
NEW SERVICE DEVELOPMENT



Chapter 3

LEARNING OBJECTIVES

- Describe sources of service sector growth.
- Describe fundamental characteristics of service innovation.
- Describe managerial issues associated with adoption of new technology.
- Explain and differentiate divergence and complexity of a service process.
- Describe the sequence of stages and the enablers of the new service development process.
- Prepare a service blueprint
- Compare and contrast the four approaches to service system design: production-line, customer as coproducer, customer contact and information empowerment.
- Explain how intellectual property rights protect a service brand.

REDESIGNING AN EXISTING SERVICE VS NEW DESIGN

NEW SERVICE DEVELOPMENT

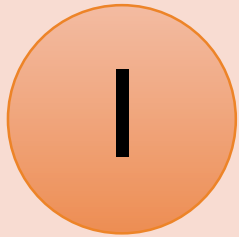
SOURCES OF SECTOR GROWTH

Source of Service Sector Growth

- Information Technology
- Internet as a Service Enabler
- Innovation
 - Push theory (e.g. Post-it)
 - Pull theory (e.g. Cash Management)
- Changing Demographics
- Maslow's Hierarchy of Needs



INNOVATION IN SERVICES



Basic Research:
Pursue a planned
search for new
knowledge regardless
of possible
application.



Applied Research:
Apply existing
knowledge to
problems in creation
of new service.



Development: Apply
knowledge to
problems to improve
a current service.

LEVELS OF SERVICE INNOVATION

Radical Innovations

- Major Innovation: new service that customers did not know they needed.
- Start-up Business: new service for underserved market.
- New Services for the Market Presently Served: new services to customers of an organization.

Incremental Innovations

- Service Line Extensions: augmentation of existing service line (e.g. new menu items).
- Service Improvements: changes in service delivery process (e.g. self-service airline boarding kiosk).
- Style Changes: modest visible changes in appearances.

<http://www.bloomberg.com/bw/stories/2008-10-20/radical-service-innovationbusinessweek-business-news-stock-market-and-financial-advice>

