather than customer-focussed service innovation that is less tangible. There are several related challenges that need to be overcome: investors lack firm data and understanding about the potential of service innovation. At the same time, many service companies – especially SMEs – lack information about potential sources, mechanisms of finance and how best to obtain it. Finally, service innovation is generally not yet well embedded in regional and national innovation systems, thus lacking the necessary public and political profile required to unleash adequate levels of finance.

While the terms of references and eligibility criteria of programmes and investment funds may not explicitly exclude service innovation, they are often in a way implicitly excluded by

not giving it an adequate consideration and by not providing explanations of the particularities of service innovation. For instance, private and public investors like banks will be less inclined to pass on funding to entrepreneurs that intend to exploit new business models and service innovation, if there are no specific incentives or measures to do so. Hence, efforts need to be undertaken to overcome the inherent tendency that mainly those business models and industries are financed that are well understood and have more tangible assets to showcase.

There is a wide range of instruments available to address this and to improve the conditions of access to finance in relation to service innovation. Moreover, new forms of financing like crowd-funding are being tested upon their suitability as support instruments (C-I Factor example).²³ The examples in the box below give a snapshot.

Finance Readiness Programme for Entrepreneurs and SMEs, Coach and Connect – Baden-Württemberg, Germany

Coach and Connect is a regionally focussed mentoring and networking scheme run by Baden-Württemberg: Connected e.V. – bwcon to prepare SMEs and start-ups for growth and to enable them to find public or private finance for their next phase of their development. It focuses to a large extent on ICT and software service companies that facilitate service innovation. Participating companies receive individually tailored advice on business planning as well as get introduced to executive managers from the ICT industry that act as mentors and give guidance in relation to available financial instruments.

The programme has been co-financed through the European Social Fund. It has established a formal partnership with the “High Tech Gründerfonds (HGTF)” of the Federal Government of Germany, which provides ICT-service firms with access to this public financing scheme.

The total cost of the scheme amounts to 350.000 €, with a total funding support equal to 170.000 €. The EU co-financing, through ESF – objective 3 –, corresponds to 47%, while the remaining 53% is covered by private funding from business network of bwcon. The project duration was 3 years and it ended in 2007.²⁴ The programme was continued as Coach & Connect+.

Further information: www.bwcon.de/bwcon_coach.html?&L=3

Micro-Finance for Creative Service Innovation – Cultuur-Ondernemen, the Netherlands

Since 2006 Cultuur-Ondernemen in the Netherlands has worked to fill the financing gap that often prevents artists as well as micro and small creative companies in any creative sub-sector from accessing private finance. One of the goals of their guarantee fund is to enable creative companies to access new markets and to work with companies from other industries in order to improve their services. In this context, Cultuur-Ondernemen provides micro-finance of up to € 10.000 and guarantees for bank loans from € 10.000 upwards to visual artists, performing artists, designers and other creative companies.

- It trains up to 1 200 artists per year on developing their commercial strategies and collaborating with other companies
- It places around 40 arts and cultural projects within diverse organisations per year to rethink the organisations strategy – often this relates to service innovation and outreach to consumers
- Over the past 6 years the organisation has leveraged investments of €25 million for more than 500 artists and creatives through a revolving guarantee fund worth €1.9 million.²⁶

Further information: www.cultuur-ondernemen.nl/cultuurlening

²³ Similar related actions on better access to finance are FAME under the European Creative Industries Alliance and MOBICAP and EMMINVEST under the European Mobile and Mobility Industries Alliance. For more information see <http://www.howtogrow.eu/ecia/project/fame/> and <http://www.mobilise-europe.mobi/access-to-finance/>

²⁴ Data provided by Konstantin Schneider from MFG by email on September 5 th 2012.

²⁶ Data provided by Joost Heinsius from Cultuur-Ondernemen by email on 05.09.2012

Investment Instruments such as JEREMIE – EU-level

JEREMIE (Joint European Resources for Micro to Medium Enterprises) is a joint initiative of the European Commission and the European Investment Fund with the European Investment Bank. It aims to improve access to finance for medium, small and micro enterprises, in particular through the supply of venture capital, loans, guarantees, micro-credit and other forms of innovative financing. Member States and Regions decide themselves on their investment priorities and Jeremie can also be used to finance service innovation. Although this is not done very often so far, it is certainly possible, as illustrated by the region of Lombardia (IT), whose investment strategy particularly stresses investments into services.²⁷

Further information: http://ec.europa.eu/regional_policy/thefunds/instruments/jeremie_en.cfm

C-I Factor: European partnership with partners from 's Hertogenbosch, Amsterdam, London and Mons

The concrete action on “Bringing creative businesses together with investment” (C-I Factor) is working towards improving the conditions of access to finance for creative industries companies across Europe with a special focus on ways to improve leverage of crowd funding. This cross-border European partnership under the lead of the European Design Centre (EDC) brings together four experienced partners in financing companies in the creative industries. It is implementing a pilot action to link informal forms of crowd-funding with professional investors like venture capitalists, business angels and the European Investment Fund. C-I Factor also aims to raise investor's awareness of the economic potential of creative industries and test new investment readiness coaching and customize support services specifically

for entrepreneurs in the creative industries. This cross-border European partnership on better access to finance under the European Creative Industries Alliance has a foreseen budget of € 1,9 million (2012-2014), with a EU contribution of 1,25 million.

