

Service Marketing: A practical approach
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Lecture-15
New Service Development

Hi there. Welcome to this session on services marketing with a practical approach.

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Lesson 15 New Service Development - I

Types of New Services

Reasons for Failure of New Services

Reasons for Success of New Services

Stages in New Service Development

Here we will discuss lesson number 15 that is new service development part 1. This consists of types of new services. Discussion on the reasons of failure and success of new services and the stages in new services development.

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Ansoff's Matrix indicating Intensive Growth Strategies

		Market	
		Current	New
Services	New	New Service Development	(Diversification)
	Current	Increasing market share	Market development

So we first look at the types of new services. The radical innovations that is new to the world like guaranteed overnight courier delivery by Federal Express. New services offered to customers having access to competitive products. New services offered to customers by a company which was not providing those services earlier like Barnes and Noble booksellers offering coffee services.


Service line extensions like an airline offering additional routes. Service improvements like augment hotel rooms with internet facilities. Style changes like changing the colour of the servicescape, redesigning the website, logo, etc. So all these 6 types of services are part of new services. Alright.

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Reasons for Failure of New Services

As per Robert G. Cooper (2001), Primary reasons for failure of new products and services included :

- no unique benefits offered
- insufficient demand
- unrealistic performance goals like market share, etc. for the new service
- poor fit between the new service and others within the organisation's portfolio
- poor location
- insufficient financial backing
- failure to take the necessary time to develop and introduce the service



So now we go into the reasons for failure of new services. As per Robert Copper wrote in 2001 the primary reasons for failure of new products and services included no unique benefits offered that is the service did not offer any unique benefits. There was insufficient demand for the services. The unrealistic performance goals like market share, etc for the new service and it fail to perform with those unrealistic goals. Poor fit between the new service and others within the organisation's portfolio. Poor location of the servicescape. Insufficient financial backing and failure to take the necessary time to develop and introduce the new service.

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Reasons for Success of New Services

As per Henard and Szymansky (2001) the primary reasons for success of new services are that the new service:

- meets customer needs, has advantage over the competition, and is technologically sophisticated,
- has dedicated R&D, dedicated human resources and availability of marketing, predevelopment, technological and launch proficiencies in the firm for new service development and commercialisation, and
- enjoys existence of the potential for absorption in the market



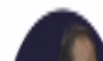
The reasons for success for new services. As per Henard and Szymansky 2001, the primary reason for success of new services are that the new service are that the new service meets customer needs, has advantage over the competition, and is technologically sophisticated. The new service has dedicated R and D, dedicated human resources and availability of marketing predevelopment, technological and launch proficiencies in the firm for new service development and commercialisation and enjoys existence of the potential for absorption in the market.

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New Service Development System

According to Professor G. L. Shostack (1984), services are intangible, so new service development system should have the following four characteristics:

- It must be objective, not subjective
- It must be precise, not vague
- It must be fact driven, not opinion driven
- It must be methodological, not philosophical



Now we go to look at the new service development system. According to Professor G. L. Shostack who wrote in 1984 that services are intangible, so new service development system should have the following 4 characteristic. It must be objective, not subjective. It must be

precise not vague. It must be fact drive, not opinion driven and it must be methodological not philosophical.

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As services are produced and consumed simultaneously, customers are heavily involved in the production and consumption of services. Customers may be co-producing a service as in a self-service restaurant. Therefore, both employee and customer representatives must be a part of the new service design and development team from the very beginning. For instance, some hotels involve their customers and service personnel, besides architects, managers and other professionals, in the design of their hotel rooms.

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Professor John T. Gourville wrote in 2004 that successful new product / services offer plenty of new benefits while requiring little change in consumer behaviour. As illustrated in the figure below, new offerings like Google became successful as it provided a powerful search engine vehicle requiring no change in customer's way of searching the Internet.

Criteria for success of New Offerings

		New Benefits Provided	
		Few	Large
Change in customer Behaviour	High	<i>Sure failures:</i> DVORAK keyboard	<i>Long Hauls:</i> Satellite Radio
	Low	<i>Easy Sells:</i> McDonald's Vegetarian Menu	<i>Smash Hits:</i> Google



Professor John T. Gourville wrote in 2004 that successful new product services offer plenty of new benefits while requiring little change in consumer behaviour. As illustrated in the figure below, new offerings like Google became successful as it provided a powerful search engine vehicle required no change in customer's way of searching the internet.

