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**DESIGN DRIVEN INNOVATION IN RETAILING:  
AN EMPIRICAL EXAMINATION OF NEW SERVICES IN CAR DEALERSHIP**

**ABSTRACT**

The paper focuses on innovation in the automotive retail industry. Innovation in service has been acknowledged as a critical source of competitive advantage and retail firms are looking for new innovation strategies able to guide them in the competitive environment. Moreover, there are no studies on whether and how Design Driven Innovation (DDI) can be pursued by retail firms as a strategic approach. In the attempt to close this gap in our understanding of innovation in retail firms, this paper discusses 104 examples of strategic innovation projects proposed by automotive retail firms that operate in the UK, Germany, Italy, Serbia and Spain. The empirical analysis shows that a certain number of automotive retail firms (although not the majority) choose DDI as a strategic approach in designing innovation projects with the aim to achieve superior performance. In particular, the DDI approach seems to be linked to a “spatial” innovation of the services offered by the automotive retail firm in which the boundaries between the activities performed by customers and those performed by the service supplier are modified and blurred. By contrast, “temporal” innovation does not seem to be linked with a radical innovation of the meaning of the retail service, as the DDI entails.

**INTRODUCTION**

Innovation has long been acknowledged as a critical source of sustained competitive advantage (Ireland and Hitt 1999; Amit and Zott 2001). Although our understanding of innovation mostly stems from empirical studies of industrial firms, service innovation has received increased scholarly attention in the last decade (Michel et al. 2008; Zomerdijk and Voss 2011). For example, research has shown that companies such as Google, Starbucks, and Federal Express have gained and maintained positions of

industry leadership through radically innovating their services (Berry et al. 2006). Notwithstanding this increased interest in service innovation, further research is needed to increase our understanding of innovation in service firms (Menor et al. 2002; Perks et al. 2012). In particular, service innovation research to date has been informed either by a market-pull or a technology-push perspective (Parasuraman et al. 1988; Johnson et al. 2000; Goldstein et al. 2002), although recent studies have emphasized the importance of the interactions between consumers and firms as the cornerstone of successful radical innovation. In particular, the *Design Driven Innovation (DDI)* model (Verganti 2006, 2008 and 2009) overcomes the traditional dichotomy between technology-push and market-pull approaches and explains that the competitive advantage of companies such as Apple, Nintendo, Alessi or Kartell is due neither to a higher deployment of technical functions (as suggested by the technology-push explanation), nor to a better adaptation to users' needs (as the market-pull standpoint posits). These firms instead have built and nurtured a sustained competitive advantage by developing proposals for new ways of satisfying the deep emotional, psychological, and socio-cultural reasons underlying consumer choices.

Notwithstanding the importance that innovation scholars have accredited to DDI (Dumas and Mintzberg 1989 and 1991; Boland and Collopy 2004; Rindova and Petkova 2007; Hertenstein et al. 2005; Veryzer 2005; Gemser and Leenders 2001), there have been no attempts to date to systematically study whether and how retail service firms adopt this strategic approach in order to develop innovation projects able to gain and nurture competitive advantage. The aim of this paper is to take a first step toward closing this gap and exploring the strategic approaches proposed by retail service firms in order to develop innovation projects. We pursue this goal by conducting an exploratory analysis based on 104 examples of strategic innovation projects, defined as innovation projects able to embody the strategy pursued by the retail service firms. Retail firms have received comparably less attention with respect to their strategic innovation approaches in comparison with other service industries (e.g., banking and insurance). Moreover, retail firms are particularly suited to the study of DDI because the retail industry is closely linked to the evolution of socio-cultural models that determine new interactions between firms and their customers. The retail industry is also becoming more and more competitive as consumer behaviors continue to evolve beyond the boundaries of utilitarian decision

making (e.g., emotional retail experience) and new media technology breakthroughs (e.g., smart and tablet commerce) burst onto the business scene (Arnold et al. 2005; Odekerken-Schröder et al. 2010; Pine and Korn 2011).

This paper indicates that automotive retail firms adopt the DDI model as a strategic approach aimed at achieving superior performance. An empirical evaluation of the expected benefits of adopting the DDI approach in developing strategic innovation projects in automotive retail firms is also presented. The implications of these findings for both research and practice in service innovation and DDI are discussed at length in this study. The paper is structured as follows. Section 2 contains a review of the two streams of literature that provide the theoretical underpinnings of our study, i.e., service innovation and DDI. Section 3 describes the method used in the empirical analysis, and Section 4 presents and discusses the findings. Finally, Section 5 highlights conclusions and managerial implications.

## **THEORETICAL BACKGROUND**

The theoretical background of this paper is grounded in two streams of research: (i) studies on the nature of retail service innovation, and (ii) research on DDI as a viable strategic approach in innovation. Scholarly debate around the nature of retail service innovation allows understanding why and under what conditions we should expect new retail services to emerge. Research on the DDI model allows us integrating theoretical discussion on new service development and innovation strategies, with the aim to explain the strategic innovation approaches adopted by decision makers in retail firms.

### ***Retail Service Innovation***

Researchers have always emphasized that a key difference between service and product innovation lies in the fact that the ideation, production and consumption of a service requires a co-creation process involving the customer and the supplier in a strong relation that is dynamic - in time - and localized - in space (Johnson et al. 2000; Zeithaml and Bitner 2002).

The evolution of the theoretical discussion on the quality of new services has broadened this concept by emphasizing the experiential nature of the co-creation process, since the temporal and spatial sequence of these interactions can result in a delightful or in a terrible outcome for the customer (Berman, 2005; Barnes et al., 2011). Although the term “customer experience” has been abused by practitioners and applied in several areas (e.g., marketing, communication, branding, sponsorship, and shopping mall design), the conceptual roots of the “experiential aspects of consumption” lie in the seminal work of Holbrook and Hirschman (1982), who developed a framework for the representation of typical consumer behaviors focusing on the symbolic, hedonic, and aesthetic nature of consumption. Holbrook and Hirschman (1982) describe the radical changes in consumption behaviors from an emphasis on rational choice toward an “experiential view” in which fantasies, feelings and fun play a fundamental role. In the following years, scholars have focused on the exploration of the imaginative and emotional components of the consumption experience (Holbrook et al. 1984; Peterson et al., 1986; Havlena and Holbrook, 1986; Holbrook et al., 1986). In the second half of the 1980s, many studies unearthed the role of emotions in advertising (Holbrook and O’Shaughnessy 1984; Gardner 1985; Batra and Ray 1986; Mizerski and White 1986), but they focused on communication aspects without a comprehensive analysis of the innovation dimension linked to customer experience.