Further information: <http://www.howtogrow.eu/ecia/project/C-I Factor/>

3.1.5 Service incubation centres

There is a strong reciprocity between innovations in products, technologies and services. Yet, many in the worlds of business, research as well as in the public sector continue to think and act along technological, departmental and industrial sectors. Therefore, the mutual benefits of more cross-collaboration are often overlooked. There is a lack of understanding as to how service innovation can help European companies, especially small and medium sized enterprises, to strengthen or even reinvent their business models. Entrepreneurs and managers rarely have the resources or a comprehensive blend of skills required to penetrate the complexity of service innovation. Dedicated support centres can help to overcome these barriers.

Service Incubation Centres essentially apply the concept of business- or start-up incubation to fostering service innovation. The centres assist companies and public sector organisations in the development of service innovations that add value to their core business and/or fundamentally change the way they conduct business. This may entail evaluating existing service models, identifying new demand and new markets for non-existing services, redesigning flows of information and capital around the supply chain, designing and testing new service concepts and identifying new routes to market for businesses.

²⁷ See Case Study on use of Jeremy fund here: <http://bit.ly/k7fNUE>

Fraunhofer Service Factory – Nuremberg, Germany

The Service Factory has recently been established by the Fraunhofer Institute in Germany. The Factory is located in Nuremberg and focuses on providing service incubation advice to companies within regional proximity, thereby adding a service-dimension to the regional innovation system. The Factory is linked to the Fraunhofer Institute for Integrated Circuits (IIS), an institute that specialises in digital technology, ICTs and communications systems, thereby illustrating the strong relationship between advances in technology and service innovation.

Together, they provide partners and clients with a seamless consulting service ranging from new service concepts to their commercialisation. In doing so, the Service Factory's key strengths are a unique blend of understanding state-of-the-art innovations in technology, markets, processes and network dynamics. The Factory also has a strong focus on service innovation-related research, especially in the fields of "Servitization" and "Service Design Thinking".

The Factory was set up in 2010 and is receiving support of €11 million over a period of five years from the regional Structural Funds programme. It is the second biggest project funded by the programme in the region.

Further information: www.scs.fraunhofer.de

3.2 Support instruments at the sectoral, business environment level

Realising the transformative power of service innovation cannot stop at the enterprise level. Company level intervention may raise the competitiveness of an individual company, save jobs or create new ones, but can rarely be able to address the societal challenges or create new industries at the scale required. National, regional and European funds have largely

contributed to, and continue to contribute to sectoral investments, such as those made in infrastructure. Europe has many well developed airports, roads, and a continuously better connected broadband network.

It is less evident that other, softer infrastructures are being set up and strengthened throughout Europe as part of offering businesses a favourable environment for service innovation. Such soft infrastructure is however a crucial component, for instance, for the development and further use of extensive mobile and mobility services as well as for modern tourism services in rural areas based on mobile applications. It becomes quite evident that such new dynamics are needed if Europe is to benefit from the full potential of service innovation, in general, and from emerging industries, in particular. Strategic support for the development of smart energy grids, cloud computing parks, extensive wifi-zones, intelligent transport systems or entrepreneurship incubators to name but a few – are essential if Europe is to excel in the development of a competitive 21st century services economy.

The following examples illustrate some supporting instruments that can be used to bring about an innovative ecology in which service innovation can occur:

- Design centres
- Living Labs
- Support to clusters in emerging industries driven by service innovation
- Innovation assistance

3.2.1 Design centres

SMEs from diverse industries and across Europe are under pressure to "out-innovate" global competition as competition based on price is increasingly difficult, notably for those SMEs based in countries with high labour costs. The development of truly user-centred services as

well as the integration of creative, cultural and aesthetic elements into products and services is thus ever more important in today's experience economy. SMEs often lack though an in-house expertise and understanding to implement these changes. They can therefore benefit from infrastructures provided externally. Examples of such infrastructures are design centres that promote and raise awareness regarding the contribution of design to business success as well as to wider societal progress. In relation to service innovation, design approaches play an increasingly important role in evaluating and rethinking contemporary service offerings. Design centres can work with business leaders to integrate design thinking into their strategies, and promote design as an innovative sector to local and regional policy makers.

Centre for Design and Innovation, c4di – Aberdeen, Scotland

The Centre for Design and Innovation has been set up in 2008 by the Robert Gordon University Aberdeen with a funding of around €1.2 million (£1 million) from the Scottish ERDF fund. The Centre works with Scottish Enterprise, Skills Development Scotland and Aberdeen City Council and offers its services to a wide audience.

