Innovation in Hospitality
(T3 – Session #4)

Prof. Euclides Major

Feb 2025 – Carcavelos

Agenda – Session #4

1. Case study: Lemonade: Delighting Insurance Customers with AI and Behavioural Economics: A Disruptive InsurTech Business Model for Outstanding Customer Experience and Cost-Effective Service Excellence

2. Scaling-up Innovations

INNOVATION IS ABOUT…

New Ways of Serving Existing Markets
- Innovation can also occur in established/mature markets
- Example: Budget air travel and demand optimisation

Rethinking services
- Service sector in many economies makes up majority of GDP
- Example:

Forget Everything You Know About Insurance

Instant everything. Great prices. Big heart.

CHECK OUR PRICES

Lemonade Case 'Delighting Insurance Customers with AI and Behavioural Economics: A Disruptive InsurTech Business Model for Outstanding Customer Experience and Cost-Effective Service Excellence'

POTENTIAL CASE QUESTIONS

1. Is **Insurance industry** ready for disruption?

2. How do you explain the phenomenal growth experienced by Lemonade? Does Lemonade create a **unique customer experience**? How? What are the most important **touchpoints** along the customer journey?

3. How important are data and analytics when optimizing the experience? What is the **role of digital technologies** (e.g. AI, ML) in Lemonade's business model?

4. How does Lemonade strike a balance between creating a **superior customer experience** and containing service delivery costs?

5. Is Lemonade's **business model sustainable** over time? How can Lemonade continue to **grow**?

Lemonade Case Study	
Part I – Disrupting a mature industry	Insurance: an industry ripe for disruption. Digital technologies Consumer behaviour: fast-evolving customer expectations Incumbent's adoption of digital technologies
Part II - Lemonade	Lemonade radical different customer promise/value proposition Overview & Discussion of its Business Model
Part III – Customer Insights	Leveraging Rich & Deep Data Job-to-be-done analysis: conceptual foundations What customers really want from insurance providers Exercise: attributes & benefits
Part IV – Data & tech	Data is the new gold AI & ML the next generation competitive advantage
Part V – Customer Journey	Visualizing Customer Journey: Traditional *vs* Lemonade Applying the 'Service Blueprinting'
Part VI – Growth and Next	Growth Directions What happened next

Warm-up Poll: Your perspective on insurance.
Which 3 words do you associate with insurance?

Go to **www.menti.com** and
use the code **7818 2669**

Warm-up Poll: Your perspective on insurance.
Which 3 words do you associate with insurance?

Mature does not have to mean 'Boring'…

Wedding Insurance — PROVIDING YOU A WAY OUT

"That takes care of health, life, homeowner's, and car — now, how about some alien abduction insurance?"

The Changing Insurance Industry Landscape

Inherent Industry
Pain Points

Pains Perceived by
Customers

Pains Perceived by Carriers

The Changing Insurance Industry Landscape

Inherent Industry
Pain Points

How Insurers Make
Money

Insurance Industry
Transformation

Pains Perceived by
Customers

Profit Equation

Consumer Behaviour &
Technology Trends

Pains Perceived by Carriers
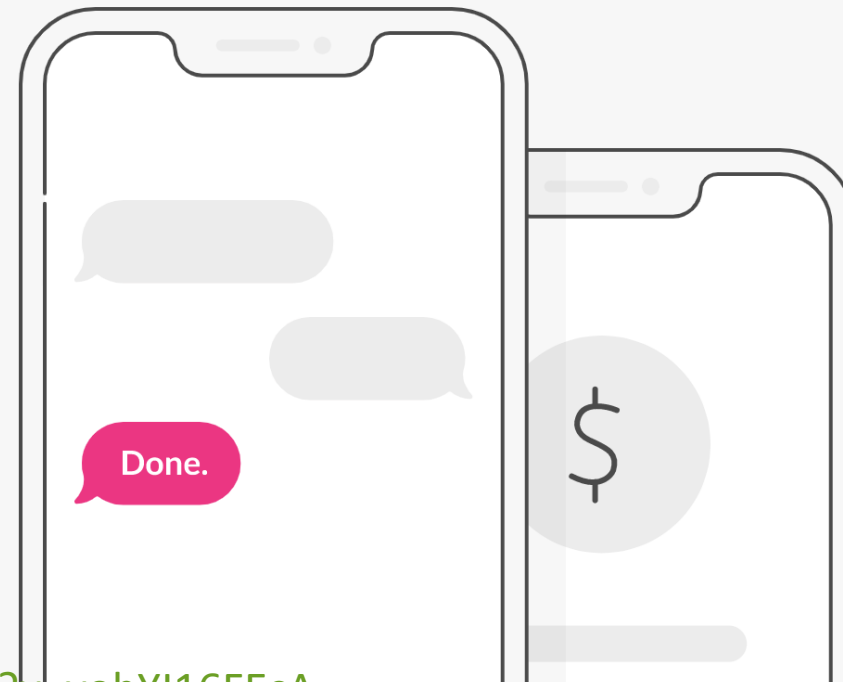
Barriers to Change

PART II - LEMONADE

Customer Promise: Forget everything you know about insurance

How it differs from traditional?

Instant Everything

Maya, our charming artificial intelligence bot, will craft the perfect insurance for you.
It couldn't be easier, or faster

90 Seconds
To get insured

3 Minutes
To get paid

Done.

https://www.youtube.com/watch?v=vohYJ16FEcA

CLEAR VALUE PROPOSITION – CONVENIENCE, STREAMLINED EXPERIENCE , FAST, CHEAP, SOCIAL COMPONENT

TESTIMONIALS FROM CUSTOMERS

Insurance everyone loves. Weird, right?

CHECK OUR PRICES

"I'm fully obsessed with Lemonade, it was the easiest and best part of my move."
— Cello B.

"Best claims and insurance experience ever. I am a Lemonade customer for life."
— J.Y.

"Went from searching for a policy to approved in less than 5 min."
— Jeff N.

"I am over the moon about Lemonade, I cannot stop raving about them to anyone who will listen."
— Bill D.

"I'm actually getting more service than I need. I feel like a VIP."
— Charmian N.

https://www.youtube.com/watch?v=bTSbYREBszM&feature=youtu.be

clearsurance

| Lemonade Insurance Company | 4.75 ★★★★★ |

98% of customers would recommend Lemonade to a friend

#1 Ranked #1 of 270 companies for customer satisfaction in renters insurance

Lemonade competes on the basis of customer effort

HBR: Customer effort (Dixon et al 2010, 2013)

- Reducing customer effort: The key to customer satisfaction is not exceeding expectations, but rather **making interactions easier by reducing the effort** needed to resolve issues. Customers who have effortless experiences are more likely to be loyal and recommend the company.