In the 1990s, customers’ needs completely changed. Functional features and technological performance, product quality and positive brand image were considered prerequisites in the purchasing process. Consumers began to desire products, communications and marketing campaigns that stimulated their senses and that could be incorporated into their lifestyles (Schmitt 1999). For this reason, many scholars in the last 20 years have focused their attention on the fields of “experiential marketing” and “experience economy” (Pine and Gilmore, 1998 and 1999; Schmitt and Simonson 1997; Schmitt, 1999; Addis and Holbrook 2001; Berthon et al. 2003; Fulberg 2003; Joy and Sherry 2003; Arvidsson 2005). The concept of “experience economy” was proposed by Pine and Gilmore in 1999. They explored how successful companies, using goods as props and services as the stage, created experiences that engage customers on a personal level. On the same topic, Schmitt (1999) contrasted the traditional marketing approach with a

new one called “experiential marketing”. In particular, the author showed how managers may create holistic experiences for their customers through brands that provide sensory, affective, and creative associations, as well as through lifestyles marketing and social identity campaigns.

Following this line of reasoning, studies on innovation in retail services have developed the concept of “shopping experience”, which specifies the holistic experience in terms of delight, excitement and enjoyment arising from the personal interaction with salespersons and from the multi-sensory interaction with the store atmosphere (Kerin et al. 1992; Falk and Campbell 1997; Arnold et al. 2005; Verhoef et al. 2009). Shopping experience suggests that the value of a new retail service for the customer relies on the internally consistent temporal sequence of multiple interactions that happen in the physical spaces in the store (e.g., recreational shopping, entertainment services, free trial in the store) and in the digital spaces (e.g., multichannel purchasing, omnichannel interactions within social networks).

In this study we conceptualize innovation in the retail experience as a particular form of new service development. This assumption is consistent with the well-established SERVQUAL model (Parasuraman et al. 1988) that defined a general model for service firm profitability as comparison of expectations and performances, through empirical evidences in retail. Within different models of service innovation, we excluded those that distinguish between different typologies of services (e.g. radical vs. incremental in Johnson et al, 2000; separable vs. inseparable in Berry et al., 2006) since they represent the static output of an innovation strategy. Instead, we adopt the Service-Opportunity Matrix developed by Sawhney et al. (2004) as conceptual background of this paper, because it better captures the experiential nature of retail service innovation as a dynamic manifestation of the underlying strategic innovation. Indeed, the Service-Opportunity Matrix model identifies four different courses of action that a retail service firm can choose to follow when innovating its services.

As showed in Figure 1, the model is based on two dynamic dimensions of service innovation, each capturing a difference focus of the customer experience (primary or adjacent customer-activity chain), and a different type of interactions between the customer and the front-end of the service provider (adding new activities or reconfiguring existing

activities). The primary customer-activity chain describes the end-to-end sequence of logically related activities centered on the specific interest pursued by the customer. Instead, the adjacent customer-activity chain describes the set of complementary activities that are closely associated with the primary interest (examples are a visit to a car dealership as a primary chain and the search for an insurance quote as an adjacent chain). The second dimension describes the type of growth resulting from the choices made regarding the changes in the structure and the control of activities that are co-performed by the service provider and by the customer. Using these two dimensions, the model allows to identify four different sets of strategic decisions in service innovation (see Figure 1):

- Temporal Reconfiguration, which refers to innovations based on the change of structure and control of activities within the primary activity chain;
- Temporal Expansion, which corresponds to innovations based on the addition of new activities to the primary activity chain;
- Spatial Reconfiguration, which refers to innovations based on the change of structure and control of activities within an adjacent activity chain;
- Spatial Expansion, corresponding to innovations based on the addition of new activities to an adjacent activity chain.

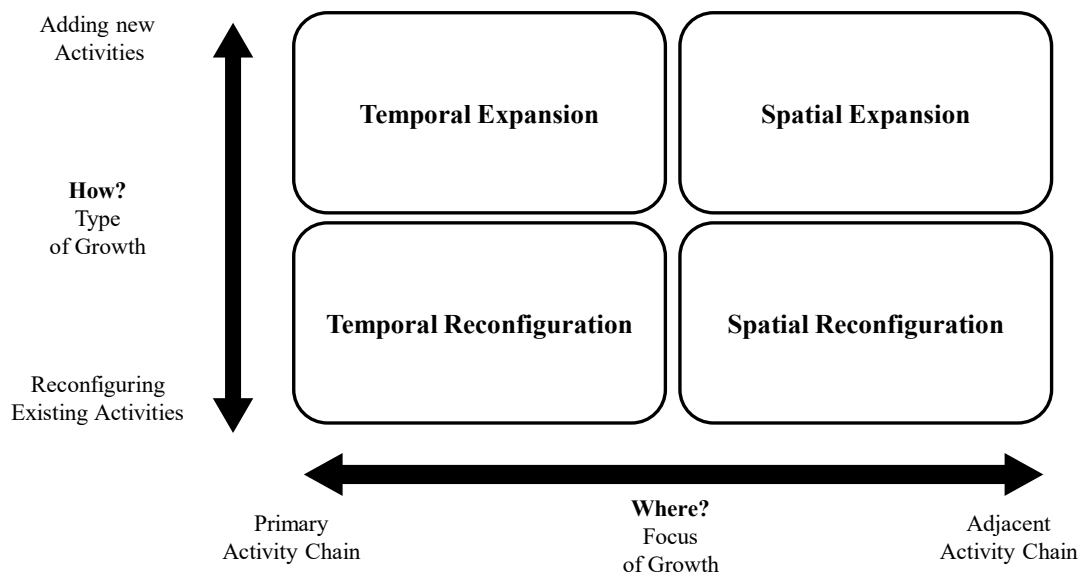


Figure 1. Service-Opportunity Matrix by Sawhney et al. (2004)

This model will be used during the empirical analyses to classify the different strategic innovation projects that the automotive retail firms in our sample proposed to pursue when innovating the retail experience.