The core philosophy of the centre is based on the adoption of a creative and design-led approach to tackle business challenges, using a range of unique user-centred design tools and techniques to help SMEs in Scotland to address those challenges and to develop innovative solutions. This include innovations in relation to the overall business strategy, service delivery, product development or branding.

Examples of services offered are:

- Communication – assisting SMEs to communicate better with their partners and clients through the use of design

- Innovations – promoting more creative and intuitive ideas generation and innovation management in organisations
- Services – focussing on how SMEs can involve users in product and service development processes to cut costs and meet (often hidden) consumer expectations
- Cultures – assisting companies in creating working environments and management structures that nurture collaboration and creativity

Further information: www.c4di.org.uk

3.2.2 Establishment of Living Labs

As Europe has to step-up its efforts to turn its high-quality research output into commercial success, more collaboration between companies, research and innovation stakeholders, and end-users is necessary. In addition, companies can only develop state-of-the-art products and services if they constantly test their application in real-life trials. Improved services, service innovations and stronger involvement of end-users are at the heart of a Living Labs approach.

Living Labs encourage all innovation stakeholders to collaborate in research and development activities and to test ideas, products and services at an early stage of their development. The aim is to make final solutions more market-oriented, sustainable and user-friendly. From a policy perspective, the European Commission defines them as follows: "A Living Lab is a user-driven open innovation ecosystem based on a business – citizen – government partnership, which enables users to take an active part in the research, development and innovation process".²⁸

Due to a strong focus on end users and applications, the results of Living Labs are often improved services or service innovations. Furthermore, Living Labs have a spatial dimension as they usually serve and test the

²⁸ European Commission, Living Labs for user-driven open innovation, available at: http://ec.europa.eu/information_society/activities/livinglabs/docs/brochure_jan09_en.pdf

application of products and services in their proximity and, therefore, are often supported by local or regional authorities. A Living Lab may focus on a specific theme or industry. These range from e-Manufacturing, over Gaming to intelligent transportation systems, to name a few.²⁹

Living Lab Salud Andalusia – Andalusia, Spain

Living Lab Salud Andalusia (LLSA) is an open innovation network bringing together administrative bodies, universities, ICT companies and end users (citizens, patients and healthcare professionals). It seeks to establish “test environments”, platforms and resources for developing innovative technologies, services and initiatives in the health sphere, with a particular emphasis on the involvement of end users.

LLSA is the result of a joint initiative driven by the Regional Ministry of Economy, Innovation and Science, and the Ministry of Health of the Andalusian Regional Government. It was set up in the end of 2008 with the signing of a framework agreement in which a group of 99 public and private organisations from the healthcare and technology sphere took part. The main focus of the living lab lies on facilitating service innovations in the health sector, such as on innovative health processes, interoperability, telemedicine and teleassistance, new ways of reaching out to citizens, decision making support systems, and training and professional partnership areas.

Further information: www.livinglabsalud.es/en/

3.2.3 Support to clusters in emerging industries driven by service innovation

Small innovative companies in emerging industries rely as much on favourable eco-systems for service providers, suppliers, external experts and associations as businesses in large established industries. In the case of emerging

industries driven by service innovation, these eco-systems are often underdeveloped. Diverse small and innovative companies, researchers as well as public sector institutions need to be made aware of the economic and societal potential, if any, of a specific new industry.

Cluster support organisations provide or channel specific support services to a particular group of companies and related innovation actors. They thereby promote specific spatial, sectoral and cross-sectoral networks of companies, suppliers and associated organisations (research institutions, associations, etc.) with a view to promote economic development and innovation.

HAMAC – Hellenic Association of Mobile Services Companies, Greece

Mobile services have the potential to transform business models and consumer engagement in virtually all consumer-facing industries in profound ways. To a large extent, they impact service models of many companies, similar to how the Internet has done in the past fifteen years. To accelerate and promote opportunities, cluster initiatives can help to link mobile service providers, potential beneficiary companies, research actors linked to mobile service innovation (telecommunications, business studies, digital media, etc.) and public sector institutions.

HAMAC is a non-profit cluster organisation that aims to deliver such services. It comprises high-tech companies that are active in the development of mobile applications, value added services for telecom providers, innovative communications services, content and applications in mobile marketing. Its goal is to promote overall awareness concerning the relevance of mobile service innovation among industry, but also among the general public, the media and relevant public sector institutions.

²⁹ More living labs can be found here: <http://knowledgecentre.openlivinglabs.eu/>

The association represents 31 companies representing approximately 90% of the total turnover of the domestic market in the industry. HAMAC provides jobs to more than 4 000 employees, of which 1 000 are scientists of high academic level. With a total turnover of €400 million, HAMAC operates in 40 countries.