So the powerful search engine vehicle did not require much change in customer behaviour but provided large benefit and therefore it was a Smash hit and the example is Google. On the other hand if few benefits are provided and change in customer behaviour required is high then there are sure failures like Dvorak keyboard. The Dvorak keyboard was produced by a scientist and he experimented with the keys.

And found out that these would be a more efficient keyboard than the current qwerty keyboard, but that required every type is who learn typing again and therefore it become unpopular and unsuccessful. Then we have the long halls that is large benefits are provided but change in customer behaviour is also high like satellite radio. And then we have few benefits provided but the change in customer behaviour required is also low.

So those are easy sells like McDonalds vegetarian menu. Okay. So therefore we must look at benefits provided are large and change in customer behaviour require to be relatively small for new services to become hits in the market place.

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Stages in New Service Development				
Professors Zeithaml, Bitner, Gremler and Pandit, have published the stages of new service development from various sources in their book entitled "Services Marketing" in 2008. The stages are depicted in Figure 11.2 below. These stages are discussed in some detail in the following paragraphs.				
Front-end planning	1	Business strategy review		
	2	Developing new service strategy		
	3	Idea generation	Screen ideas against new service strategy	Drop
	4	Concept development and evaluation	Test concept with customers and employees	Drop
	5	Developing the business case	Test for Feasibility and profitability	Drop
Implementation	6	Service development and testing	Conduct service prototype test	Drop
	7	Market testing	Test service and mix elements	Drop
	8	Commercialisation		
	9	Post-introduction evaluation		

So next we look at the stages in new service development. Professor Zeithaml, Bitner, Gremier and Pandit have published the stages of new service development from various

sources in their book entitled services marketing in 2008. The stages are in figure below. These stages are discussed in some detail in the following paragraphs. So what are the stages?. One is front-end planning and the other is implementation.

So front-end planning is the first is business strategy review then developing new service strategy. Then comes idea generation. So at this stage ideas are screened against new service strategy and if they pass that is okay then we go to the fourth stage. Otherwise, the idea is dropped. Then the concept development and evaluation is done, the concept is tested with customers and employees and if it passes the test we go to this fifth stage otherwise we drop the idea.

Then come developing the business case in the fifth stage with test for feasibility and profitability and again we do the same thing that is if it does not pass the test of feasibility and profitability we drop it otherwise we continue to the sixth stage that is implementation stage. Now at this stage the service development and testing is done we conduct service prototype test and we drop if it fails then we go to market testing and we test the service and mix elements and if it passes we go to this stage 8th otherwise we drop it.

At this stage 8 we do commercialisation and step 9 we do post introduction evaluation. Why we would like to drop out in the you know initial stages you might think that let us pass the initial stages and later on we can always take a decision whether to drop the service. But the point is that as you move along the service development pathway the later you drop the service more is the cost involved which was done the drain.

On the other hand if you drop the service earlier on the service idea which is not going to work if you drop it earlier on you incur relatively less cost for developing that service. So that is why it is better to drop the useless service, idea in the very beginning than to carry it all the way till commercialisation and finding that the service will not work at all.

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Stage 1: Business Strategy Review

At this stage we must review and understand the vision, mission, values and strategic orientation of our company. The vision of transporting goods, i.e., cargo service would be different from the vision of transporting mail, i.e., courier service. In 1997, Michael Treacy and Fred Wiersema have written about three value disciplines that companies must choose from. These include: 1. the operationally excellent firm, which is efficient and delivers services at the lowest cost to the customer, 2. the product/service leader, i.e., offering innovative services under a strong brand, and 3. The customer intimate firm, that excels in customer attention and customer service.

Next, we must understand the strategic orientation that our company has decided to take to excel in the marketplace. A strategy is essentially a means to reaching business goals that our company has decided for itself. Generic strategies are game plans for operating and surviving in the marketplace. Michael Porter has written about three generic strategies in 1980. These are: 1. cost leadership strategy, i.e., becoming the lowest cost provider of services, 2. differentiation strategy, i.e., providing unique set of benefits to the customer which are not offered by our competitors, and 3. focus strategy, i.e., focus on a niche or narrow market segment and fulfilling the needs of that segment through its service offerings.