### ***Design Driven Innovation***

Innovation research has been characterized by the dichotomy between technology-push and market-pull strategies. The technology-push strategy argues that success in innovation stems from superior R&D and technical capabilities, which enable the continuous development of products and services with new functionalities (Abernathy and Clark, 1985; Tushman and Anderson, 1986; Christensen and Rosembloom, 1995). According to this approach, successful innovation proceeds in a linear way and it starts with the development of new or improved technologies, for which new market applications are identified. Instead, the market-pull strategy starts with listening to the voice of the customers and proceeds with searching for those technologies that enable the development of the new product or service functionalities that allow satisfying the needs of the customers (Griffin and Hauser, 1993; Stein and Iansiti, 1995; Thomke and von Hippel, 2002).

Verganti (2006) challenged this dual view by developing the concept of Design Driven Innovation (DDI), which integrates existing theoretical perspectives on the role of design in innovation (Dumas and Mintzberg, 1989 and 1991; Boland and Collopy, 2004). DDI is informed by the Latin etymology of design as “de + signare”, which means making something, distinguishing it by a sign, giving it significance, designating its relation to other things, owners, users or goods. Based on its original meaning, design is about making sense (of things). Accordingly, DDI identifies a third viable strategic choice in innovation, which can be labeled “design-push” and entails developing new meanings for products and services.

DDI views the market for new products and services not as given “a priori”, but instead as the result of an interaction between consumers and firms. The cornerstone of this interaction is the generation of a new meaning for existing products and services, which allows understanding how the success of many innovations (e.g., Nintendo Wii vs. Sony



PlayStation PS3 and Microsoft Xbox 360, in the period 2006-2009) is neither linked to a higher deployment of technical functions (according the technology-push explanation), nor linked to a higher adaptation to user's needs and requirements (according to the market-pull perspective). DDI represents an interesting perspective to understand success in retail service innovation, because it points to the importance of co-creation processes and it proposes a different standpoint on the interaction between customers and firms. Rather than focusing on the fit between the technical functions of the new service and the needs of the users, DDI highlights the importance of the extent to which innovation generates a new meaning for the retail service.

There is anecdotal evidence that DDI is a strategic approach that retail firms do use to innovate. An example is offered by Howard Schulz, the founder of the coffeehouse chain Starbucks, when he launched this radical innovation in retail. He tried to ask himself the question "How can we change the meaning of the existing coffeehouse in US?" after a visit in Italy, where he envisioned a coffee bar as a space where people live a sense of community. By working on this concept, Schulz radically changed the traditional meaning of staying in a coffeehouse from "a safe and professional space where to buy coffee" to "my home away from my home". However, to the best knowledge of the authors, there are no systematic empirical analyses that focus on whether retail firms choose to pursue DDI and on what levers they decide to act to enable this innovation strategy. The analysis presented in the remainder of this paper tries to answer to these questions, by using empirical data from the automotive retail industry.

## **RESEARCH METHOD**

We study the strategic innovation projects proposed by decision makers in automotive retail firms in order to understand: (i) whether they adopt DDI as a strategic approach to gain competitive advantage and (ii) on what levers they decide to act to enable this innovation strategy. In particular, we apply the Service-Opportunity Matrix (see Figure 1) to study what type of service innovation approach (temporal expansion, spatial

expansion, temporal reconfiguration, and spatial reconfiguration) is suggested to pursue DDI.

Given these research objectives and our conceptual starting points, we adopt an exploratory approach based on direct interviews (Kvale, 1996; Gubrium and Holstein, 2002; Savin-Baden and Major, 2013). In particular, we study 104 examples of strategic innovation projects proposed by automotive retail firms in the period 2008-2012<sup>1</sup>.

The strategic innovation projects discussed below were analyzed as part of a broader research program aimed at studying how automotive retail firms use innovation to improve their competitive advantage. We involved as key informants 123 entrepreneurs and top managers who work in automotive retail firms in several European countries, i.e. the UK, Germany, Italy, Serbia and Spain. Multiple respondents from each firm were involved in the analysis. The owners, CEOs, CFOs and sales managers who participated in the study were asked to describe the innovation strategies they would pursue in the next 3 years; more precisely the interviews aimed at exploring a specific strategic innovation project able to embody and represent the identified innovation strategy. Interviews with the key informants were conducted during a two-day workshop held at the end of a teaching program organized by the business school to which the authors are affiliated. The executive teaching program aimed at developing the personal and innovative skills of top managers in automotive retail firms. As part of the teaching program, the participants were involved in the development of strategic innovation projects to be adopted in the next 3 years, which were presented in a final workshop, during which our interviews were conducted.

For each retail firm, an average of 2 people participated in the teaching program and in the workshop. A total of 6 iterations of the teaching program and workshop were held between 2008 and 2012. Each had on average 20 participants. The total 123 participants were divided in 26 groups and each group, after having internally discussed and critically analyzed their intended innovation strategies, was asked to illustrate them to the other groups. Each group presented 4 strategic innovation projects. Each strategic innovation project was developed following a common template based on four main sections: (i) consumer insights; (ii) target and users' needs; (iii) benefit; (iv) technology;

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<sup>1</sup> Table 6 in Appendix A contains a list of the 104 innovation strategies.

(v) expected impact. The four sections were adapted from Crawford and Di Benedetto (2010), and they served as the supporting framework for our interviews. During the two days of the workshop, we conducted two interviews with the members of each group, for a total of 52 interviews, each lasting on average 1 hour. More in detail, the 4 authors split in two sub-teams in order to accelerate the interview process, maintaining the necessary robustness and consistency in the collection of the necessary information. After the first day, the two couples of authors changed in order to avoid potential biases.