HAMAC ambitions are as follows:

- Development of a spirit of cooperation between its members, and promotion of collaboration among them
- Promotion of collaboration between its members with similar companies / associations abroad
- Promotion of companies in the sector, through specific actions, and contribution towards innovation and extroversion
- Submission of business plans and proposals to government authorities
- Organisation of training courses with the aim to improve the administrative and technical skills of its members
- Monitoring of scientific, technical, financial, and educational developments in the sector, and provision of information to its members
- Promotion and protection of interests of its members
- Representation of the sector at local, regional, and international level, and presence in national and international events³⁰

The establishment of HAMAC was one of the outcomes of the activities of the MOBIP project, which was a pan-European Mobile Services Innovation Platform established under the Europe INNOVA initiative that was co-funded by the EU. This project was also

instrumental in the leveraging of Structural Funds for the Greek digi-mobile voucher scheme (€30 million) and the ICT4Growth grant scheme (€120 million).

Further information: www.hamac.gr

3.2.4 Innovation assistants

Service innovation does not occur often enough in many SMEs as well as in companies with a low R&D diversity. Indications point to a lack of innovation expertise among entrepreneurs and managers of SMEs and missing resources. The fact that many companies only have weak ties to higher education institutions and employ a below-the-average number of staff that has university degrees amplifies barriers to innovate.

Innovation assistants are employees that facilitate innovation by providing input and changing projects in companies. In this context, many regions across Europe use Structural Funds to help individual companies to hire graduates as well as young researchers to conduct in-house R&D, implement innovative projects and thereby help increase the sustainability of these businesses and create jobs at the same time. By paying a share of employment and social security costs over a defined period of time and offering coaching, training as well as guidance, such programmes significantly support the innovation capacity of participant companies.

Innovation Assistant – Lower Austria, Austria

The Innovation Assistant scheme is run by the Department of Economy, Tourism and Technology of the regional government of Lower Austria since 2002. The scheme aims to increase the innovation capacity of companies, primarily SMEs, from all industries by co-financing the employment of an Innovation Assistant

³⁰ Based on an email exchange with one of the initiators of HAMAC, Mr Manglis from Atlantis Research on May 20th 2011

An Innovation Assistant is a university graduate that will dedicate his or her expertise to implementing innovation projects in the company. The scheme primarily targets companies that employ below-the-average rates of university graduates. Often, the implemented innovation projects are related to service innovation (new marketing strategies, use of social media, implementation of new customer relationship management systems or other business-process related software, etc.).

The scheme not only co-finances employment and social security costs but also coaches, both SMEs and innovation assistants, and offers a part-time post-graduate training scheme in innovation management to all graduates.

- On average each innovation assistant costs ca. €30.000 over 15 months
- 50% of employment costs are funded in the first 8 months
- 35% of employment costs are funded over the final 7 months
- The programme also finances coaching, the post-graduate scheme and evaluation by an external consultant

According to Lower Austria's regional authority, each individual project generated on average, an additional investment of €180.000 and three to four permanent jobs. In 60% of the cases the employment contract of the Innovation Assistants was extended after the supported period of 15 months was over.³¹

The total cost of the project amounts to 1,1 million €, for which € 514.000 of co-financing was provided by the European Regional Development Fund. The initial project period was 1 year and a half, from July 2002 to January 2004, but the project was continued afterwards with regional funding.³²

Further information: www.innovationsassistent.at

3.3 Support instruments at the market level and to promote spill-overs

Innovation and research policies across the EU have long concentrated on promoting technological R&D and somewhat missed out on linking Europe's research excellence to the real needs of European consumers and citizens. Often, service innovation can help to close this gap between scientific innovation and market requirements.

By promoting a greater uptake of service innovation on the demand-side, policy makers can nudge companies and entire sectors towards more cross-sector collaboration and innovation. This can be done by encouraging beneficiaries and users to acquire certain innovation services rather than supporting providers themselves.

In this context, the following section examines:

- Regional awareness raising measures
- Incentives for cooperation between manufacturing companies and designers
- Demand-side innovation vouchers
- Public procurement initiatives

3.3.1 Regional awareness raising measures

The European Expert Panel on Service Innovation stressed in their final report³³ the importance of service innovation for meeting the challenge of the European Commission's Europe 2020 agenda to achieve smart, sustainable and inclusive growth. The potential of service innovation to transform existing industrial structures – i.e. its “transformative power” – was particularly highlighted. Regional awareness raising events helped already to promote the recommendations of this report and the topic among relevant stakeholders and policy makers. Yet, more needs to be done.