Now we describe each of the stages starting with business strategy review. So at this stage we must review and understand the vision, mission, values and strategic orientation of our company. The vision of transporting goods that is cargo service would be different from the vision of transporting mail that is courier service. In 1997, Michael Treacy and Fred Wiersema have written about the 3 value disciplines that companies must choose from.

These include the operationally excellent firm, which is efficient and delivers services at the lowest cost of the customer. The product services leader that is offering innovative services under a strong brand and 3. the customer intimate firm that excels in customer attention and customer service. Next we must understand the strategic orientation that our company has decide to take to extend in the marketplace.

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So here we provider unique set of benefits to the customers which are not offered by our competitors and third is the focus strategy that is focus on a niche or narrow market segment and fulfilling the needs of that segment through its service offerings. So this is all part of business strategy review.

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Stage 2: Developing New Service Strategy

We must decide the strategy that our company would like to take to grow in the marketplace and align new service development in that direction. These include 1. intensive growth, 2. integrative growth and 3. diversification.

For intensive growth, the company would strive to increase market share for its current services in the current market or develop and launch new services in existing markets or take current services to new markets. These strategies are depicted in the matrix (see figure below) published by Professor H. I. Ansoff in 1965.

A company can increase its market share by changing the style of operations and enhancing its customer intimacy, for instance. Ordinarily, service businesses choose to grow by taking their current services to new markets, i.e., new countries and cities and adapt the offering to the preferences of the customers in the new market.

		Market	
		Current	New
Services	New	New Service Development	(Diversification)
	Current	Increasing market share	Market development

Ansoff's Matrix indicating Intensive Growth Strategies

Then we go to the second stage that is developing new service strategy. So we must decide the strategy that our company would like to take to grow in the marketplace and align new services development in that direction. These include intensive growth integrative growth and diversification. For intensive growth the company would strive to increase market share for its current services in the current market or develop and launch new services in existing markets or take current services to new markets.

These strategies are depicted in the matrix published by Professor H. I. Ansoff in 1965. So in this quadrant diagram by Ansoff you see there are new or current services and new are current markets. And when current services are provided in current markets you tend to increase the market share. So you penetrate the market and you tried to deliver the same service to more number of people in the market.

One we have to do that is to lower the prices so that it becomes attractive or affordable by most people in the market and they come to buy the services. The next step is for services to be taken to new markets. So these are current services and you go to newer markets either new market segments and new groups of market segments and then you develop those markets to education etc. about the services and deliver the current services in the new markets.

The third intensive strategy is to provide new services in current markets. So in current markets you know the market well, you know who are going to purchase the services for whom it will be affordable, who would like to use the service and all those things and you

develop new services for this markets. And finally you go for new service development in new market and that is part of diversification.

So while these 3 quadrants are intensive growth quadrants. The 4th quadrant is diversification and not part of intensive marketing strategy and therefore it is given in parenthesis. A company can increase its market share by changing the style of operations and enhancing its customer intimacy for instance. Ordinarily services businesses choose to grow by taking their current services to new markets.

That is new countries and cities and adapt the offering to the preference of the customers in the new market. As we have discussed earlier McDonalds came to India with the same offerings as they did in the American market, but slowly they due to various interactions of the customers with McDonalds, the customer said that they would not like to consume anything, any food from McDonalds which was fried in animal oils or non-vegetarian oils.

And therefore the McDonald have to offer vegetarian foods which were built with vegetarian oils only. So that is how the McDonalds change or adapted their service according to the requirements of a different cultures.

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You may have noticed how McDonald's opened its outlets in various cities in India, one after another. On the other hand, post offices in India started providing fixed deposit services and passport related services in the same markets where they were offering postal services. Similarly, a customs agent may launch courier services in the city where they are located, as an example of growing their business by offering new services in existing markets.

For integrative growth, the company would form joint ventures or alliances with other companies in order to deliver complementary services, such as catering services for airlines. It might also like to acquire other companies or merge with them.