Each participant was asked to evaluate the strategic innovation project proposed by the other participants. In order to avoid potential bandwagon effects, the decision makers who proposed each strategic innovation project were not disclosed, and only formal documents describing the characteristics of the strategic innovation project were circulated to allow for the individual evaluation. This was done to provide a qualitative assessment of the extent to which the different strategic innovation projects had the potential to contribute to the competitive advantage of the retail firm in which they will be implemented. More precisely, we asked the 123 entrepreneurs and top managers to assess the quality of the strategic innovation projects proposed by their colleagues along three main dimensions, taken from a taxonomy of innovation performance established in the literature and proposed by Griffin and Page (1993). The three dimensions are Customer Acceptance (CA), Revenue Growth (RG) and Profitability (P). Using a 5-point Likert scale (where 1 = strongly disagree; 2 = disagree; 3 = neither agree nor disagree; 4 = agree; 5 = strongly agree), each entrepreneur and top manager evaluated the strategic innovation projects proposed by her colleagues according to the following sentences (see Table 1 for the descriptive statistics):

- *Customer Acceptance (CA)*: “The innovation strategy will be easily accepted and understood by existing and new customers”;
- *Revenue Growth (RG)*: “The innovation strategy will be able to determine significant growth of the revenues of the automotive retail firm”;
- *Profitability (P)*: “The innovation strategy will be able to determine significant profitability for the automotive retail firm”.

It is important to underline here that the three measures capture different dimensions of competitive advantage: while Customer Acceptance (CA) is a measure focused on short-term results, Revenue Growth (RG) considers long-term impacts of an intended strategy. Finally Profitability (P) synthesizes both the short and long-term perspectives.

**Table 1: Descriptive statistics**

	Mean	Standard Deviation	Max	Min
Customer Acceptance (CA)	3.48	0.30	4.19	2.87
Revenue Growth (RG)	3.44	0.37	4.14	2.77
Profitability (P)	3.57	0.39	4.55	2.92

The analysis of the data, which was undertaken jointly by the authors, entailed assessing the characteristics of the 104 strategic innovation projects (which therefore represented our unit of analysis). More precisely, each strategic innovation project has been classified according to the frameworks illustrated in Section 3, i.e. the Service-Opportunity Matrix (SOM) by Sawhney et al. (2004) and the Design-Driven Innovation (DDI) framework by Verganti (2009). Even if we conducted the interviews in couples, we went through an individual first round of evaluation applying both SOM and DDI and trying to understand whether each strategic innovation project could be classified as temporal expansion, spatial expansion, temporal reconfiguration, spatial reconfiguration, and design-driven innovation. Only 6 out of 104 strategic innovation projects were classified in different ways by the authors (5.8%). In these cases we classified the strategic innovation projects considering the evaluations provided by the majority of the authors. Finally, we compared the evaluations received by each category of strategic innovation projects<sup>2</sup>.

Of course, it is not possible to statistically generalize results from an exploratory analysis like the one we conducted. Our aim is to make analytical and theoretical

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<sup>2</sup> In order to avoid potential biases due to the' country of origin of the participants, we conducted a t-test on the collected evaluations about all measures of (CA, RG and P). We had not found any significant difference due to the country of origin of the respondents.

generalizations to the existing body of knowledge regarding whether and how service firms use DDI to improve their competitive advantage. It is our intent that the findings will inform future theoretical and empirical studies regarding service innovation, especially in the automotive industry, but we recognize that they cannot be generalized to populations of firms or markets.

## **RESULTS AND DISCUSSION**

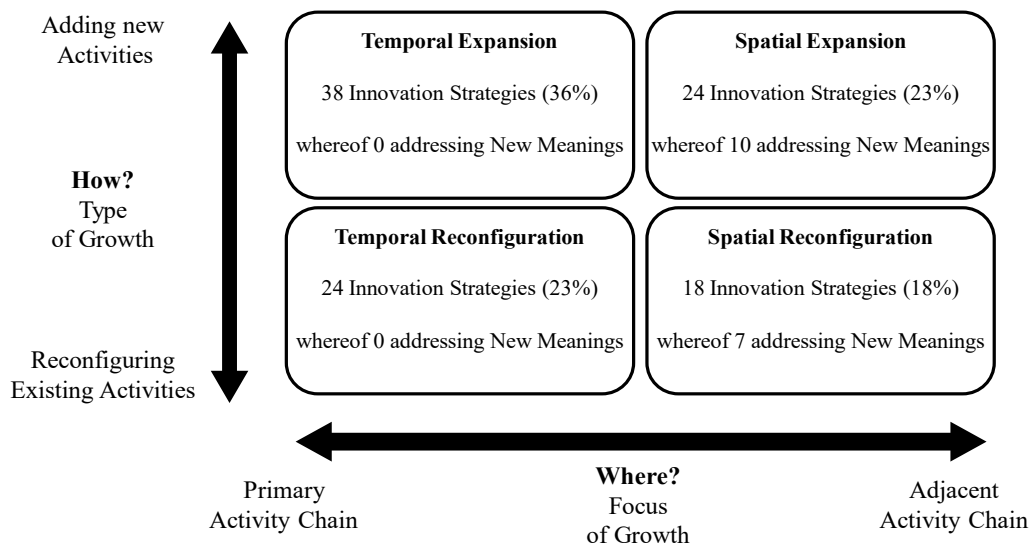
In this section, we present the results of our analysis of the 104 strategic innovation projects proposed by the 26 groups of entrepreneurs and top managers working in automotive retail firms. As previously highlighted, we first classified the strategic innovation projects according to the Service-Opportunity Matrix by Sawhney et al. (2004) and, afterwards, following the Design-Driven Model proposed by Verganti (2009). Finally, we compared the expected performance (accordingly to the evaluation provided by entrepreneurs and top managers) associated with each category of strategic innovation projects to unearth some managerial implications for retail firms.

### ***Classification of the strategic innovation projects according to the Service-Opportunity Matrix***

Figure 2 shows the position of the 104 strategic innovation projects according to the taxonomy developed by Sawhney et al. (2004). We positioned the 104 strategic innovation projects on the basis of the following definitions:

- Temporal expansion, which entails the addition of new activities to the “primary car purchasing process”, i.e., the sequence of interactions between the client and the retailer (e.g., pre-sales data collection, comparing products and services, testing cars, negotiating economic conditions, closing the deal, signing the contract, delivering the car, accessing after-sales services);
- Temporal reconfiguration, which entails the change of the structure and control of activities performed by the customer in the “primary car purchasing process” (e.g., self-configuration of the new car, self-booking of the test drive);

- Spatial expansion, which entails the addition of new activities to adjacent activity chains that are connected to the “primary car purchasing process” (e.g., social network activities, mobility services, transportation activities);
- Spatial reconfiguration, which entails eliciting a new role for the customer in adjacent activity chains (e.g., new forms of consumer engagement in urban mobility services, new activities performed by the customers in family activities).