³¹ Andrzej Mikolajczuk, «Innovation Assistant - A Lower Austrian funding scheme for firms», http://www.europe-innova.eu/c/document_library/get_file?folderId=366487&name=DLFE-11067.pdf

³² http://ec.europa.eu/regional_policy/projects/practices/details.cfm?pay=AT&the=45&sto=1378®ion=664&lan=7&obj=ALL&pr=ALL&defL=EN

³³ Meeting the challenge of Europe 2020 - The Transformative Power of Service Innovation», available at http://www.europe-innova.eu/c/document_library/get_file?folderId=383528&name=DLFE-11601.pdf

Across EU Member States and regions, there is a diverse range of development levels for strategies to use service innovation. A certain lack of focus on services and service innovation in some countries and regions is likely connected to the fact that the topic cuts across multiple economic and organisational fields and that often no clear competences exist to boost service innovations.

Moreover, in a digitally connected and complex society, innovation and service innovation in particular occur through continuous experimentation, collaboration and learning. To keep up with an ever-evolving landscape of new products, services, technologies and consumer demands, companies as well as the research and innovation community require up-to-date information. The UK innovation agency NESTA, points out that one of the most important tasks of governments in this context is to adopt innovation strategies that put much more focus on evaluating markets, trends and support interventions and to then disseminate resulting data widely.³⁴ A lack of sound data and information are major barriers to increasing the innovation capacity of modern western economies. Awareness raising measures in relation to service innovation answer this need.

Conferences, fairs, exhibitions and policy exchange platforms are awareness raising measures that can enable diverse stakeholders to learn about the value of service innovation and help establish a shared understanding of the issues ahead. At best, they help to create a stakeholder community that actively pursues service innovation across a range of different fields and give a mandate to government to put the issue on the top of their policy agenda.

Conference ServDes – Oslo, Norway, Linköping, Sweden and Espoo, Finland

The ServDes Conference is a research conference aiming at exchanging knowledge on service design and service innovation. The primary purpose is to promote and learn about original research in service design

and service innovation and to connect researchers with industry practitioners and policy makers.. The conference has helped to significantly raise awareness concerning the value of service design and service innovation in the respective city where the event has been held.

Examples of issued addressed and discussed during the conferences are:

- Evidence informed service design strategies
- Tourism and service design
- Social innovation by design
- Design thinking as a management approach
- Health and social care services for people with complex needs
- Alternate reality games and participatory storytelling beyond entertainment

Further information: www.servdes.org

3.3.2 Incentives for cooperation between manufacturing companies and designers

European manufacturing industries – and especially small and medium sized businesses in these industries – are outperforming competitors throughout the world in terms of their technological expertise and engineering know-how. However, these companies too often lack the creative and collaborative skills required to bring their technically superior product successfully to the market by involving user-perspectives into the development process. More collaboration with creative service providers (such as designers, marketing specialists, social media entrepreneurs, etc.) is needed to overcome these barriers to design-led innovation.

Support projects that seek to facilitate more and better collaboration between manufacturing companies and design experts can unleash service innovations. Designers can help manufacturing companies to rethink product development, delivery as well as business models in a user-centred way. An interdisciplinary, experimental and aesthetic approach that puts an emphasis

³⁴ http://www.nesta.org.uk/events/hot_topics/assets/features/big_data_resources

on involving customers into testing prototypes throughout the development process lies at the heart of these new collaborations.

Design Reaktor – Berlin, Germany

Design Reaktor Berlin is an experimental research and innovation initiative by the University of the Arts Berlin that brings together students from diverse disciplines of the university with SMEs from various industries to develop new user-centred ideas in order to create innovative products, services and business models.

55 SMEs as well as more than 82 students initially participated in two-week series of workshops and brainstorming that sought to introduce concepts related to design thinking and user-centred product and service generation to all participants. Students came from diverse creative disciplines: fashion and product design, digital design, strategic communication and planning, communication design, photography and video. Twelve different University departments were involved in the action. Following this exercise, 52 prototype solutions were developed in collaborative projects. So far, six of these solutions have been patented.

The project is now in its second phase where the university as well as the SMEs-student collaborations increasingly work with public as well as private intermediaries such as technology transfer centres, export promotion agencies, business consultants and communications agencies to bring some of the developed solutions to market.

The design support program had a total costs of €514.000 and was co-financed from the Structural Funds (ERDF) with €271.000 for a period of 2 years between 2007-2008. It was followed up privately and extended for one year with an additional €125.000 due to the success of the project.³⁵

Further information: www.design-reaktor.de

3.3.3 Demand-side innovation vouchers

Entrepreneurs and firms that are active in knowledge-intensive, networked and collaborative industries increasingly face innovation constraints related to risk-aversion, uncertainty about future market developments, institutionalised innovation processes and a lack of specialist knowledge (i.e. digital strategies, creative competences, etc.). Simply owning a technically superior product does not necessarily translate into commercial success. By collaborating with external service providers that help companies to think outside the box and consider options from multiple perspectives, some of these soft innovation constraints can be overcome. Innovation and industrial policy should therefore increasingly support companies that wish to collaborate with other stakeholders of the innovation ecosystem, broker new relationships across sectors and make available resulting information to industry.