- Identifying key effort points: Companies should **analyze touchpoints** and identify where customers face the most difficulties. **By eliminating these points, businesses can improve the customer experience.**

- Problem prevention: **Anticipating and resolving problems before customers have to deal with them is crucial for reducing effort**. Focus on **first-call resolution**

- **Employee training**: Employees should be trained to identify customer needs and find quick and efficient solutions. Encourage empathy.

- Measuring customer effort: Companies can use the "**Customer Effort Score**" (CES) metric to evaluate the customer experience – e.g. effort required to resolve an issue or perform a transaction

https://www.youtube.com/watch?v=6rwWzh07o0tw

Make self-service easy and sticky | Minimize the need for repeat calls or contact | Reduce customers' perceived effort | Give reps control over customer interactions
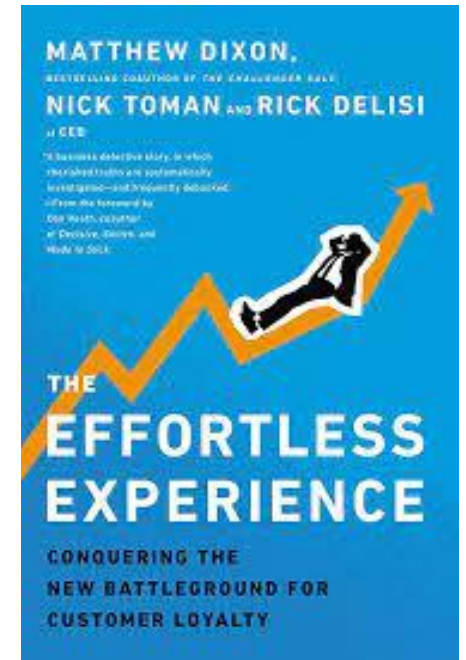
TARGET CUSTOMERS

- **Who are Lemonade's Target Customers?**

demographic details, interests, pain points, and specific needs or preferences

OTHER SPECIFIC CHARACTERISTICS

- **What other characteristics have you found?**

- Price (based on automation)

- Monthly rates are flexible, consumer can make changes or unsubscribe easily

- Manage claims through an app

- Giveback policy to reduce the temptation to be dishonest

- Rational vs Emotional

Delight Consumers

Grow Fast

Predictive Data

Machine Learns

BUSINESS MODEL CANVAS

KEY PARTNERS	KEY RESOURCES	VALUE PROPOSITION	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
	KEY ACTIVITIES		CHANNELS	

COST STRUCTURE	REVENUE STREAMS

EASY TO REPLICATE ? HOW SOME COMPETITORS REACTED...

LEMONADE'S ORIGINAL

What's Covered

FIRE AND SMOKE

A faulty Christmas light or your attempt at deep frying can cause some smoke and fire damage. We cover you for both.

CRIME AND VANDALISM

Your home is full of stuff: furniture, clothing, appliances. We cover you if any of it is stolen or damaged.

BAD WEATHER

Wind, lightning, and hail are scary. You're covered for all of them. Flood insurance isn't part of the basic policy.

LIBERTY'S COPY

Included with Coverage

Fire & Smoke

Sometimes that romantic candlelight evening ends with a visit from the fire brigade. Fear not! If your stuff catches fire or gets that indelible "eau de house fire" smell – we cover you for both smoke and fire damage.

Theft & Vandalism

If your stuff gets stolen or (somehow even more frustrating) gets needlessly destroyed, don't worry — you're covered. Go back to eyeing your neighbors suspiciously.

Weather

Lightning! Wind! Hail! Your dog may hide in the bathroom when these happen, but we'll be there for you. Floods, though, aren't covered.

...you might get stuck with a lemon.

Make the reliable choice — choose State Farm®. With auto insurance, it pays to compare apples to apples. Many of our competitors advertise lower rates, but they may come at a big price if you don't get the service, coverage, or protection you need.

Don't get stuck with a lemon when it comes to your auto insurance. Let me show you what State Farm offers — including all the discounts and coverage options available to you. For a custom quote just call, email, or stop by.

Sincerely,

Anthony J. Ventresca

Presorted
First Class Mail
U.S. Postage
PAID
STATE FARM
INSURANCE
COMPANIES

StateFarm®

A Ventresca Ins Agy Inc
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PART III – CUSTOMER INSIGHTS

- How Lemonade leverages deep customer insights, AI and ML to deliver unique customer experience

https://jobstobedone.org/news/clayton-christensen-understanding-the-job/
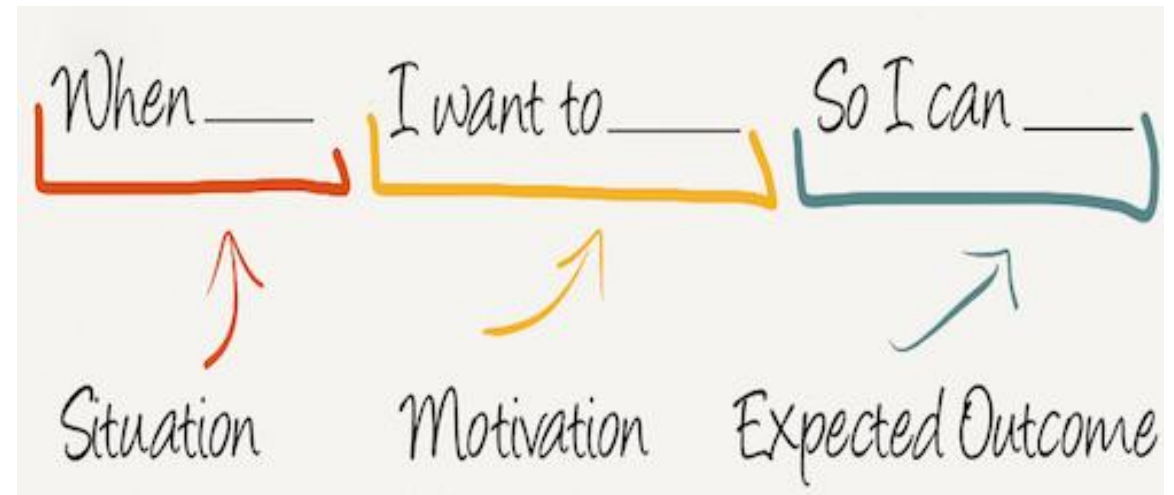
- **Exercise**:
1. Let's start by identifying Lemonade's service **attributes**.
2. Then how these relate to customer **perceived benefits**?
3. And last **the goals that customers** ultimately **want** to achieve

Jobs-to-be-done, benefits and attributes Template

Drilling for Deeper Insights: Understanding what Customers really want

3. Customer Job-to-be-done: Fundamental Goals
Explore the goals customers pursue when buying

2. Customer Benefits
Probe into the gains (and pains) customers experience. What are the benefits and sacrifices they perceive?