**Figure 2: Strategic Innovation Projects classified according to Sawhney et al. (2004)**

The highest number of strategic innovation projects (38 out of 104, 36%) falls under the temporal expansion typology. For the entrepreneurs and top managers who choose these strategic innovation projects, automotive retail firms should innovate the traditional customer journey of car purchasing by adding new activities before the visit in the store (e.g., supporting information retrieval and price comparison) and after the delivery of the car (e.g., innovating the after-sales services through new customer relationship management solutions). Temporal reconfiguration and spatial expansion strategies have the same weight (24 out of 104, 23%). Spatial expansion strategies are characterized by the addition of activities adjacent to the primary car purchasing process (e.g., adding activities for children and the family, adding new services in sectors connected to the world of car, such as insurance or tyre repair). Temporal reconfiguration strategies are

characterized by the change of the structure of the primary car purchasing process (e.g., engaging the customer in self-producing car configuration, price comparisons, repair services). Only 9 strategic innovation projects fall under the spatial reconfiguration category and are characterized by the change of activities carried out within the adjacent chains concerning “social activities and mobility services purchasing activities” (e.g., changing the role of customers in interacting with physical laboratories, fully digital car marketplace, distributed virtual and remote stores).

### ***Classification of the strategic innovation projects according to the Design-Driven Innovation model***

Afterwards, we analyzed the 104 strategic innovation projects according to the Design-Driven Innovation model (Verganti, 2009). We identified the impact of each innovation strategy on the current meaning of the car retail experience. Based on the initial results of our empirical analysis, we defined the current meaning as “facing the dichotomy between rational need for a winning deal/convenient negotiation and the emotional need for a dream car purchase”. In Figure 2, we show how many strategies in each category of the Service-Opportunity Matrix entail innovating the meaning of the car retail experience. It emerges that spatial innovations (10 spatial expansions and 7 spatial reconfigurations) enable the radical innovation of the meanings of the car retail experience, while temporal innovations (both temporal expansions and temporal reconfigurations) do not. In the 10 cases of spatial expansion, it appears that the new meaning is shaped by the introduction of new activities that currently do not exist within the context of the car retail experience, while in the 7 cases of spatial reconfiguration, it is evident that the new meanings are shaped by the change of the role that customers play in specific activities that currently do not exist within the car retail experience (Appendix B provides additional details about different interpretations entrepreneurs and managers gave to spatial expansion and reconfiguration).

### ***Analysis of the expected performances of different strategic innovation projects***

As previously explained, we asked the 123 entrepreneurs and top managers who participated in this study to provide their perceptual assessments of the expected impact

on competitive advantage of the 104 strategic innovation projects chosen by their colleagues, measured along three main dimensions (see Griffin and Page, 1993): Customer Acceptance (CA), Revenue Growth (RG) and Profitability (P). By doing so, we aim to analyze the expected impacts on competitive advantage of the strategic innovation approaches that decision makers in automotive retail firms adopt.

First, we compared the performance associated with the four categories identified by the Service-Opportunity Matrix. We found no significant differences between reconfiguring vs. expansion and temporal vs. spatial strategic innovation projects. Only the perceived Customer Acceptance (CA) of expansion strategic innovation projects was slightly higher than reconfiguring strategies (see Table 2 and 3).

**Table 2: ANOVA Test of Reconfiguring/Expansion Innovation (for the entire sample)**

	Reconfiguring innovation	Expansion innovation	F
Customer Acceptance (CA)	3.41	3.53	4.520*
Revenue Growth (RG)	3.39	3.47	1.059
Profitability (P)	3.49	3.62	2.873
N	42	62	

\*  $p < 0.05$ ; \*\*  $p < 0.01$

**Table 3: ANOVA Test of Temporal/Spatial Innovation (for the entire sample)**

	Temporal innovation	Spatial innovation	F
Customer Acceptance (CA)	3.53	3.42	3.753
Revenue Growth (RG)	3.42	3.47	0.550
Profitability (P)	3.53	3.63	1.601
N	62	42	

\*  $p < 0.05$ ; \*\*  $p < 0.01$



Considering the 42 spatial strategic innovation projects, we compared the evaluations of those strategies that entail a radical innovation of meaning with the others. The ANOVA test shows significant differences between these two sets of strategic innovation projects in terms of Revenue Growth (RG) and Profitability (P) (see Table 4). Spatial strategic innovation projects that are based on a radical change of meanings showed significantly higher scores (RG = 3.98 and P = 4.22) in comparison with those spatial strategic innovation projects that do not address new meanings in the car retail experience (RG = 3.13 and P = 3.23). As previously noted, spatial innovation enables the proposal of new meanings differently from temporal innovation. At the same time, it seems that only those strategic innovation projects that entail entering into adjacent customer chains by offering new meanings can reach significant performance results. Indeed, spatial strategic innovation projects without new meanings (RG = 3.13 and P = 3.23) scored significantly lower not only in comparison with spatial strategic innovation projects with new meanings, but also in comparison with the entire sample (RG = 3.44 and P = 3.57). By contrast, Customer Acceptance (CA) did not show significant differences (see Table 4). To verify the robustness of our results, we also conducted a similar comparison considering the entire sample (see Table 6 in Appendix C). It emerges that innovations of meanings (RG = 3.98 and P = 4.22) received significantly higher scores in comparison with the strategies that do not innovate the meanings of the car retail experience (RG = 3.34 and P = 3.45).

**Table 4: ANOVA Test for Design-Driven Innovations (with a focus on spatial innovations)**

	Spatial Strategic Innovation Projects WITHOUT new Meanings	Spatial Strategic Innovation Projects WITH new Meanings	F
Customer Acceptance (CA)	3.38	3.47	1.642
Revenue Growth (RG)	3.13	3.98	164.173**

Profitability (P)	3.23	4.22	170.413**
N	25	17	

\*  $p < 0.05$ ; \*\*  $p < 0.01$

The empirical results suggest that spatial strategic innovation projects are those that enable the introduction of new meanings for the car retail experience, while temporal expansions and reconfigurations do not. In the cases of strategic innovation projects that entail spatial expansion, it appears that the new meaning is shaped by the introduction of new activities that currently do not exist within the context of the car retail experience. In the case of the strategic innovation projects that entail spatial reconfiguration, the new meaning is shaped by the change of the role that customers play in specific activities that currently do not exist within the context of car retail experience.