RADICALLY REDEFINING SERVICES

- <https://hbr.org/video/2226821030001/dont-be-afraid-to-rethink-your-services>

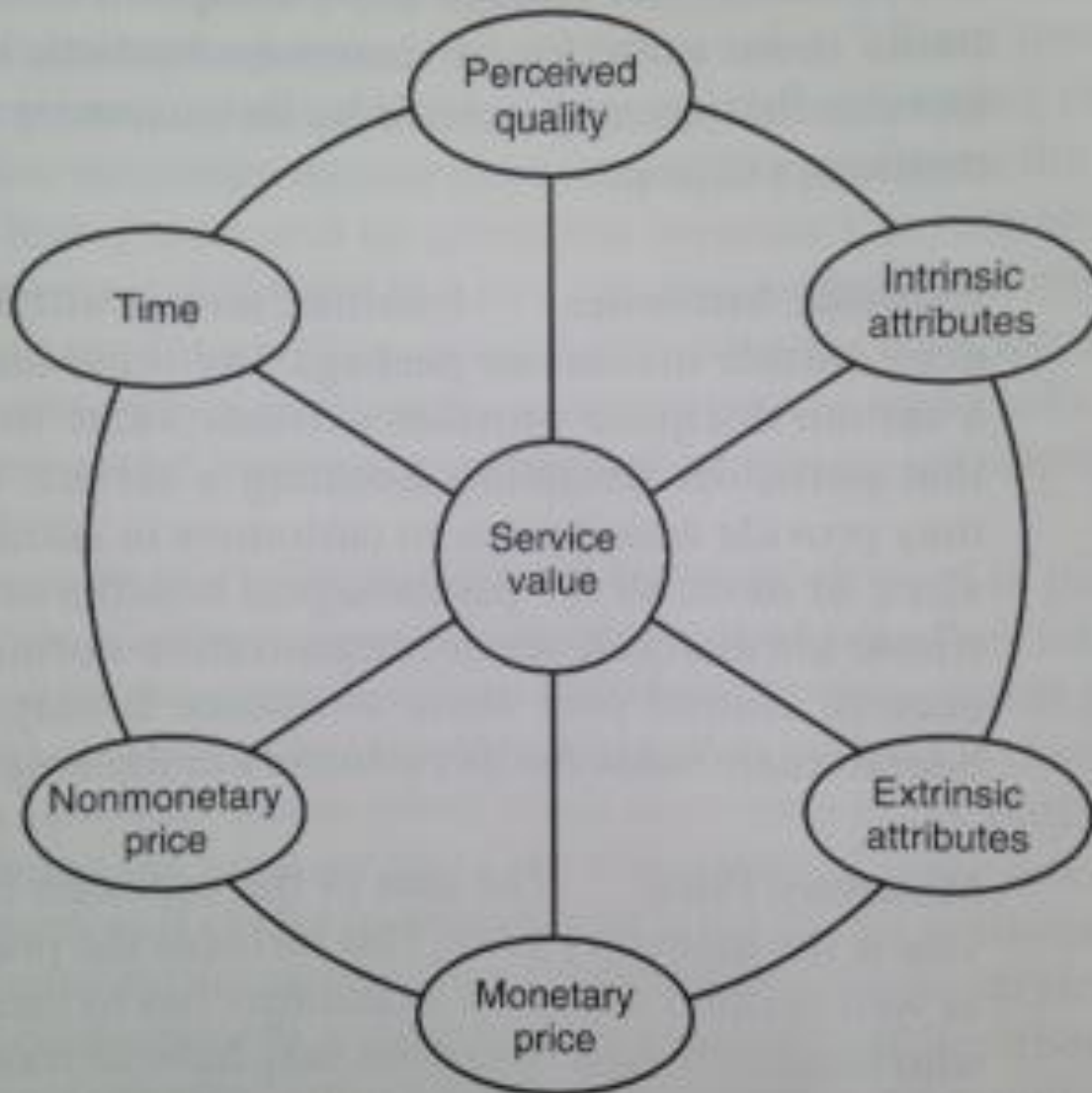
DESIGN PROCESS

I. Formulation of new service objectives and strategy.

- Model of Service Value
- Perceptual Map

EX: Suppose you are a public transit manager considering the introduction of new services to increase the utilization of public transportation. Let's assume that three primary needs have been discovered:

1. Speed and convenience
2. Ease of travel
3. Psychological comfort together with how costumers rate each of the four existing mode of transportation.