Demand-side innovation vouchers are light-touch public interventions aimed at offering SMEs an incentive to acquire innovative services (creative services, research and development, business consulting, training, etc.) and thereby overcome systemic innovation constraints. They are characterised by lean administrative procedures and often financially limited in scope (approx. €5.000 - €15.000). A voucher is issued by an intermediary organisation (regional government department, innovation fund, RDA, etc.) and signals a commitment to reimburse the beneficiary SME or – in some cases – the provider of the innovative service. In some schemes, SMEs have to contribute a minor share of the costs of the voucher to strengthen their commitment to the collaborative project.

³⁵ Telephone interview with Marc Piesbergen, project coordinator of Design Reaktor, on 30th May 2011 and information provided by Tanja Mühlhans, Berlin Senate administration by email on 31st August 2012.

Innovation vouchers under the European Creative Industries Alliance

Three of the four concrete actions for better business support through innovation vouchers under the European Creative Industries Alliance – a EU policy initiative being implemented between 2012-2015 with funding from CIP –, support the cross-sectoral demand for creative industries' services by helping SMEs from traditional industries (e.g. domestic appliances, tourism and agri-food) to access such services. Companies will benefit directly from innovation vouchers, with an average value of €5.000 granted per voucher. These three innovation voucher actions altogether involve business service providers and creative industries from ten EU countries. The final results of these pilot actions will feed into broader regional and national discussions under the Alliance's Policy Learning Platform on how future business support in general, and for creative industries in particular, should be planned and implemented.

The first scheme, called "**Vouchers In Creative Industries**", VINCI issues vouchers to SMEs in the Salzburg region of Austria to implement innovation projects in cooperation with creative industries. Business service providers from creative industries from the Salzburg region and from other European countries participate in this pilot. VINCI vouchers are issued by Austria Wirtschaftsservice (aws), the Austrian business promotion bank.

The second innovation voucher pilot to provide services from creative industries to other industries is implemented in the Basque Country, in Spain. The aim of the "**+INNOVA CREATIVITY**" voucher scheme is to progressively extend the creative dynamism and innovative procedures of creative industries to traditional sectors that are not directly related to the creative industries but which could benefit from

creative inputs and spill-over effects. The pilot action also establishes close collaboration with businesses from other European creative hubs.

The third demand side innovation voucher scheme, "**For Creative Challenge Celtic Crescent North West**" (4CNW), led by the Irish Sligo County Council, aims to strengthen the role of creativity as a catalyst for service innovation in the North West of Europe. It will help traditional industries in Ireland to access services from strong creative industries' clusters from Scotland and Scandinavia. The action further aims at demonstrating how a targeted integration of supply and demand side inventories can be exploited by local and regional authorities to better support new instruments for knowledge transfer and spill-overs between different industries.

The total cost of each of the three actions amounts on average to around €350.000, with a EU contribution of around €225.000. They started in December 2011 and will end in November 2013.

Further information: <http://www.howtogrow.eu/ecia/projectcategory/vouchers/>

3.3.4 Incentives for service innovation through public procurement

The use of public procurement to create demand for certain innovations has long been debated at EU level as well as at national and regional levels. Such practice promises, on the one hand, an improvement of public services and, on the other hand, has the potential to significantly contribute to innovation dynamics along the lifecycle of new products and services. However, the role of public procurement has rarely been considered in relation to the support of service innovation and there is considerable scope in rethinking government spending in this respect.

Using public procurement to develop service innovation implies that the establishment of

a modern public procurement process is linked to the innovation strategy of the procuring organisations and that new service innovation trends are taken into account. In this context, public procurement can help to promote innovation at an early stage of its development (initiation) or when the market for the specific service innovation is already further developed (consolidation).³⁶

Procurement of Voice Over IP System – Heidelberg, Germany

The city of Heidelberg (DE) acquired in 2004 a Voice over Internet Protocol (VoIP) telecommunications system to replace the old telephony system, which had been destroyed by a fire. The winning company was Alcatel and the budget for the first installation of units was €48.000. Criteria for choosing Alcatel were reported to be “flexibility in meeting the specific needs of combining a traditional and a modern system, follow-up-maintenance and lowest costs”.

Technically speaking VoIP integrates voice as well as other communications services in one platform. It allows for a more seamless engagement with citizens that contact the city administration (e.g. by providing much more efficient computer-assisted telephony). It also allows the different departments of a city administration to better organise virtual teams and to provide one-stop-shops for citizen enquiries.

In terms of procurement, usual EU tendering procedures were followed after extensive market research by the procurement team of the city administration.