1. Attributes & Features
Identify the features in the offer. Which characteristics currently make up our product?

JOBS-TO-BE-DONE, BENEFITS AND ATTRIBUTES TEMPLATE

Drilling for Deeper Insights: Understanding what Customers really want

Customer Job-to-be-done: Fundamental Goals
Explore the goals customers pursue when buying

Trust

Effort

Time

Control

Customer Benefits
Probe into the gains (and pains) customers experience.
What are the benefits and sacrifices they perceive?

Settle Claim Fast

Flexibility

Purchase in 90 seconds

Modify Coverage as Needed

Co-Create a modern easy-to understand policy

Gain transparency

Attributes & Features
Identify the features in the offer.
Which characteristics currently make up our product?

AI Bots Maya & Jim

Mobile App

Subscription pricing

Giveback program

Live policy

Some benefits might be considered a point of parity with other insurers – distinguish them from the ones that stand out from competitors – point of difference!

PART IV – DATA & TECH
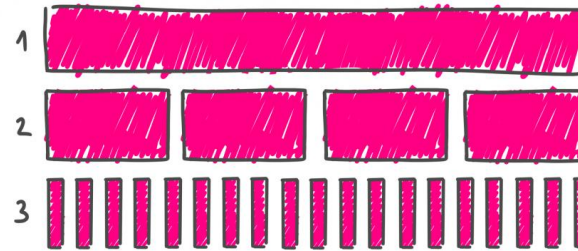
- Data is the new Gold!
  - Lemonade aims to achieve data parity

- Lemonade aims to spin the flywheel!
  - Acquire more customers, sell as many policies and settle as many claims while delighting customers, to generate rapid growth and a growing data flow! So it learns faster, attract and select more customers > efficient operations >> improves its in-house rating engine "Blender" and its underwriting practices

- Lemonade integrates this data with external databases from 3rd parties – saving time
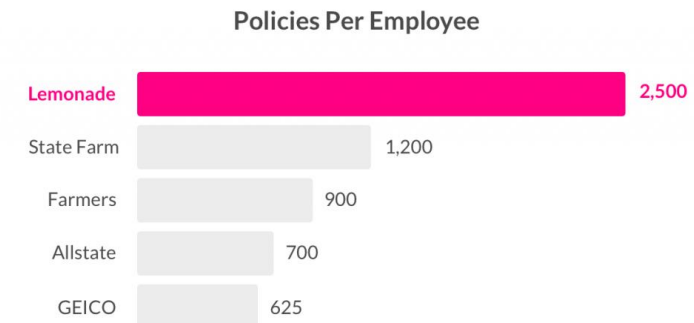
https://www.youtube.com/watch?v=DotEI8j0GcQ

Collect Customer Data

Keep track of claims

Improve AIs

Policies Per Employee

Lemonade	2,500
State Farm	1,200
Farmers	900
Allstate	700
GEICO	625

Source: goo.gl/opM8bJ

TRADITIONAL VS **LEMONADE'S** CUSTOMER JOURNEY

DESIGN the 2 Customer Journeys

PART V – VISUAL REPRESENTATION OF THE CUSTOMER JOURNEY

TRADITIONAL INSURER CUSTOMER JOURNEY

Trigger	**Aware**	**Search + Learn**	**Consider + Compare**	**Choose**	**Buy**	**Receive**	**Use**
Need identification: Life changes, dissatisfaction with existing; Ad	Consolidate brands already know Search for other options	Seek more information about options aware of	Narrow down to small set of options; obtain quotes for each; compare; talk to	Careful assessment of small set of options; picking 1 option	Making payment arrangements	Receiving the actual policy; typically in mail	Have coverage; may need to file claim

Long time

PART V – VISUAL REPRESENTATION OF THE CUSTOMER JOURNEY
TRADITIONAL VS LEMONADE'S CUSTOMER JOURNEY

Trigger

Aware

Search + Learn

Consider + Compare

Choose

Buy

Receive

Use

Need identification: Life changes, dissatisfaction with existing; Ad

Consolidate brands already know Search for other options

Seek more information about options aware of

Narrow down to small set of options; obtain quotes for each; compare; talk to

Careful assessment of small set of options; picking 1 option

Making payment arrangements

Receiving the actual policy; typically in mail

Have coverage; may need to file claim

Long time

Trigger

Aware

Choose

Buy + Receive

Use

Need identification: Life changes, Ad; PR

Find out about Lemonade; download App or visit website

Quick quote flow; only considering 1 option

Policy received instantaneously with purchase confirmation

Have coverage; may need to file claim

Advocacy/WOM: Customer reviews + posts on social media

Short time

PART V – VISUAL REPRESENTATION OF THE CUSTOMER JOURNEY - SERVICE BLUEPRINTING FUNDAMENTALS

Diagram that highlights the key moments of interaction between the customer and the service provider.

It can help businesses to identify areas for improvement in their service delivery, such as bottlenecks, inefficiencies, and areas where customers may experience frustration.

Importance:

- given the intangible nature of services and their complexity, discussing them verbally can be challenging.
- **Blueprinting helps create a visual depiction of the service process that highlights the steps** in the process, the points of contact that take place, and the physical evidence that exists, all from a customer's point of view.

- Blueprinting helps those within an organization identify failure points, areas for improvement, and innovation opportunities as well as opportunities to enhance profit.
- It gets participants "on the same page" in terms of how a service currently works or how a new service process might be designed.

PART V – VISUAL REPRESENTATION OF THE CUSTOMER JOURNEY - SERVICE BLUEPRINTING

Diagram that highlights the key moments of interaction between the customer and the service provider. It can help businesses to identify areas for improvement in their service delivery, such as bottlenecks, inefficiencies, and areas where customers may experience frustration.

