case study

The Innovative Competitive Advantage: A Case Study of Two Pioneering Companies

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Introduction

Great organizations consistently look for a competitive advantage that will give them an edge over the competition. Finding competitive advantages that are not easily mimicked is essential in maintaining momentum for an organization, and one of the best ways to stay ahead of the competitive market is to maintain an environment of innovation. The definition of innovation is simple: the introduction of something new or a new idea, method, or device ("innovation", 2011), successfully implementing the concept of innovation is significantly more challenging. Innovation requires the ability to understand and to read the market and the consumers. As stated by DeMaria (2013), "successful innovation [must] begin with the identification of an unmet need… [and once this] unmet need is recognized and a plausible solution is identified, a successful innovator has to be a risk taker and be willing to fail" (p. 253).

The challenge of innovation is recognizing opportunities for the implementation of novel ideas combined with the willingness to accept that those innovations may result in failure (DeMaria, 2013). Despite the risks and challenges, the hospitality industry calls for service and practice innovations that will help guide strategic and operational decisions in meaningful and valuable ways (Johnson, 2011). The following case study examines two organizations that took the risk of innovation: one through pricing strategy and one through technology. These two organizations reasonably represent the spectrum of opportunities for innovation from service operations through marketing strategies.

Innovative Pricing Strategy

Coworkers at Lunch

Coworkers Evelyn, Matt, and Cassandra finished a long, tedious morning meeting and decided that they want to eat out for lunch. Cassandra recommends a very nice local restaurant her friends have been raving about, "don't miss the foie gras!" They quickly collect their things and make their way to the gastronomic district for lunch. The atmosphere is warm and welcoming, and the restaurant is packed with other business diners. Their server, Edwin, was courteous and prompt. He welcomed them as first time visitors and offered a number of recommendations for the most popular dishes.

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Evelyn looks at the menu and starts to worry, "The food on this menu all looks so good, but it also looks fancy. I am not sure I can afford the prices." However, when Evelyn searches for the price of the different entrees, she does not find any! Evelyn asks Matt and Cassandra if their menus have any labeled prices, and they agree that they cannot find any. The three quickly call their server Edwin over to ask him to help. Edwin smiles at the new customers, and quickly explains the situation. "I'm sorry I forgot to tell you when I first introduced myself. This month, there are no prices for the food. The owner told us that he wants customers to 'pay what you think the food is worth'. It is completely up for you to decide." He again smiles at the puzzled and awed faces of the three coworkers.

Matt enjoys trying new foods, but is often worried about being disappointed. He is excited for the promotion because this means he can try different things and not worry about the price of each item. He decides to order an appetizer, an entrée, and a dessert. Evelyn, however, feels uncomfortable. She is not sure what the value of the food items should be, and she does not want to look foolish in front of her coworkers. She decides to order the simplest entrée with which she is most familiar. Cassandra is not worried about the promotion, she decides that she wants to follow her friends' recommendations and order things they suggested to her. All three greatly enjoyed their food, the service, and the atmosphere. As promised, a bill never came. Instead, Edwin placed an empty check presenter on the table and reminded them that they were free to pay what they wanted.

Little Bay Restaurant

Although this scenario seems outlandish, this is exactly what the owner of the Little Bay restaurant in the Farringdon District of London did during the recession in 2009. Peter Ilic, a Yugoslavian immigrant, decided to follow a month long pricing strategy that allowed the customers to decide the value of his product. In an interview with Voice of America (VOA) News in February 2009, Ilic cited many reasons for his promotion choice. He believed that people should have the opportunity to eat even if they lost their jobs, something that happened increasingly during the recession. He also explained that during the economic downturn, customers were seeking value (Drew, 2009).

Ilic's strategy was a success. He claimed that customers on average paid more than what he would have charged, paying around 17.25 pounds per person ($26.25 USD), 30% greater than the average of his own priced checks (Hodge, 2009). The volume of customers also remained high. Ilic served just under 10,000 customers in the month of February (Hodge, 2009), and often had to turn people away due to the filled capacity (Drew, 2009). The promotion was not only successful in the local community, but also received expansive media attention (Britton, 2009). Twenty-one British news outlets, eleven international news outlets and thirteen blog media sites covered Ilic's price promotion in 2009 (Little Bay Farringdon, 2009), which is estimated at 148,000 pounds of free publicity (Kent, 2009).

Innovative Operational Strategy

Coworkers on a Business Trip

Three weeks later, Evelyn and Matt were scheduled to go on a business trip to San Francisco to attend an important meeting to obtain funding for their company project. They had a very rigorous travel schedule with an early morning departure from London arriving in San Francisco at 1:05 PM and had to make their way to the office for a 5:30 PM meeting, leaving very little time for relaxation. They were very hungry when they arrived in San Francisco, but after clearing customs and immigration they realized they had limited time before the meeting would start to both eat and drive into town.