## CONCLUSIONS AND IMPLICATIONS

### *Implications for theory*

This paper focuses on innovation in the automotive retail industry. Although innovation in service and, especially, retail industries has been acknowledged as a critical source of competitive advantage, our knowledge of the strategic innovation projects proposed by retail firms remains limited. Moreover, no attempts have been made to date to study whether and how Design Driven Innovation (DDI) is chosen by retail firms as a strategy to gain and nurture competitive advantage, despite the fact that DDI has been used to explain the success of radical service innovations and that the retail industry is closely linked to the evolution of socio-cultural models that determine new interactions between firms and their customers.

In the attempt to close this gap in our understanding of innovation in retail firms, this paper reports the results of an exploratory empirical analysis on 104 examples of strategic innovation projects proposed by the decision makers of automotive retail firms in the UK, Germany, Italy, Serbia and Spain. By adopting the taxonomy proposed by Sawhney et al. (2004), this paper provides and discusses empirical evidence on how

automotive retail firms choose to innovate their services by following temporal vs. spatial expansion and temporal vs. spatial reconfiguration strategies. Moreover, it shows whether and how automotive retail firms choose DDI as a strategy to gain competitive advantage.

Although our analyses are not statistically significant, they suggest that most of the strategic innovation projects proposed by decision makers in automotive retailers fall under the temporal expansion typology (37%), which entails extending the current customer journey of car purchasing activities by adding new activities before the visit in the store (e.g., supporting information retrieval and price comparison) and after the delivery of the car (e.g., innovating the after-sales services with new customer relationship management solutions). Moreover, it suggests that DDI is a viable innovation strategy in automotive retail, although only a small share of the firms in our sample (16%) choose it as an approach to gain competitive advantage. Moreover, the managers and entrepreneurs that we interviewed believe that DDI can have a positive impact on the economic and financial performance of automotive retail firms, an impact that is higher than the one generated by strategic innovation projects that do not entail a radical change in meaning.

These findings indicate that DDI can be applied as a viable innovation strategy non only in product innovation - where it was initially conceptualized - but also in retail service innovation, this pointing to a broader applicability of the framework and contributing to the external generalizability of the DDI theory. This study also benefits retail and service innovation research, because it provides preliminary evidence that new meanings are considered by decision makers as a potentially profitable source of advantage in innovation. More research is needed to integrate innovation of meanings into established service innovation frameworks, such as the Service-Opportunity Matrix.

### ***Managerial implications***

Our research is exploratory and its findings cannot be generalized to any populations of firms or markets. This notwithstanding, it has some interesting implications for managers working in the retail industry and, in particular, in the automotive retail business.

First, it suggests these managers that radical innovation of meanings may be an important potential source of competitive advantage for their firms, at least based on the

opinion of the informants that we interviewed. Moreover, our study establishes an interesting link between the four typologies of service innovation proposed by Sawhney et al. (2004) and DDI. It suggests in particular that radical innovation in meanings may be elicited by spatial reconfiguration and expansion, whereas temporal innovation does not seem to provide a fertile ground for DDI implementation. One possible interpretation for this preliminary findings is that entry into new markets, as frequently implied by strategies based on spatial innovations, requires a radical redefinition of the values proposed to consumers and, consequently, the identification of new meanings that may attract them. Vice versa, the development of new meanings enables the identification of new markets that can be connected to the primary activity chain, leading to spatial innovations.

These exploratory findings will hopefully make decision makers in automotive retail firms aware of the potential value of innovating the meanings of the services they offer, and of the implications in terms of spatial reconfiguration and expansion that choosing this strategy entails.

### ***Limitations and further research***

Of course, this study has several limitations that nonetheless represent opportunities for future research. First, we must acknowledge that our findings, given the exploratory nature of this study, cannot be generalized to any populations of firms or markets. However, they should be used as a basis to develop a theoretical understanding of a complex phenomenon and to encourage scholars in retail innovation and DDI to develop research propositions and hypotheses to be tested in subsequent deductive empirical studies. To test and generalize the findings from our exploratory analysis, it would be important to consider the particular features of the automotive retail industry, which are likely to affect the conclusions we come to in this paper. Industry-specific factors (e.g., the durable vs. non-durable nature of the purchased good and, consequently, its price) may have an important effect in influencing the role of DDI in retail service innovation.

Second, our attempt to measure the performance implications of DDI is based on self-perceptual measures explored during a teaching program where participants were exposed to the DDI model. Studying the benefits resulting from radically innovating the

meaning of retail services by using more objective indicators is another area ripe for future research.

Finally, in this paper we focus on the strategic decisions in the area of innovation that decision makers in automotive retail firms take. We do not study - with an ex-post view - strategic innovation projects already implemented by automotive retailers. Future research should consider the actual implementation of strategic innovation projects in retail firms and their impact on performance.

Notwithstanding these limitations, we believe the exploratory analysis presented in this paper opens up an interesting research avenue at the intersection of service innovation and DDI, which is rich of theoretical and practical implications.

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## Appendix A: List of Strategic Innovation Projects