Start here ->

Blueprint	
Physical Evidence	
Customer Action	
	Line of Interaction
Onstage	
	Line of Visibility
Backstage	
	Line of Internal Interaction
Support Processes	

tangible elements of the service that customers can see, touch, or interact with, such as the service environment, equipment, and signage

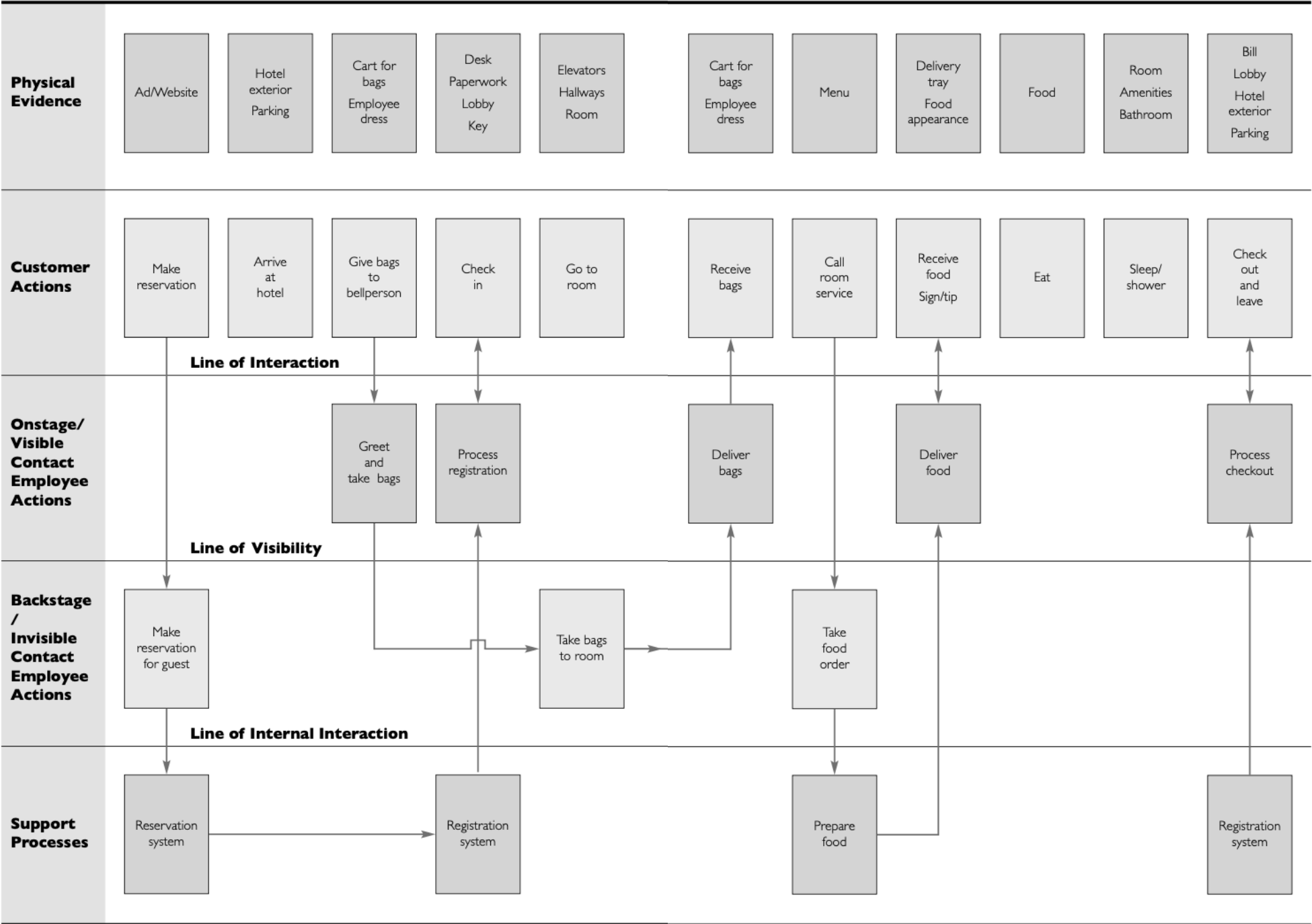visible customer activities that take place

visible employee actions in front of the customer

internal activities that are not visible to the customer, such as preparing materials, coordinating with other departments, or managing inventory

underlying processes that support the delivery of the service, such as recruitment, training, and IT systems.
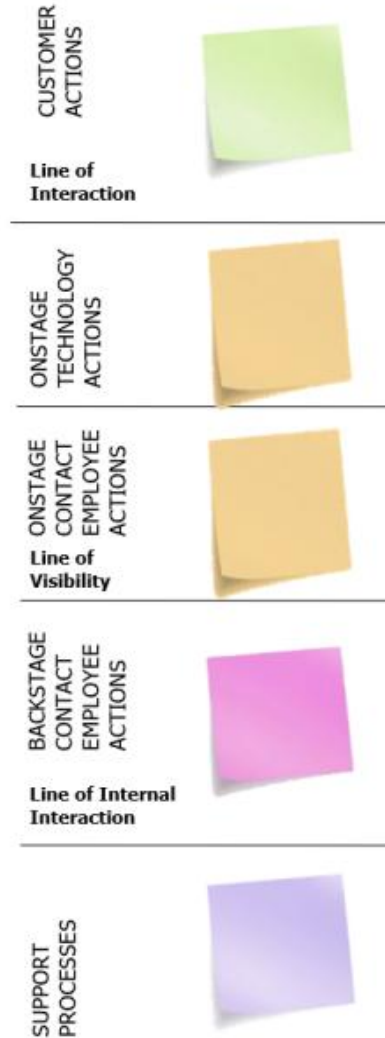
Bitner et al 2008

Blueprint for Overnight Hotel Stay Service

Framework example

	Physical Evidence										
Physical Evidence	Ad/Website	Hotel exterior Parking	Cart for bags Employee dress	Desk Paperwork Lobby Key	Elevators Hallways Room	Cart for bags Employee dress	Menu	Delivery tray Food appearance	Food	Room Amenities Bathroom	Bill Lobby Hotel exterior Parking

Customer Actions: Make reservation → Arrive at hotel → Give bags to bellperson → Check in → Go to room → Receive bags → Call room service → Receive food Sign/tip → Eat → Sleep/shower → Check out and leave

Line of Interaction

Onstage/Visible Contact Employee Actions: Greet and take bags | Process registration | Deliver bags | Deliver food | Process checkout

Line of Visibility

Backstage/Invisible Contact Employee Actions: Make reservation for guest | Take bags to room | Take food order

Line of Internal Interaction

Support Processes: Reservation system | Registration system | Prepare food | Registration system

In 'Service Blueprinting: A Practical Technique for Service Innovation'