According to an evaluation conducted as part of the above mentioned study the following success factors were identified:

- Development of sound market intelligence by the tendering authority before the tendering procedure was

started and based on desk research as well as on interviews with numerous potential providers

- Independence of the procurement team that decided which system to buy
- A phased installation of the system involving test-trials with smaller departments to ensure a smooth transition to the new system

Further information: ftp://ftp.cordis.europa.eu/pub/innovation-policy/studies/chapter4_case_studies_intro.pdf

3.4. Supporting a holistic approach

The previous sections have introduced supporting instruments at company, sectoral and market levels. They are all important but often not sufficient to achieve a high impact on a wider scale. A more promising strategy is to follow a holistic approach that combines different policies and instruments as part of a common strategy.

To implement such a holistic and strategic approach in practice, this section will provide three examples of large-scale demonstrator approaches, where different stakeholders work together and adapt the **mix of supporting measures** to address a common societal challenge or problem at regional level. Such a mix could include activities to support companies, cross-sectoral linkages and the development of a favourable business environment for structural and industrial change.

The **large-scale demonstrator approach** for service innovation represents a new, systemic approach that requires regional leadership and priority setting. It provides contexts and settings to test the economic viability, to fine-tune service deliveries and to provide feed-back to regional policy. For small and medium sized enterprises, the large-scale demonstrators can provide an open space allowing them to contribute to the regional development vision

³⁶ See the study “Public Procurement and Innovation: Review of Issues at Stake” to find out more about EC research in relation to this topic: http://cordis.europa.eu/innovation-policy/studies/full_study.pdf

while, at the same time, developing competitive products and service through collaboration that find their place in global value chains.

The large-scale demonstrator approach starts with the societal or consumer demand – the “problem” – and then works back from the user needs and the challenges to the potential technical and service innovation solutions and the corresponding support needed. Developing and testing these under real-life conditions is different from testing technological feasibility through market replication projects which may or may not work in an environment different from the one in which they were set up and created in the first place. The aim is to offer new and better ways of attracting new customers and of better satisfying their changing needs. As a result, new competences may be shaped in the region that lead to competitive advantages that offer global market opportunities.

Three large-scale demonstrators – CULTWAYs, LIMES and Grow Mobile – have been set up in December 2011 under the European Mobile and Mobility Industries Alliance³⁷ and are bringing the first results. The approach of LIMES is described in more detail below.

LIMES, Large Scale Innovative and Mobile European Services for Culture Tourism in Rural Areas – Germany, Austria and Bulgaria

The Roman limes is the only European cultural heritage which binds together 10 European countries spanning from the North West of the UK to the South East in Bulgaria it is a unique monument for many regions and, in part, already a designated UNESCO world heritage. Through the LIMES demonstrator, this former fortification of the Roman empire will get an opportunity to become a beacon of future cultural tourism as only a small part of the limes is accessible at the moment. The limes runs through rural regions which are not fully developed for tourism and where different sites are not linked.

The demonstrator is focusing on developing mobile services and creating new, innovative value chains. The aim is for **regions to demonstrate the feasibility of exploiting innovative mobile services to foster sustainable tourism in rural areas.**

Three countries (Germany, Austria and Bulgaria) have taken the lead and are including the other seven limes countries through their existing partnerships. Transfer activities will play an important role in order to make mobile services for the tourism sector available in all countries.

LIMES is expected to address 70.000 people interested in cultural tourism in the three partner countries as well as 20.000 local actors (as users of the mobile services and as ambassadors of their regions). Other beneficiaries will be companies, specifically innovative start-ups, and regional developers. At least 15 new companies will be supported in the framework of the project and around 10 regional agencies will directly benefit from the project outcomes. Additionally, the project targets €650.000 to be invested by the tourism sector in the regions along the limes.

Linking these regions through common mobile services offers a chance to raise the profile of, and bring more visitors to this unique heritage and, at the same time, to support the economic development of the rural areas it runs through by supporting new business and job creation.

The main objectives are:

- to link tourist sites along the limes in 10 European countries (UK, the Netherlands, Germany, Slovakia, Hungary, Croatia, Serbia, Romania and Bulgaria),
- to make the European identity and the common European history visible and accessible for visitors from all over the

³⁷ <http://www.mobilise-europe.mobi/large-scale-demonstrators/>

world

- to develop and implement innovative mobile services along the route which support information brokering, travel mobility and additional services for visitors as well as local people,
- to support new businesses along the route via these services,
- to create income and jobs for rural areas.

LIMES is part of a CIP-funded policy initiative “The European Mobile and Mobility Industries Alliance” (EMMIA). EMMIA brings together European and regional policy makers and industry representatives with the aim of developing more sustainable solutions in the field of mobility supported by mobile services, through better use of current and planned initiatives and enhancing transnational cooperation in this field. The total cost of the project is € 665.752, with a European contribution equal to € 499.314. The project started in December 2011 and it will end in November 2013.

Further information: <http://www.mobilise-europe.mobi/limes/>

To gain further experience in exploiting a large-scale demonstrator approach for service innovation, the Enterprise and Industry Directorate-General has selected six **model demonstrator regions** through an informal call for the expression of interest, which will receive in 2013 a kind of technical assistance of experts from the forthcoming European Service Innovation Centre and undergo peer-review in view of designing and implementing strategies that make better use of service innovation for addressing a particular regional problem or challenge.