Under the diversification strategy, the company develops and launches new services in new markets. This step is risky as the company does not have prior experience with the new service in the new market. However, once the intensive and integrative modes of growth have been exhausted, a business would have no choice other than to diversify its business into new services in new markets.

Knowledge about the above strategic orientation of our company will help us formulate the new service strategy. We can now initiate the new service development process in alignment with the new service strategy.

You may have noticed how McDonald's opened its outlets in various cities in India one after another. On the other hand post offices in India started providing fixed deposit services and passport related services in the same markets where they were offering postal services.

Similarly a customer's agent may launch courier services in the city where they are located, as an example of growing their business by offering new services in existing markets.

For integrative growth the company would form joint ventures or alliances with other companies in order to deliver complementary services, such as catering services for airlines. It might also like to acquire other companies or merge with them. Under the diversification strategy the company develops and launches new services in new markets. This step is risky as the company does not have prior experience with the new service in the new market.

However, once the intensive and integrative modes of growth have been exhausted, a business would have no choice other than diversify its business into new services and new markets. Knowledge about the above strategic orientation of our company will help us formulate the new service strategy. We can now initiate the new service development process in alignment with the new service strategy.

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Stage 3: Idea generation

As indicated in Figure 11.2, the third stage of new service development is that of idea generation. This stage requires a formal department to be set up in our company. The activities in this stage would include conducting idea generation exercises like brainstorming and focus group discussion with customers, observing customers in different situations wherein they receive the same benefit through similar or alternative services and learning about the services provided by competitors. The company must also place suggestion boxes and institute suggestion reward schemes to attract suggestions from their employees. Listening to customers is the best way to receive ideas, not only for improvements in the current services offering, but also for entirely new services. The idea must align with the new service strategy; otherwise the idea must be dropped or shelved. It must also undergo preliminary evaluation regarding the potential market for the benefit that customers are willing to receive from the service. We must keep in mind that the quantum of investments starts increasing rapidly from this point onwards for developing each idea. Unless the idea has clear potential, it must be dropped, otherwise the company will face further losses if the idea is allowed to be developed further and is dropped at a later stage due to lack of feasibility.

The third stage is that of idea generation. So as indicated in the earlier figure the third stage of new service development is that of idea generation. This stage requires a formal department to be set up in our company. The activities in this stage would include conducting idea generation exercises like brainstorming and focus group discussion with customers, observing customers different situations wherein they receive the same benefit through similar or alternative services and learning about the services provided by competitors.

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Stage 4: Service Concept Development

An idea that appears feasible and profitable is taken up for development of the service concept. The service concept is the description of the service in terms of the value it will provide customers, the form and function of the service, the type and level of experience that customers are likely to receive from the service, and the outcome of the service. The concept is developed by involving customers, service personnel, service managers, suppliers and other professionals such that it is acceptable to all and everybody agree that it is likely to provide much needed benefits to the customers. Further details about the service concept are discussed in a future lesson. The service concept is tested with customers and employees and is dropped if it is not found to offer substantial benefits to customers in comparison to existing alternate methods by which customers can satisfy their need.

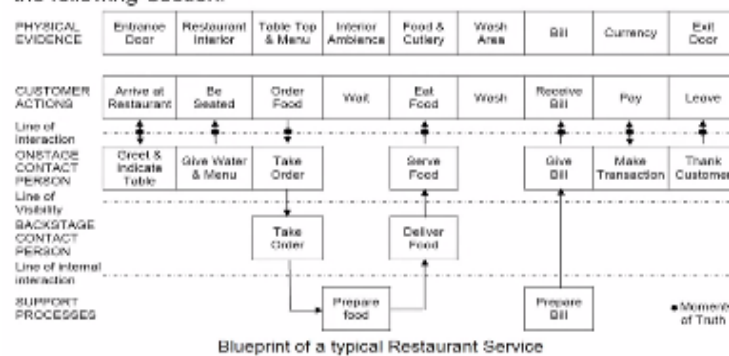
Next we come to the fourth stage that is service concept development. An idea that appears feasible and profitable is taken up for development of the service concept. The service concept is the description of the service in terms of the value it will provide customers, the form and function of the service, the type and level of experience that customer are likely to receive from the services and the outcome of the service.