PART V – VISUAL REPRESENTATION OF THE CUSTOMER JOURNEY – APPLYING SERVICE BLUEPRINTING

CUSTOMER ACTIONS

<- Start here

Line of Interaction

ONSTAGE TECHNOLOGY ACTIONS

ONSTAGE CONTACT EMPLOYEE ACTIONS

Line of Visibility

BACKSTAGE CONTACT EMPLOYEE ACTIONS

Line of Internal Interaction

SUPPORT PROCESSES

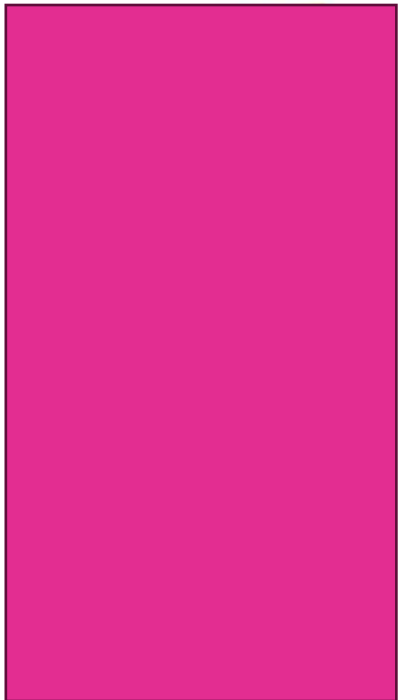CUSTOMER ACTIONS

Line of Interaction

| LEARN | PURCHASE | MANAGE | REVIEW | CLAIM | RENEW |

PART V – VISUAL REPRESENTATION OF THE CUSTOMER JOURNEY – APPLYING SERVICE BLUEPRINTING

Key Considerations:

➢ It is the process of trying to create a blueprint that is so powerful

  ➢ Track Insights that Emerge for Future Action

➢ level of detail required is often a doubt – it is something that depends on the objective of the blueprint

➢ Map the Service as It Happens Most of the Time

➢ Customer must stay top of mind as the blueprint is being developed

➢ Develop Recommendations and Future Actions

MANY RECENT DISRUPTIONS – MATTRESSES, CPG, ETC, ACHIEVED SUCCESS BY **INTRODUCING MAJOR CHANGES ALONG THE CUSTOMER JOURNEY** – THAT IS THE CONSUMER'S PATH, TOUCHPOINTS AND EXPERIENCE ENROUTE TO BUYING THE PRODUCT AND THEN ADVOCATING FOR IT
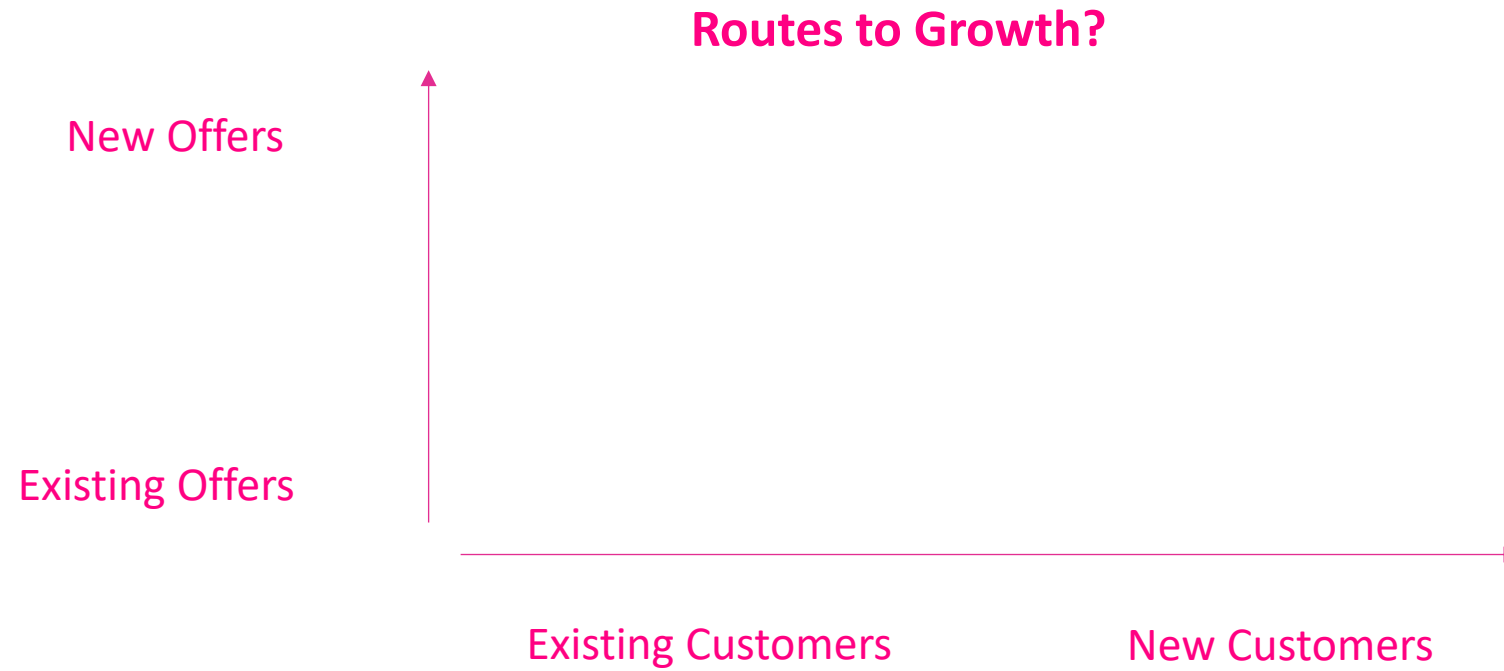
Another example of CX Innovation… Disney World!

- **Disney's MagicBand**: these wristbands serve as a hotel room key, park entry ticket, payment system, and FastPass+ access, streamlining various processes and improving the overall customer journey. This use of technology to create a seamless, personalized experience

Routes to Growth?