Evelyn was hoping to find a quick, light, and healthy meal; her stomach was too sensitive to take in heavy and greasy food especially after a long day of travel. The hungry colleagues went to the closest airport food court. Within a few minutes of arriving at the packed food court, Matt and Evelyn stood blankly staring at the extremely long queue and the dining place packed with noisy travelers. Thirty minutes later, Evelyn and Matt were still hungry. They had grabbed their bags and were hailing a cab. Matt grabbed his phone to search for any dining opportunities on the way to their meeting. Surprisingly, one perfect match popped up on his smartphone, a quick-service restaurant serving healthy fast food called "Eatsa."

Matt and Evelyn directed the cab driver to the financial district where the Eatsa was located. By the time they arrived at the restaurant, it was already 4:10 PM, and they decided they only had 30 minutes to eat and head on their way. When they entered the restaurant, there were amazed by two exceptional things: there were neither counters to order from nor any employees to serve or take their order. Instead, on one of walls there were small boxes similar to a post office, and a small queue of people standing to the opposite side, which Evelyn and Matt joined. Feeling unfamiliar with the setting, they glanced at the menu on a flat-screen monitor which included options for eight quinoa bowls, including the burrito bowl, the bento bowl, and the balsamic beet, for $6.95 each. The line moved quicker than they expected and it was Matt's turn to order. He approached the virtual iPad screen, tapped in his order for a burrito bowl, and paid. His name appeared on a big screen as the food was ordered, an extra touch that immediately helped Matt feel comfortable. Next it was Evelyn's turn, and she ordered the stuffing bowl.

When Matt's burrito bowl was ready, a number appeared beside his name on the screen which corresponded with one of the small boxes Evelyn and Matt had noticed when they first walked in. "This is called a cubby," a nearby customer told them. "I can see that this is your first time here, you are going to love it. Go to the cubby that is black and alarming and tap it with your finger." Amused, Matt went to his transparent LCD cubby and did as the woman instructed. His cubby opened, and his burrito bowl was waiting for him. He took the bowl outside, sat at one of the benches in front of the restaurant and enjoyed his meal. Evelyn was also satisfied with her very filling and quick meal. It took them less than 10 minutes to order and receive their food, which allowed them to arrive at the meeting venue feeling warm and comfortable and prepared to make their important presentation.

Eatsa

The restaurant industry is constantly challenged with increased levels of competition. Eatsa is one of the restaurants that decided to accept change and innovative strategies for operational efficiency and cost effectiveness. It is a fully automated restaurant located in San Francisco at 121 Spear St, which was newly introduced in 2015. The restaurant's founder, David Friedberg, insists that this adoption of technology is more than a food delivery system. It is a different concept from the normal restaurant model (Miller, 2015).

One of his major motivations to start this new concept was because of workers' increasing salaries in San Francisco. On November 4, 2014, Proposition J was passed by San Francisco voters raising the city's minimum wage to $15 by 2018 (Office of Labor Standards Enforcement, 2015). In the restaurant industry, employee salaries account for approximately 30% of the total cost of conducting business (Dopson & Hayes, 2011). Minimizing labor costs results in much higher profit margins. Eatsa has fully integrated this concept into its innovative service model. There are no servers taking orders. The service model depends on technology via the virtual kiosk and a section of "cubbies" for food delivery. This system decreases the number of front of the house employees. Eatsa currently employs a front of the house concierge to assist with guest questions and a full back of the house staff to prepare the food. As restaurants are sensitive to labor costs, the development of technology will be one of the solutions to ensure the chance of survival in the future (Doran, 2010).

In addition, although the front of house procedure is fully automated, the restaurant aims for customers' health. The eight menu items are high in protein, loaded with flavor and prepared with environmental values in mind, providing customers with a good combination of convenience and health-conscious food (Miller, 2015). The Eatsa business team also declared that they are targeting the busy workers in the financial district who currently do not pay much attention to healthy eating (Farr, 2015). Eatsa is planning to open two more locations including Los Angeles in the upcoming months.

Service Innovation

The modern hospitality industry climate imposes certain strategic operational imperatives. These include creative and quality services for competitive advantage and innovation to effectively manage resource constraints. Service innovation is a powerful tool for service operations ranging from multi-national corporations to small, private restaurants. The implementation of emerging technology garnered attention worldwide and created a demand from customers to have more efficient, productive, and cost effective restaurant delivery systems (Gallouj & Weinstein, 1997). The major motivation for Eatsa to adapt new technology was cost reduction. The service industry is different than other goods based industries due to the intangibility of the service product in addition to the simultaneous production and consumption of service. Typically, service innovation focuses on the delivery process since it is paramount in creating value for customers. Selecting the right innovative strategy depends on the goals of the organization and the characteristics of the service operation. Radical, combinative, incremental, and improvement innovations could be considered, based on the concept of the service product (Fitzsimmons & Fitzsimmons, 2006).