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A blueprint of the service can also be drawn at this stage as elaborated in the figure below. The blueprint would help in laying out the service process and estimating various costs involved in delivering the service to customers. This would help in estimating the profitability of the service business and developing the business case as discussed in the following section.



A blueprint of the service can also be drawn at this stage as elaborated in the figure below. The blueprint would help in laying out the service process and estimating various costs involved in delivering the service to customers. This would help in estimating the profitability of the service business and developing the business case as discussed in the following section.

So in the blueprint we will discuss this blueprint in more detail later, but I am just now get some sketchy ideas about what a blueprint is. You see that there is physical evidence, customer actions, the line of interaction, the on stage contact person, line of visibility, the backstage contact person, the line of internal interaction, and the support processes. So these are the different lines in which the services from being provided.

So at the physical evidence you see for a typical restaurant service this entrance door, the restaurant interior, table top menu, and other things. The customer who is the king he perform certain action that is arrives at the restaurant, be seated, orders for food, wait, the eats food, the washes, receive the bill, pays and leave. Then we have the onstage contact person that is the person to wait and indicate the table to the customer to give water and menu to take the order, to serve the food, give bill, make transaction and thank customer.

Then we have the backstage contact person who takes the orders and delivers the food and the support processes which prepares the food and prepares the bill. Now there are these 3 lines one is the line of interaction between the customer and the onstage contact person. And then there is the line of visibility beyond which the customer cannot see. So there are many backstage events which take place and there are backstage contact person who take the orders from the front stage contact the people and deliver goods and services to them.

Then there is a support processes which is line of internal interaction, so with the help of the support processes the requirements are delivered to the customer. So here we see that the onstage customer person greets and indicates the table, gives menu and the water. Takes the order and then it goes to the preparation of food and the food is delivered. Now at the line of interaction between the customer and the contact person you see there are double headed arrows and wherever the arrow crosses the line of interaction there are this dots.

Okay. So these dots are the moments of truth because these are the dots where the customer interacts with the onstage contact person. So the customer must be satisfied by the onstage contact person and all these moments of growth, that is wherever there are this dots. So this is in a (()) (22:59) service. We will discuss this grouping later in this scopes.

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Stage 5: Developing the Business Case

The service concept is then tested for marketing, technical and economic feasibility as discussed in Lesson 6. It is ensured that it will be possible to deliver the services in a manner acceptable to customers, the customers are willing to purchase the service, and the service remains profitable with a three-year ROI/ROCE that is greater than the prevailing bank interest rate. If the service does not seem to be profitable, it must be dropped without incurring any further cost in developing the concept further. The profitable business case is then developed for approval of the management and representatives of the shareholders and investors.

Then we come to stage 5 which is developing the business case. The service concept is then tested for marketing, technical and economic feasibility as discussed in the earlier lesson. It is ensured that it will be possible for deliver the services in a manner acceptable to customers. The customers are willing to purchase the service and the service remains profitable with a 3

year return on investment or return on capital employed that is greater than the prevailing bank interest rate.

If the service does not seem to be profitable it must be dropped without incurring any further cost in developing the concept further. The profitable business case is then developed for approval of the management and representatives of the shareholders and investors in the next stage that is the sixth stage.

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Stage 6: Service Development and Testing

Once the business case for the service has been approved, it is taken up for development of the actual service. The blueprint of the services is further developed and the service prototype is tested with actual customers. For example, a bank can test new ideas by reorganizing current branches for the test period and observing and collecting data from actual customers about the benefits of the new idea. One bank found that installing TVs with CNN channel reduced the perceived waiting time for the customers and then the same was taken up for implementation in big branches. In this way all new concepts are tested and those ideas that do not provide substantial benefits to customers are promptly dropped.

So the sixth stage is the stage for service development and test. So once the business case for the service has been approved, it is taken up for development of the actual service. The blueprint of the services is further developed and the service prototype is tested with actual customers. For example, a bank can test new ideas by reorganizing current branches for the test period and observing and collecting data from actual customers about the benefits of the new idea.