New Offers

Existing Offers

Existing Customers   New Customers

PART VI - FUTURE GROWTH DIRECTIONS FOR LEMONADE

Routes to Growth

|	Existing Customers	New Customers
New Offers	Underwrite risks in adjacent domains	Leverage a trustful brand in different markets
Existing Offers	Condo insurance Earthquake insurance Homeowner insurance Renters insurance	Enter new US States & Countries: Germany (2019) Netherlands (2020)
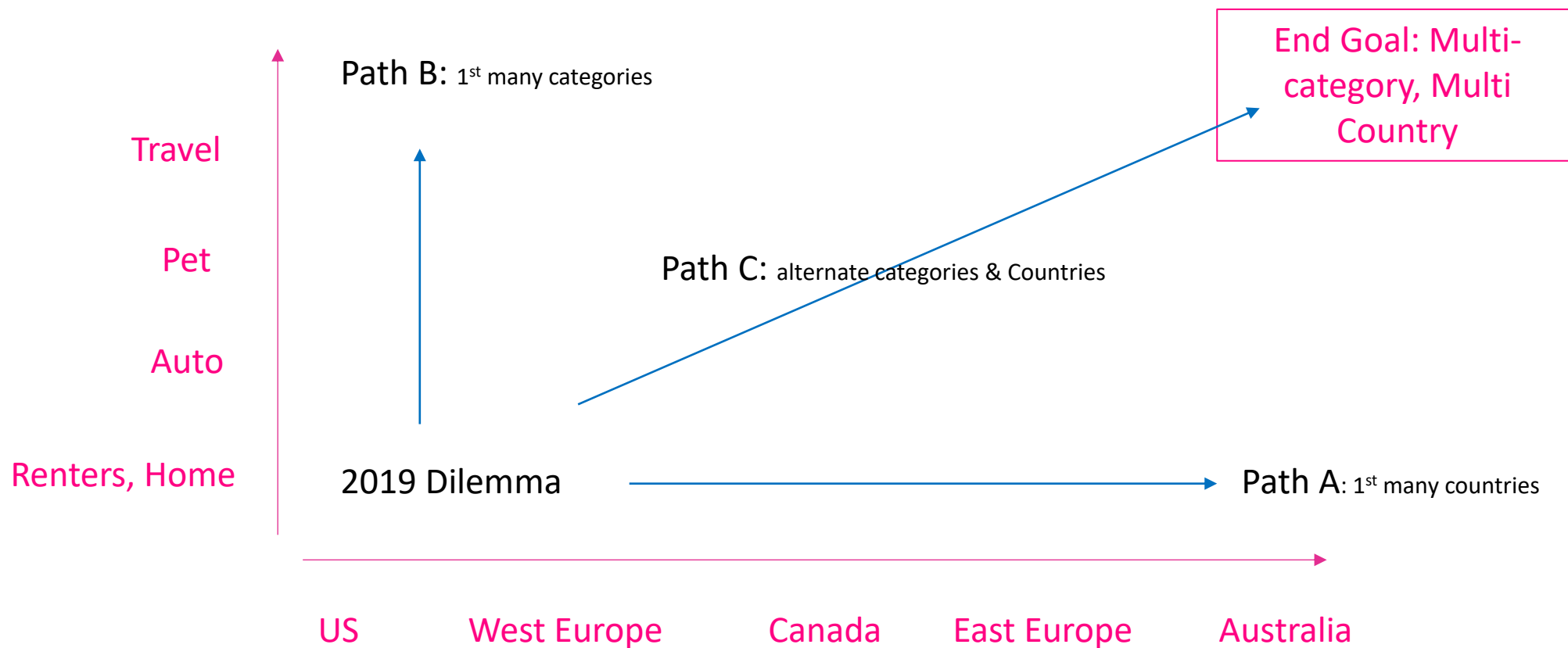
NET-NEW CUSTOMER ADDITIONS IN EUROPE INCREASED