Six model demonstrator regions on service innovation

The Basque region, the Canary Islands region, Emilia-Romagna, Luxembourg, Northern Ireland and Upper Austria were selected in June 2012 as model demonstrator regions on service innovation. The six regions will not benefit from financial support from the EU directly, but they will receive advisory support services, free of charge, from the European Service Innovation Centre. The regions will demonstrate, at large scale, new or better ways of designing and implementing policies taking maximum advantage of service innovation to tackle a specific regional challenge or problem.

Three model demonstrator regions have been selected from regions with a predominance of “traditional manufacturing industries” (*see definition on page 12*). The objective is to show the impact that service innovation can play in order for such traditional industries to maintain or gain a strong position in global value chains. Examples in this respect are by adding value through design, creativity and/or from cross-sectoral cooperation. This will seek to answer the question how service innovation can support the modernisation of industrial sectors and facilitate structural change from a manufacturing based industry to a modern economy.

Three model regions have been selected from regions that wish to be leaders in innovation and competitiveness by supporting the development of “emerging industries” (*see definition on page 13*), i.e. mobile and mobility services, creative industries or the experience economy. This raises the question which eco-systems are best suited to support the emergence of new service industries and how policies could help unlock their potential, for example through modern cluster policies that go beyond narrowly defined sectoral boundaries and follow a broader thematic

and holistic approach.

The model demonstrator regions are expected to work in close partnership with their local or regional industries, service providers, research and knowledge institutes, and other relevant stakeholders in order to define and implement a consistent strategy capitalising on the transformative role of service innovation.

Further information: www.europe-innova.eu/c/document_library/get_file?folderId=736469&name=DLFE-13436.pdf

Finally, a brief outline is given of the forthcoming **European Creative Districts**, which seek to use service innovation and creative industries to rejuvenate regional economies. Two proposals for such districts are being selected to start by the end of 2012 following a CIP call for proposals. The European Creative Districts approach is also new in that it takes the European Creative Industries Alliance approach – of combining transnational policy learning with concrete actions for better business support, better access to finance and facilitating cluster development – to the regional level.

Pilot project “European Creative Districts”

The “European Creative Districts”, two pilot projects that will be launched at the end of 2012, will aim at **demonstrating the transformative power of creative industries for the rejuvenation of traditional industrial regions**. This will in particular include the promotion of all forms of creativity and a better use of service innovation and creative industries to stimulate structural change for cultural, craft and manufacturing-based industry.

The “European Creative District” shall encourage activities with a strong and visible impact. It shall be based on a holistic approach that brings together a large number of regional innovation actors to create a favourable eco-system for service innovation and creative industries. Regional governments and business communities are thus called upon to create supportive technical infrastructures and business conditions that facilitate service innovation, in particular through creative industries, and thus enhance their role in the local economy, including their spill-over effects on other industries in the region.

Further information: www.howtogrow.eu/ecia

4

Conclusions

Making better use of service innovation requires a mental shift to accept that not all innovation is based on research and that research institutes may not always be the best partners for helping enterprises to develop new initiatives and bring them to the market. This guide intends to contribute to this process.

It also strongly advocates that the focus of regional and SME support policies should not be placed on promoting services or service sectors – as service innovation happens both in services and in manufacturing. Strictly speaking, this guide does not even focus on promoting service innovation as such. Instead of focussing on service innovation as an activity, it looks at what environment, institutions and SME support tools can be put in place in order to facilitate a transformation of regional industrial structures and sectors “through” service innovation.

This guide therefore hopes to provide regional stakeholders with valuable input and ideas on how to put in place “smarter” regional strategies that make better use of service innovation.

The examples of support measures that are highlighted in this guide should help regional policy-makers in designing smart specialisation and cluster strategies to achieve high impact. Service innovation is not a panacea but it has the potential to contribute to the rejuvenation of regional economic structures by adding value to existing industries and by giving rise to emerging industries.

This transformative power of service innovation represents a latent force to contribute to growth and jobs, which still needs to be fully exploited in many regions. To take up one or two examples of this guide as an inspiration for a new project or programme will, however, not be enough to achieve this. In order to seriously boost entrepreneurial dynamism and SME growth through service innovation, regional policy-makers must follow a systemic approach that combines different policies and tools in order to capitalise on existing regional competences and to foster cross-sectoral fertilisation.

Better capitalising on service innovation for regional structural change and industrial modernisation is not an easy task as it requires leadership, vision and the setting of new, clear priorities. Yet, the efforts necessary to succeed are worthwhile when considering the potential reward for regional competitiveness. The challenge remains to raise enough awareness of this potential, so that policy-makers at the highest level embark upon this agenda and lead the transformation of regional economies.

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