Eatsa clearly shows that technological adaptation had brought a critical change to traditional service delivery systems. Using iPads for the Point-of-Sale (POS) system, automatic mail boxes for delivering food, and screen menus for informing customers of the menu options prove that hospitality operations have the capacity for innovation which shows the strength of the demands from customers for improvement within service operations.

Value Creation

While most innovative strategies focus on product innovation, pricing is an area that has received far less attention. Pricing can be equally powerful (Hinterhuber & Liozu, 2014). Through Little Bay's participative pricing strategy, the company was able to reach price-sensitive customers who might not have otherwise purchased the product during difficult economic times, but who may become loyal customers when their personal spending increases after economic improvement. Past research on pay what you want models (PWYW) focuses on consumers' feelings of altruism, fairness towards the organization, self-signaling, social welfare and preferences, and reciprocity (Mak, Zwick, Rao, & Pattaratanakun, 2015). Mak et al. (2015) additionally attribute payment behaviors to social norms. By creating a culture of normative behavior and reciprocity between organization and customer, restaurants like Little Bay can successfully run innovative pricing promotions like this one.

Ultimately, any strategy, innovative or standard, must provide value to both the organization and the consumer. Value is the tradeoff between the quality and utilization of the product and the costs associated with its acquisition (Oh, 2000). During an economic downturn, the risks associated with spending money can be much higher than during economically good times. By decreasing the risks associated with the cost of dining out, coupled with the emotional appeal of building relationships through offering this promotion, the Little Bay Restaurant successfully built value for both the customers and the organization.

On the other side of organizations, Eatsa decided to adopt technological innovation to maximize operational productivity and efficiency, setting all of its menu prices to $6.95. Although slightly different from the pricing perspective, they share the same goal of providing value to customers. Innovation is expected to save costs and increase productivity. This will directly affect customers by allowing them to spend their money and time on other important issues (Miller, 2015). Innovation cannot be viewed in isolation from technology, radical or incremental, especially during economic downturn (Gallouj & Weinstein, 1997). Comforting elastic customers with reasonable prices for their meals is essential, and the adoption of technology is regarded as one of the best solutions for adding value for both the consumer and the organization. As a result, delving into the 'black box' of technology and innovation could greatly benefit both foodservice operations and customers in the long-term.

Conclusion

Porter's well known strategies for competitive advantage include both differentiation and low-cost leadership, represented in this case study by Little Bay's innovative differentiation strategy through price and Eatsa's innovative low-cost leadership strategy through technological advancements in service operations. These two organizations use innovation to create competitive positions within the highly saturated food and beverage market, not only through ingenuity but by creating value for both the organization and the customer.

Discussion Questions

Little Bay Restaurant

1. Why did the reactions of the three diners differ when they found out about the promotion?
   a. How could you manage the different reactions?
2. What are the advantages and disadvantages to an innovative pricing strategy such as the pay what you want (PWYW) model?
3. This pricing strategy was a month long promotion. Would it be a successful long-term strategy?
4. How would this price promotion affect the employees, especially the wait staff?
   a. Tipping policies in London are different than other places

globally. In London, it is customary to tip 10-15% for full service restaurants only (London & Partners). Would the employees feel differently about the policy based on local customary tipping norms?

5. What are some other ways of creating innovative pricing strategies?

Eatsa

6. Will this kind of service operation work in other locations? Does it require a degree of technology comfort which might not exist everywhere?
7. Will this kind of service operation work with other models and market segments?
   a. Could it be adapted for fast food, casual dining, fine dining, etc.?
   b. What kinds of food service options could best adapt to this model?
   c. Where would this technology be appropriate?
   d. When would this innovation not work? Why not?
8. What are the advantages and disadvantages of eliminating the human component of the service environment and replacing them with technological alternatives?
9. What other cost-effective technological advancements could you apply to restaurants in order to increase efficiency?

Questions for both Little Bay and Eatsa

Compare and Contrast your answers

10. What impact would a no price promotion or technological front of house have on brand reputation?
11. How would these innovations make different consumers feel about the experience both internally and socially?
    a. How would these strategies impact loyalty?
12. Would the price promotion or service innovation work on a larger scale for a bigger brand across the organization?
13. Would these innovations be successful in every market? Why or why not?
14. How do these innovations create value?
15. Imagine you are opening a restaurant. What kinds of strategies could you generate and adopt for a competitive advantage in the future?

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