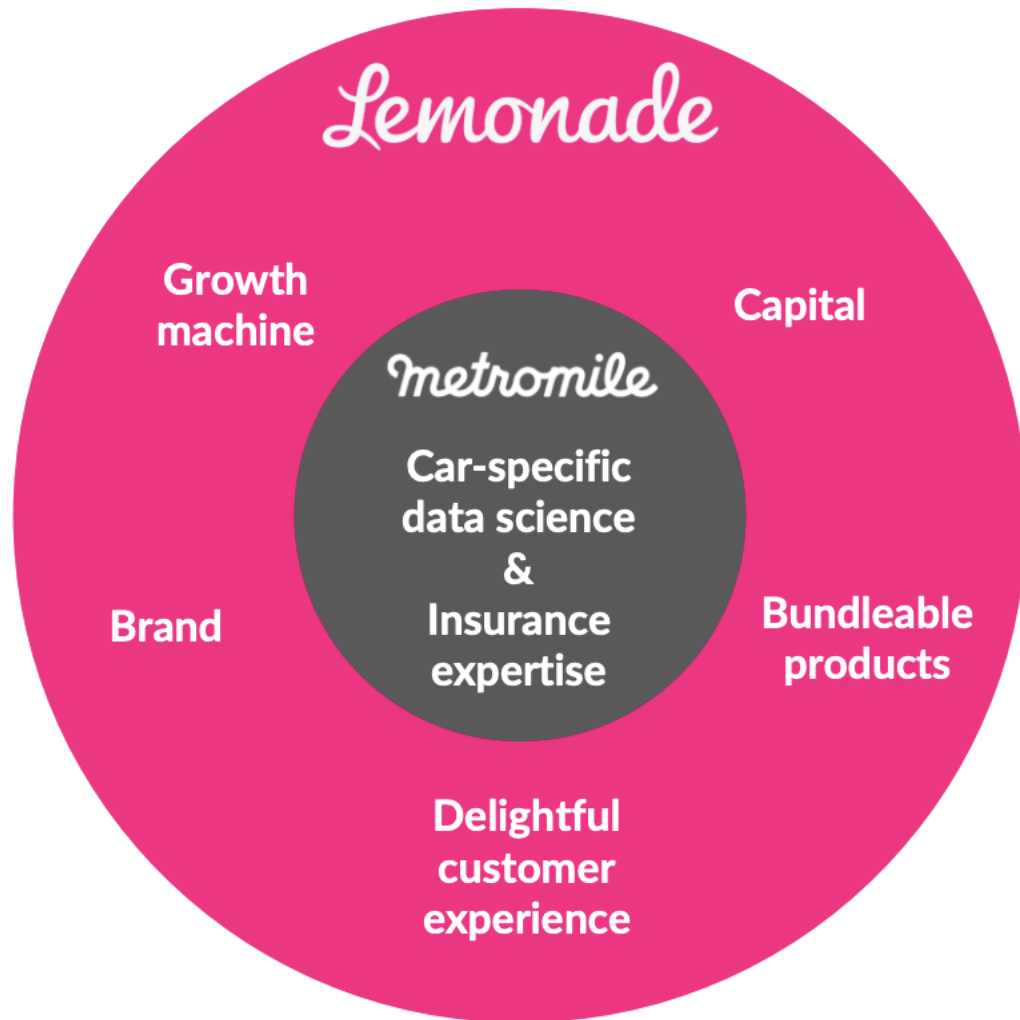PROPORTION OF NET NEW CUSTOMERS

■ USA   ■ Europe
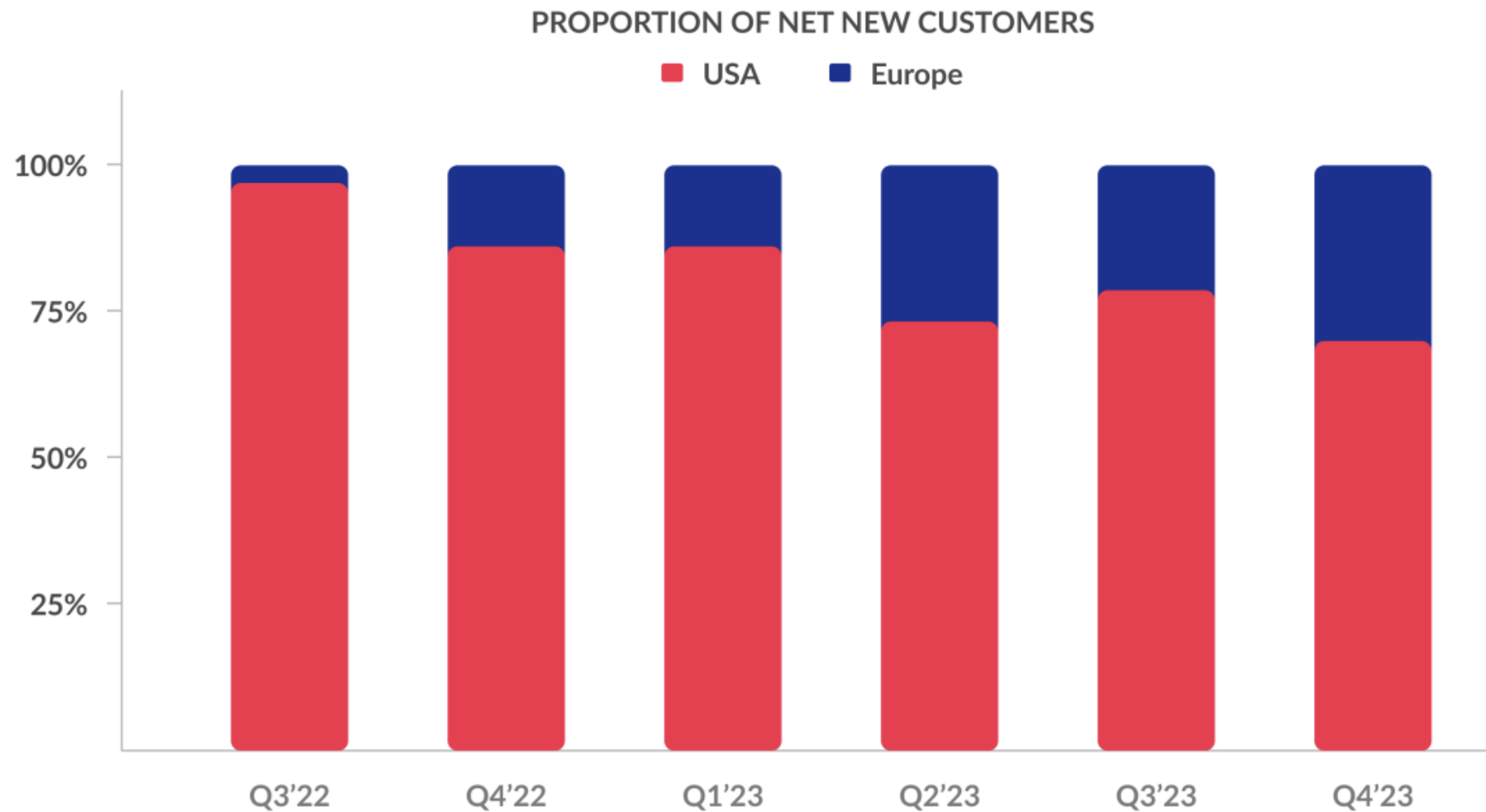
Lemonade Acquisition of metromile

- In Nov. 2021 Lemonade acquired 100% of Metromile in an all-stock transaction

- Metromile shareholders to receive Lemonade common shares at a ratio of 19:1, reflecting a $500M diluted equity value

- *Innovators, legacy-free and built from scratch in the 21st century, are uniquely positioned to lead the industry's graduation from pricing based on proxies, to pricing based on continuous data streams*

From Lemonade Investors Relation

33.42 USD
-35.99 (-51.85%) ↓ all time
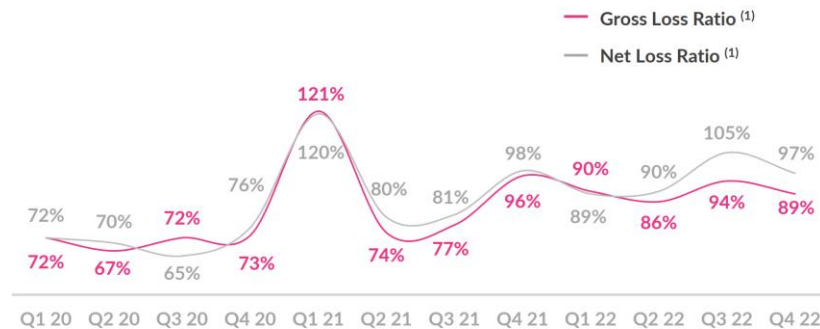Closed: Feb 24, 07:22 EST • Disclaimer
Pre-market 34.26 +0.84 (2.51%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max

69.41 USD 2 Jul 2020

Open	35.95	Mkt cap	2.39B	52-wk high	52.69
High	36.79	P/E ratio	-	52-wk low	14.03
Low	33.30	Div yield	-		

Loss Ratio

We define gross loss ratio, expressed as a percentage, as the ratio of losses and loss adjustment expense to gross earned premium, and net loss ratio, expressed as a percentage, as ratio of losses and loss adjustment expense, less amounts ceded to reinsurers, to net earned premium.