One bank found that installing TVs with CNN channel reduced the perceived waiting time for the customers and then the same was taken up for implementation in bigger branches. In this way all new concepts are tested and those ideas that do not provide substantial benefits to customers are promptly dropped.

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Stage 7: Market Testing

Once the service prototypes have been tested, these are put together for a pilot test. Alternative marketing mix elements or 7Ps options are tested at this stage. At first, the pilot service is offered to the employees of the organisation and their feedback is collected. The service is then modified according to the feedback received and is offered to actual customers for a short period and their feedback collected. The feedback is analysed for effecting further modifications in the service and tying up any loose ends. If the service passes the market testing phase and it is found that customers are enthusiastic about the new service and the service is estimated to generate profits, the service development is taken to the next stage.

We go to the seventh stage that is that market testing. Once the service prototypes have been tested, these are put together for a pilot test. Alternative marketing mix elements or 7Ps options are tested at this stage. At first, the pilot service is offered to the employees of the organisation and their feedback is collected. The service is then modified according to the feedback received and is offered to actual customers for a short period and their feedback collected.

The feedback is analysed for effecting further modifications in the service and typing up any loose ends. If the service passes the market testing phase and it is found that customers are enthusiastic about the new service and the service is estimated to generate profits. The service development is taken to the next stage.

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Stage 8: Commercialisation

The plan for rolling out the new service is then drawn up. It is usually rolled out in a phased manner by opening it up in the least risky markets and then quickly spreading it to other markets if the feedback is favourable. Commercialisation has two important objectives. The first objective is to elicit the support of the large number of service personnel who are going to deliver the services. At this stage the new service is marketed to the employees of the organisation as a new smart offering that generates profits and bonuses for the organisation. The second objective is to monitor the service throughout the period that customers purchase and use the service. Every interaction at the moment of truth and every detail is monitored and feedback collected from the customers as to whether the latter's needs are being fulfilled, whether they are deriving benefits from the service and are satisfied and what modifications they would like to be made in the service. The service is constantly modified based on the feedback collected. Customers' comfort with the price and other marketing mix elements is thoroughly ensured by the service manager and adjustment and improvements are continuously made so that customers feel a compulsion to purchase the service.



Then come to stage 8, which is that of commercialisation. The plan for rolling out the new service is then drawn up. It is usually rolled out in a phased manner by opening it up to the least risky market and then quickly spreading it to other markets if the feedback is favourable. Commercialisation has 2 important objectives. The first objective is to elicit the support of the large number of service personnel who are going to deliver the services.

At this stage the new service is marketed to the employees of the organisation as a new smart offering that generates profits and bonuses for the organisation. The second objective is to monitor the service throughout the period the customer purchase and use the service. Every interaction at the moment of truth and every detail is monitored and feedback collected from the customers as to whether the latter's needs are being fulfilled.

Whether they are deriving benefits from the service and are satisfied and what modifications they would like to be made in the service. The service is constantly modified based on the feedback collected. Customer's comfort with the price and other marketing mix elements is thorough ensured by the service manager and adjustment and improvements are continuously made so that customer feels a compelling need to purchase the service.

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Stage 9: Post-launch evaluation

The service is reviewed for performance according to a pre-planned period of review. Customers, employees, the market and the context keep changing with time. It is important to effect necessary changes periodically in the service in line with the changes in the above dimensions. The service blueprint comes in handy at this stage. It is also inspected for alternate ways to gain further efficiency and pass on part of the benefits so accrued to the customers and part of the same to the organisation. Customers and employees are requested for new ideas for this new service and same are incorporated to be able to provide the latest to the customers and to remain ahead of competitors in the marketplace.

And there is the last stage, stage 9 which is about post launch evaluation. The service is reviewed for performance according to a preplanned period of review. Customers, employees, the market and the context keep changing with time. It is important to effect necessary changes periodically in the service in line with the changes in the above dimensions.

The service blueprint comes in handy at this stage. It is also inspected for alternate ways to gain further efficiency and pass on part of the benefits so accrued to the customers and part of the same to the organisation. Customers and employees are requested for new ideas for the new service. Customer and employees are requested for new ideas for the new service and same are incorporated to be able to provide the latest to the customers and to remain ahead of competitors in the marketplace. So that was all in this lesson, I hope this helps. Thank you.