

*RESPONSE TO THE GREEN PAPER ON
STATE AID FOR INNOVATION*

November 2005

Eurocommerce welcomes the EC consultation on State aid for innovation. We thank, in particular, the European Commission for its question n° 5 on innovation in the services sector. However, we consider that in the consultation document not too much attention has been devoted to this specific sector and to the sector market failures. In line with the Oslo Manual, we claim that innovation is applicable both to products and services in all the market sectors.

We ask for a fair level play field for the services sector with its inclusion within the possible beneficiaries of the state aid for innovation. In fact, **public interventions in favour of technological innovation should concern both products and services.**

The literature on innovation underlines that the realisation of innovation comes through a "*value proposition*" to the market. If this proposition is not recognised, innovation has no economic meaning. There are cases where technology is often present but it is not the main "*driver*" of the innovation while organisational and commercialisation aspects have a fundamental importance. The Commission has already followed this line in its Green paper on innovation (Com(2003) 112), in the *European Competitiveness Report 2002* and in its Proposal for a "Decision for the European Parliament and of the Council establishing a Competitiveness and Innovation Framework Programme (2007-2013)" (Com (2005) 121).

In practice, innovation in services represents an important strategic factor for the European competitiveness and is often not only technological, but concerns also other aspects, in particular related to organisational character and format (product innovation).

Among the relevant forms of organisational innovation in services, we underline the creation of SMEs networks aimed at sharing technical and administrative services, common purchases, brand policies, planning and implementation of new commercial formats (see next point on innovative format), managing activities at local level. *Business networks* between SMEs concern the commercial sector, but also the HORECA and other activities.

Companies networks strengthen their competitive capacity but also facilitate the introduction of innovations both technological (integrated managing of purchases and logistics according to the concept of *Efficient Consumer Response*, similar to the *just-in-time* in the manufacture sector or the food traceability, taken into account by the European legislation on consumer protection) and organisational ones (financial and administrative management, personnel management, *customer care*, etc.).

In the *retail sector*, the SMEs networks are named "Organised distribution" (OD) and they permit SMEs to compete with the big distribution. The Organised Distribution is present in all the Member States with some international groups. For example, the "Spar" Group (in Italy "Despar"), which has been created in the Netherlands as an association of wholesale and retail and today is present in 28 Countries with 17.500 retailers.

Big distribution itself tends to create affiliate SME networks through the creation of different technical and contractual forms in order to cover all the market opportunities, offering diversified types of services to its clients.

Apart from the described commercial networks, we underline the expansion of SME networks aimed at managing projects. It is the case of associations managing common initiatives in urban areas (common promotion, parking, customer loyalty cards and administrative services, often in collaboration with local authorities).

In order to understand the importance of non-technological aspects in services innovation, we have to finally consider the meaning of "product" in market services. In the retail sector, for example, the commercial product corresponds to a combination of several elements which together represent the "format", such as:

- location, surface, parking, cash registers, number of employees, opening hours, machines, number and typologies units;
- number of good categories, number of references, influence of perishables, share of different goods on turnover, food/non-food composition of turnover, ready to eat meals and services, packaging or mono or pluri-portions meals, etc.;
- identification from the consumer for specific values to associate with that particular brand in order to keep specific ***promises*** made to the client.

Innovation considers different characteristics of the *retail-mix*:

- stock of goods (width and depth), brand policy for perishable food, commercial brand policy;
- price (*every day low price* (EDLP), promotions);
- merchandising (equipment layout, display of goods);
- traditional services (self scanning, home delivery, satisfaction or reimbursement, etc.);
- additional services (restaurants/snacks, cafés, financial services and insurance, cultural services, payments of utilities and ticketing, etc.);
- consumer relations (micromarketing, loyalty cards, *one-to-one marketing*);
- communication (education, promotions, in store communication);
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All these characteristics together determine the "**proposal of value**" for the client, which is the core element for the most recent concept of innovation.

Also the "*Frascati Manual*" (OECD's Manual on research) considers the research of a new format, a case of innovation, when it says "**Launch of prototype and pilot stores**" (page 50) regarding the research activity.

On this line, experimentation of new prototypes of format seems to respond to the Commission's hypothesis where, in its consultation document, it tries to define an extension of the research phase by an "*experimental development stage*".

DISTINCTION BETWEEN ORDINARY AND INNOVATIVE ACTIVITY

Due to the lack of an objective use of a new technology in non-technological innovation, there is an increasing risk to allot State aid to activities which are not completely “innovative”.

The problem, at a closer look, concerns also technological innovation, because in this case too, i.e. in ICT technologies, they are so spread out and available that they represent a “*quasi-commodity*”. In other terms, the use of digital technologies does not ensure in itself an innovative project.

Thus, the problem of the evaluation on the grade of innovation remains, however, on the floor. In this perspective it seems penalizing and discriminatory to deny the possibility to allow incentives to forms of non-technological innovation for the simple reason that they do not use electronic devices.

It remains, then, the problem to distinguish between ordinary activity and projects for innovative services. The problem has been discussed in several OECD and EC studies¹.

From the analysis of the results, the importance of an evaluative approach to innovation, based on the following aspects is clearly apparent:

Innovation:

- 1) has to create an additional or radical benefit for the client (a completely new *value proposition*);
- 2) has to present a risk. If the risk is not there (meaning a certain degree of uncertainty in the investment) there is no real innovation;
- 3) has to be intentional and a consequence of decisions (a formalisation of a sequence of decisions and activities, i.e. an innovation project);
- 4) has to be transmissible because it is formalised, i.e., it has to be replicable to another subject, eventually, via licences, copyrights or similar;
- 5) has to create positive externalities, i.e., create added value for other subjects which eventually adopt the same innovation.

In practice, the technology is a “symptom” of the fact that the project is innovative, but it is not enough to show that it is effectively innovative.

On the contrary, a non-technological approach does not mean that the project is not innovative if the 5 mentioned circumstances are present.

Following this reasoning, we ask the Commission **to modify its negative prejudice on non-technological innovation**, including it amongst the possible forms of State aid contributions, even identifying a system of rules to minimize the risk to contribute to ordinary activities. In particular, we ask for organisational innovation, networks of services enterprises and format innovation to be included as eligible forms of State aid contributions.

¹ see SI4S, *Service in innovation – innovation in services*, co-financed by the TSER programme