The insurer's promise to lower premiums while staying profitable isn't working out the way it hoped

- Growth investors were initially enamored with Lemonade when it first came public (June 2020).
- However, 6 months later, Lemonade ran into the after-effects of the pandemic, which put its business model under stress.
- Despite quarterly reports showing high customer and premium growth, investors have recently become more concerned about the company's lack of profitability.
- One can measure the effectiveness of Lemonade's business model and its AI through its underwriting profitability.
  - The company must keep its gross loss ratio, a measure of underwriting profitability, under 75% for Lemonade's business model to work. In the second quarter of 2020, when investors were more optimistic, Lemonade had achieved its lowest gross loss ratio of 67%. However, Covid aftermath and its impact on supply chain, inflation (increasing payouts), rising labor costs…
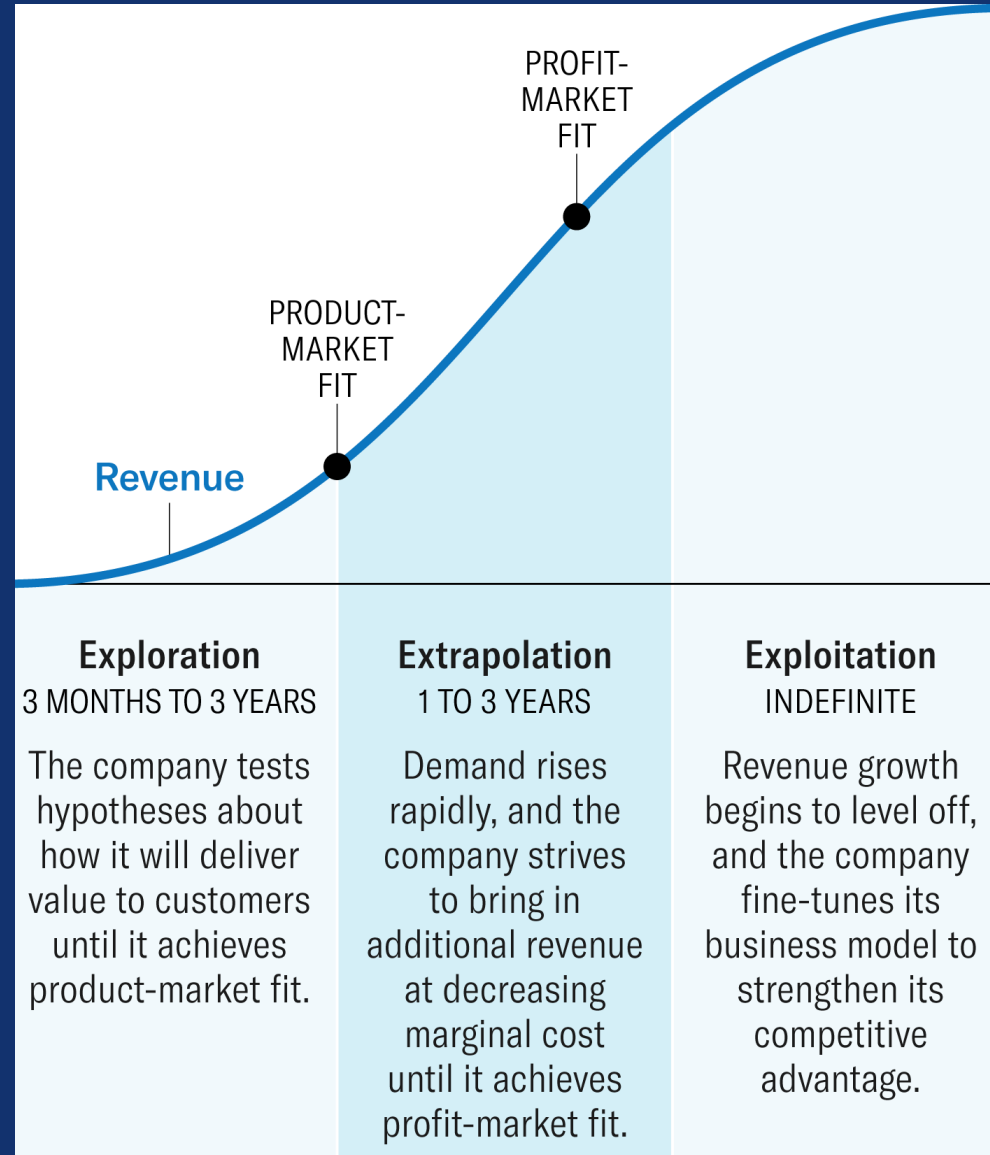- **Many of its innovations could eventually become the industry norm (McKinsey)**

Conclusion

Main Themes covered with Lemonade Case

- Digital Disruption in the insurance industry

- Business model innovation

- Digital transformation of the customer experience

- AI & ML for deep customer insights

- Differentiation through outstanding customer experience

- Digital technologies as enablers of superior digital customer experience

- Job-to-be-done analysis

- Designing a Customer journey

- Designing and managing the customer experience (CX) – Service Blueprinting

- Growth avenues

Scaling-up: 3 stages of Growth

PROFIT-MARKET FIT

PRODUCT-MARKET FIT

Revenue

Exploration	**Extrapolation**	**Exploitation**
3 MONTHS TO 3 YEARS	1 TO 3 YEARS	INDEFINITE
The company tests hypotheses about how it will deliver value to customers until it achieves product-market fit.	Demand rises rapidly, and the company strives to bring in additional revenue at decreasing marginal cost until it achieves profit-market fit.	Revenue growth begins to level off, and the company fine-tunes its business model to strengthen its competitive advantage.

Jeffrey F. Rayport, Davide Sola, and Martin Kupp, Harvard Business Review Jan-Feb 2023

Scaling-up: Out of these 3 HGF, only one had success. Why?

King Digital Entertainment with **Candy Crush Saga**.

Mid 2012 and 2013: 12x revenue but only 6x costs

> Results: increase operational profit 70x from €10.5M to €716M.

SoundCloud - online audio-sharing platform. Rival of Spotify and Apple Music.

Between 2012 and 2013:
- user base grew 15x, 10 M >> 150 M users.
- Revenue <50%, from 8M to 11M,
- While its costs grew 75%, from €16.5M to €28.5M.

In 2017, **WeWork**, had raised $10B.
- Doubling its top-line 5 years in a row, and its nº members 10x.
- However op. costs went from $400M to almost $2 B.

Scaling-up = *embracing change*

- People: in the center of Scaling up : ***People***

- Keep the startup mantra: always experimenting and **customer obsessed**

- Systems and processes are key to scale efficiently; however sometimes it's important to keep specific things that matter: 1-to-1, customer feedback review, etc

- Nothing big is built without effort – focus, speed and execution matter!

Food for thought... recent examples with AI!

Company	Growth
CURSOR	0 to $100M ARR in 21 months w/ 20 people
Midjourney	0 to $200M ARR in 2 years w/ 10 people
lovable	0 to $10M ARR in 2 months w/ 15 people
MAGNIFIC	0 to $10M ARR in 1 year w/ 2 people
bolt.new	0 to $20M ARR in 2 months w/ 15 people
MERCOR	0 to $50M ARR in 2 years w/ 30 people
Eleven Labs	0 to $100M ARR in 2 years w/ 50 people
Aragon.ai	0 to $10M ARR in 2 years w/ 9 people

Thank you!

Euclides Major

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