**Table 5: List of Strategic Innovation Projects**

Group	ID Innovation Project	Title of the Innovation Project	Typology	Proposal of New Meanings	Description of New Meanings	Customer Acceptance	Revenue Growth	Profitability
1	1.1	The Village Dealer	TR	No		3,19	3,05	3,22
1	1.2	Community Platform	SR	Yes	Car Dealer as a digital marketplace providing a deal-of-the-day experience	3,33	3,99	4,13
1	1.3	Help Desk	TE	No		3,20	3,19	3,38
1	1.4	Luxury Dealer	TE	No		4,19	4,10	4,10
2	2.1	Click & Go	TR	No		3,53	3,50	3,61
2	2.2	The Personal Trainer Dealer	SR	No		3,25	3,07	3,15
2	2.3	The Bank	TE	No		3,20	3,19	3,38
2	2.4	Virtual Store	TE	No		3,20	3,19	3,38
3	3.1	Quick & Dirty	TR	No		3,57	3,47	3,58
3	3.2	The Luxury Retail Chain	SR	No		2,87	2,81	2,92
3	3.3	The Family	TE	No		3,20	3,19	3,38
3	3.4	The Agorà Dealer	SE	Yes	Car Shopping as multisensorial experience in a hyperrelational context	3,60	4,04	4,42
4	4.1	No Stress Store	TR	No		3,44	3,34	3,45
4	4.2	Touch Screen	SR	No		3,33	3,27	3,37
4	4.3	Tailor Dealer	TE	No		3,12	2,96	3,16
4	4.4	Passion Weekend	SE	Yes	Car Dealer as a leisure travel agency for premium clients	3,53	4,06	4,42
5	5.1	Technocratic Dealer	TR	No		3,44	3,29	3,40
5	5.2	The Resort	SR	No		3,35	3,20	3,31
5	5.3	Travel Agency	TE	No		3,60	3,51	3,57
5	5.4	The Outlet Store	SE	Yes	Cash & Carry Wholesale where picking the car that you have chosen before within your social community	3,25	4,14	4,55
6	6.1	Configuration Platform	TR	No		3,53	3,23	3,39
6	6.2	The Campus	SR	No		3,18	3,11	3,22
6	6.3	The Family Dealer	TE	No		4,01	3,80	3,80
6	6.4	The Family in the Car World	SE	Yes	Car Dealer as Mall for adults and Luna Park for children	3,51	4,06	4,40
7	7.1	The Library	TR	No		3,53	3,23	3,39
7	7.2	Web Mobility Services	SR	No		3,16	3,03	3,14
7	7.3	Tailor Dealer	TE	No		4,04	3,76	3,76
7	7.4	Urban Mobility Store	SE	Yes	Car Dealer as Hub for mobility services (cars, public transits, car sharing, ecc.)	3,25	3,95	4,26
8	8.1	The One Stop	TR	No		3,53	3,23	3,39
8	8.2	Virtual Platform	SR	No		3,36	3,31	3,38
8	8.3	Village Dealer	TE	No		3,75	3,35	3,57
8	8.4	The Green Dealer	SE	Yes	Car Dealer as open space for "Sustainability Communities" engaged in cultural events and activities	3,41	4,05	4,37
9	9.1	Automatic Distributor	TR	No		3,52	3,50	3,60
9	9.2	Car Outlet	SR	No		3,34	3,31	3,38
9	9.3	The London Bridge	TE	No		3,47	3,47	3,63
9	9.4	The Luna Park	SE	Yes	Car Dealer as Hub for mobility services (cars, public transits, car sharing, ecc.)	3,41	4,02	4,35
10	10.1	The Virtual Village	TR	No		3,57	3,46	3,56
10	10.2	The Multiplex Movie Theater	SR	No		3,25	3,08	3,17
10	10.3	The Ponte Vecchio Bridge	TE	No		4,18	4,11	4,11
10	10.4	The Berlin Dealer: Google your car	SE	Yes	Car Dealer as fully digital marketplace providing services for urban mobility	3,34	4,08	4,46
11	11.1	Do Your Sensorial Experience	TR	No		3,45	3,35	3,46
11	11.2	A Journey With the Customer	SR	No		3,72	3,53	3,55
11	11.3	The Come-in Dealer	TE	No		3,20	3,20	3,38
11	11.4	The Trade Fair	SE	Yes	Car Dealer as a physical marketplace providing a deal-of-the-day experience	3,73	4,02	4,36
12	12.1	The Bridge of Sighs	TR	No		3,47	3,31	3,42
12	12.2	Wild Beach	SR	No		4,08	3,80	3,80
12	12.3	Car World Advisor	TE	No		3,20	3,19	3,38
12	12.4	The No Stress Car Maintenance	SE	Yes	Car Dealer as dematerializing agency for after-sales services	3,69	4,03	4,37

Group	ID Innovation Project	Title of the Innovation Project	Typology	Proposal of New Meanings	Description of New Meanings	Customer Acceptance	Revenue Growth	Profitability
13	13.1	The Brooklin Bridge	TR	No		3,30	3,61	3,61
13	13.2	The Hidden and Dispersed Dealer	SR	Yes	Car Dealer as distributed virtual and remote store for dynamic people	3,60	3,71	3,76
13	13.3	The Theater	TE	No		3,21	3,21	3,39
13	13.4	The Shopping Arcade	SE	No		3,13	2,97	3,09
14	14.1	Out of Dealer	TR	No		3,31	3,63	3,63
14	14.2	The Sharing Mobility Park	SR	Yes	Car Dealer as Hub for mobility services and Space for Sustainability Communities	3,37	3,56	3,56
14	14.3	A journey Around the Customer	TE	No		3,13	2,95	3,15
14	14.4	Home Sweet Home	SE	No		3,19	2,92	3,04
15	15.1	24 Hours Mobility Services	TR	No		3,31	3,61	3,61
15	15.2	Resort Village	SR	Yes	Car Dealer as relaxing and informal space for urban mobility services	3,19	3,65	3,68
15	15.3	The Technology Eco Park	TE	No		3,54	3,47	3,53
15	15.4	The Family Store	SE	No		3,20	2,92	3,06
16	16.1	The Customer Journey	TR	No		3,56	3,52	3,62
16	16.2	Catamaran Dealer	SR	Yes	Car Dealer as fully digital marketplace providing a social and seamless experience	3,98	4,07	4,10
16	16.3	The Eco Park Travel	TE	No		4,02	3,80	3,80
16	16.4	The Space Car	SE	No		3,11	2,77	2,93
17	17.1	The Eco Park	TR	No		3,60	3,47	3,57
17	17.2	The Product Dealer	TE	No		3,20	3,19	3,38
17	17.3	De Luxe Dealer	TE	No		4,05	3,75	3,75
17	17.4	The Day Care	SE	No		3,34	3,07	3,14
18	18.1	SPA & Beauty Dealer	TR	No		3,47	3,35	3,45
18	18.2	The Tailor Dealer	TE	No		3,20	3,19	3,38
18	18.3	Moving Dealer	TE	No		3,72	3,33	3,55
18	18.4	Family Dealer	SE	No		3,69	3,29	3,37
19	19.1	Yachting Club	TR	No		3,45	3,29	3,40
19	19.2	The Fitness Centre	TE	No		3,20	3,19	3,38
19	19.3	Cottage Beach	TE	No		3,50	3,51	3,66
19	19.4	The Intimate Dealer	SE	No		3,66	3,24	3,34
20	20.1	Times Square	TR	No		3,18	3,03	3,20
20	20.2	Tailor Made	TE	No		3,14	2,96	3,16
20	20.3	Trafalgar Square	TE	No		4,14	4,10	4,10
20	20.4	The 360-degree Dealer	SE	No		3,65	3,08	3,25
21	21.1	Sail Boat Dealer	TR	No		3,18	3,05	3,22
21	21.2	Gotta a Feeling	TE	No		3,59	3,49	3,55
21	21.3	Place Vendome	TE	No		3,20	3,19	3,38
21	21.4	Shopping & Caring	SE	No		3,55	3,20	3,29
22	22.1	Discount Dealer	TR	No		3,45	3,28	3,39
22	22.2	Essential Dealer	TE	No		4,01	3,80	3,80
22	22.3	Cruise Lines Dealer	TE	No		3,58	3,45	3,51
22	22.4	The Street Artist	SE	No		3,20	2,92	3,06
23	23.1	Personal Car Designer	TR	No		3,20	3,06	3,23
23	23.2	The Craftsman	TE	No		4,05	3,75	3,75
23	23.3	Yacht Dealer	TE	No		4,01	3,80	3,80
23	23.4	A journey in the Customer's heart	SE	No		3,11	2,77	2,93
24	24.1	Mobility On Line Support	TR	No		3,19	3,04	3,21
24	24.2	Temporary Shop	TE	No		3,71	3,34	3,56
24	24.3	The Venice Dealer: Design Your Car	TE	No		4,05	3,75	3,75
24	24.4	Touch and Go Dealer	SE	No		3,37	3,08	3,16

Group	ID Innovation Project	Title of the Innovation Project	Typology	Proposal of New Meanings	Description of New Meanings	Customer Acceptance	Revenue Growth	Profitability
25	25.1	The Superhero Shopper	SR	Yes	Car Dealer as Virtual Laboratory for "do-it-yourself Bricoleurs"	3,42	4,10	4,26
25	25.2	Look at Your Car	TE	No		3,53	3,53	3,67
25	25.3	The London Dealer: Tailor Made	TE	No		3,71	3,34	3,56
25	25.4	Piazza San Marco	SE	No		3,69	3,29	3,37
26	26.1	Bricolage	SR	Yes	Car Dealer as Physical Laboratory for "do-it-yourself Bricoleurs"	3,44	4,08	4,24
26	26.2	The Mega Dealer	TE	No		4,13	4,11	4,11
26	26.3	Cool Concept Store	TE	No		3,56	3,57	3,70
26	26.4	The New York City Dealer: No Limits	SE	No		3,62	3,23	3,32

(TR = Temporal Reconfiguration; TE = Temporal Expansion; SR= Spatial Reconfiguration; SE= Spatial Expansion)

## **Appendix B: Quotes about Strategic Innovation Projects addressing New Meanings**

Quotes from the entrepreneurs and top managers who chose the 10 strategic innovation projects addressing new meanings and classified as spatial expansion:

- “In the Outlet Store, the car dealership becomes a “cash and carry wholesale” in which customers pick the car that they have co-built before within their social communities (family, friends, social networks, digital communities, smart cities)”;
- “In the Green Dealer, the car dealership is an open space in which people share the ethics and values of sustainability through active engagement in cultural events and collective projects”;
- “In the Urban Mobility Store, the car dealership becomes a “hub” in which people can access all the opportunities for commuting services: tickets for public transit, car sharing, carpooling, used car purchase, new car purchase, bike rental, motorbike rental, park services”;
- “In the Passion Weekend, the car dealership operates as a leisure travel agency in which premium clients can discover and design their special weekends/holidays (and the more appropriate set of commuting and transportation services)”;
- “In the Family in the Car World, the car dealership is, at same time, a Mall for adults and a Theme Park for children in which mobility and sustainability are the theme”;
- “In the No-Stress Car Maintenance, the car dealership is a virtual agency in which people can organize access to facilities for playing the game of car repair services”;
- “In the Agorà, car shopping is a multi-sensory experience in a hyper-relational context in which people can share physical interactions with cars by playing within social groups”;
- “In the Trade Fair, the car dealership is a physical marketplace that provides a deal-of-the-day experience”;
- “In the Web Mobility Services, the car dealership is a fully digital marketplace that provides services for urban mobility”

- “In the Home Sweet Home, the car dealership hosts facilities for leisure activities, families, kindergarten, picnic area, social events”.

Quotes from the entrepreneurs and top managers who chose the 7 strategic innovation projects addressing new meanings and classified as spatial reconfiguration:

- “In the Hidden and Dispersed Dealer, the car dealership operates as a distributed virtual and remote store for dynamic people who self-organize commuting and mobility services”;
- “In the Superhero Shopper, the car dealership becomes a physical (or virtual) laboratory for “do-it-yourselfers” who prefer to self-maintain their cars, vehicles, furniture, electronic devices, websites”;
- “In the Catamaran Dealer, the car dealership operates as a fully digital marketplace that provides a seamless experience in gathering technical information, sharing experiences, posting reviews and opinions of mobility-related content and engaging in interactive forums”;
- “In the Bricolage, the car dealership is a relaxing and informal space in which people share information and experiences about travel, urban mobility services, sustainability events”;
- “In the Resort Village, the car dealership becomes a relaxing, elegant, yet informal space in which people take a break from the rhythm of urban life”;
- “In the Sharing Mobility Park, the car dealership is an open space for people who share the values of sustainability to organize cultural events, produce digital content and host different communities”;
- “In the Community Platform, the car dealership operates as a digital marketplace that provides a deal-of-the day experience in which people have reliable access to special offers that bundle different commodities (e.g., insurance, car repair, commuting services)”;
- “In the Touch and Go Dealer, the customers are fully free to touch, immediately access, and self-create a set of mobility and leisure services”.

## Appendix C: Robustness checks

**Table 6: ANOVA Test of Innovation of Meanings (for the entire sample)**

	Innovation WITHOUT new Meanings	Innovation WITH new Meanings	F
Customer Acceptance (CA)	3.48	3.47	0.018
Revenue Growth (RG)	3.34	3.98	70.693**
Profitability (P)	3.45	4.22	120.709**
N	87	17	

\*  $p < 0.05$ ; \*\*  $p < 0.01$