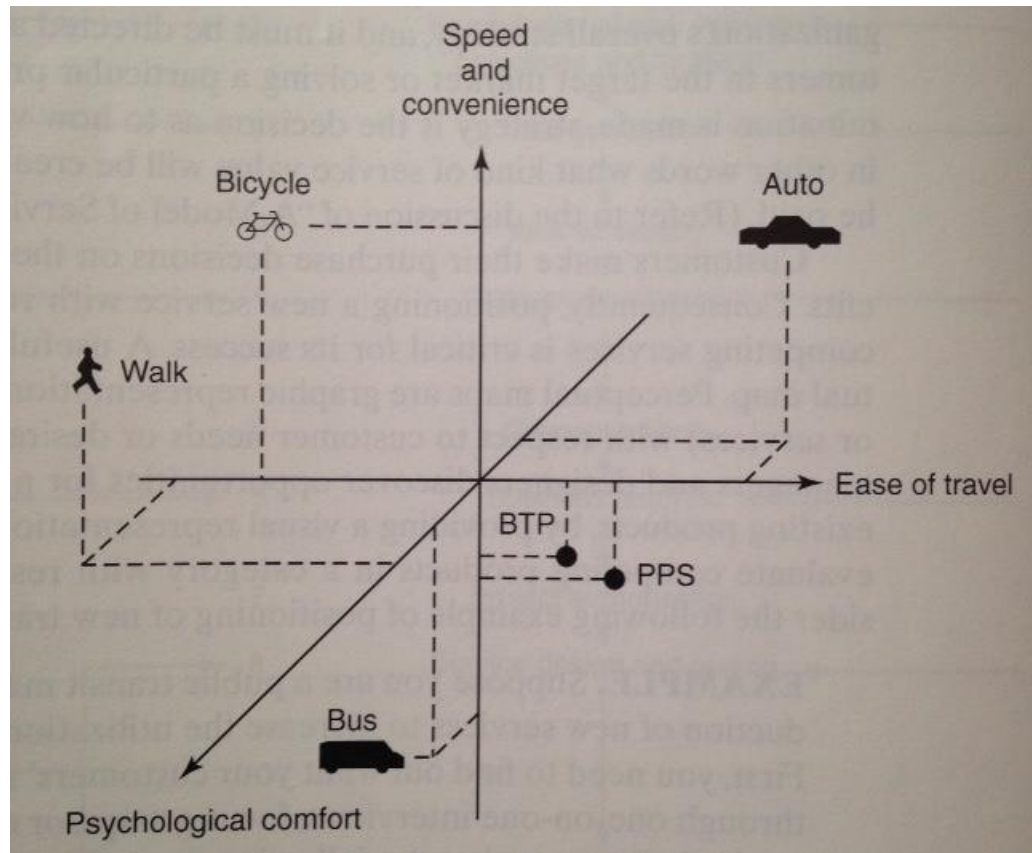
MODEL OF SERVICE VALUE

IN CLASS EXERCISE

■ Question 1

PERCEPTUAL MAP

- How customers' perceive various modes of transportation



IN CLASS EXERCISE

■ Question 2

DESIGN PROCESS

2. Idea generation
3. Idea screening
4. Concept development

EX: *A professional financial counseling service is offered by your bank. Assist in determining and developing priorities for your financial goals.*

A vision care insurance. A plan that pays \$20 for eye examination, single lens prescription, bifocal lens prescription, and a set of frames.

5. Concept testing

CONCEPT TESTING

- After realizing the gap in public transportation
 - Two new service concepts:
 - Budget Taxi Plan(BTP)
 - Taxi at a lower price
 - Personalized Premium Service(PPS)
 - Minibuses instead of taxis
 - Test the concept by asking potential customers to evaluate them with respect to ease of travel, speed and convenience, and psychological comfort.
 - Customer value equation

$$Value = \frac{(Results Produced) + (Process Quality)}{(Price) + (Costs of Acquiring the Service)}$$

DESIGN PROCESS

6. Business analysis
7. Project authorization
8. Service design and testing
9. Process and system design and testing

STRATEGIC POSITIONING THROUGH PROCESS STRUCTURE

1

Degree of Complexity:

Measured by the number of steps in the service blueprint, e.g., a clinic is less complex than a general hospital

2

Degree of Divergence: Amount of discretion permitted the server to customize the service, e.g., the activities of an attorney contrasted with those of a paralegal

IN CLASS EXERCISE

■ Question 3

Degree of Customer Contact		Low Divergence (Standardized Service)			High Divergence (Customized Service)		
		Processing of Goods	Processing of Information or Images	Processing of People	Processing of Goods	Processing of Information or Images	Processing of People
No customer contact		Dry cleaning Restocking a vending machine	Check processing Billing for a credit card		Auto repair Tailoring a suit	Computer programming Designing a building	
Indirect customer contact			Ordering groceries from a home computer Phone-based account balance verification			Supervision of a landing by an air traffic controller Bidding at a TV auction	
Direct customer contact	No customer-service worker interaction (self-service)	Operating a vending machine Assembling premade furniture	Withdrawing cash from an automatic bank teller Taking pictures in a photo booth	Operating an elevator Riding an escalator	Sampling food at a buffet dinner Bagging of groceries	Documenting medical history at a clinic Searching for information in a library	Driving a rental car Using a health club facility
	Customer-service worker interaction	Food serving in a restaurant Car washing	Giving a lecture Handling routine bank transactions	Providing public transportation Providing mass vaccination	Home carpet cleaning Landscaping service	Portrait painting Counseling	Haircutting Performing a surgical operation

TAXONOMY OF SERVICE PROCESSES

IN CLASS EXERCISE

■ Question 4

GENERIC APPROACHES TO SERVICE DESIGN

■ Production-line

- Limit Discretion of Personnel
- Division of Labor
- Substitute Technology for People
- Standardize the Service

■ Customer as Coproducer

- Self Service
- Smoothing Service Demand (appointment for doctors-match demand to time availability)
- Customer-Generated Content (Wikipedia)

■ Customer Contact

- Degree of Customer Contact
- Separation of High and Low Contact Operations(separate design)
- Sales Opportunity and Service Delivery Options (website vs face to face customized (high sales opportunity))

■ Information Empowerment

- Employee
- Customer

IN CLASS EXERCISE

■ Question 5

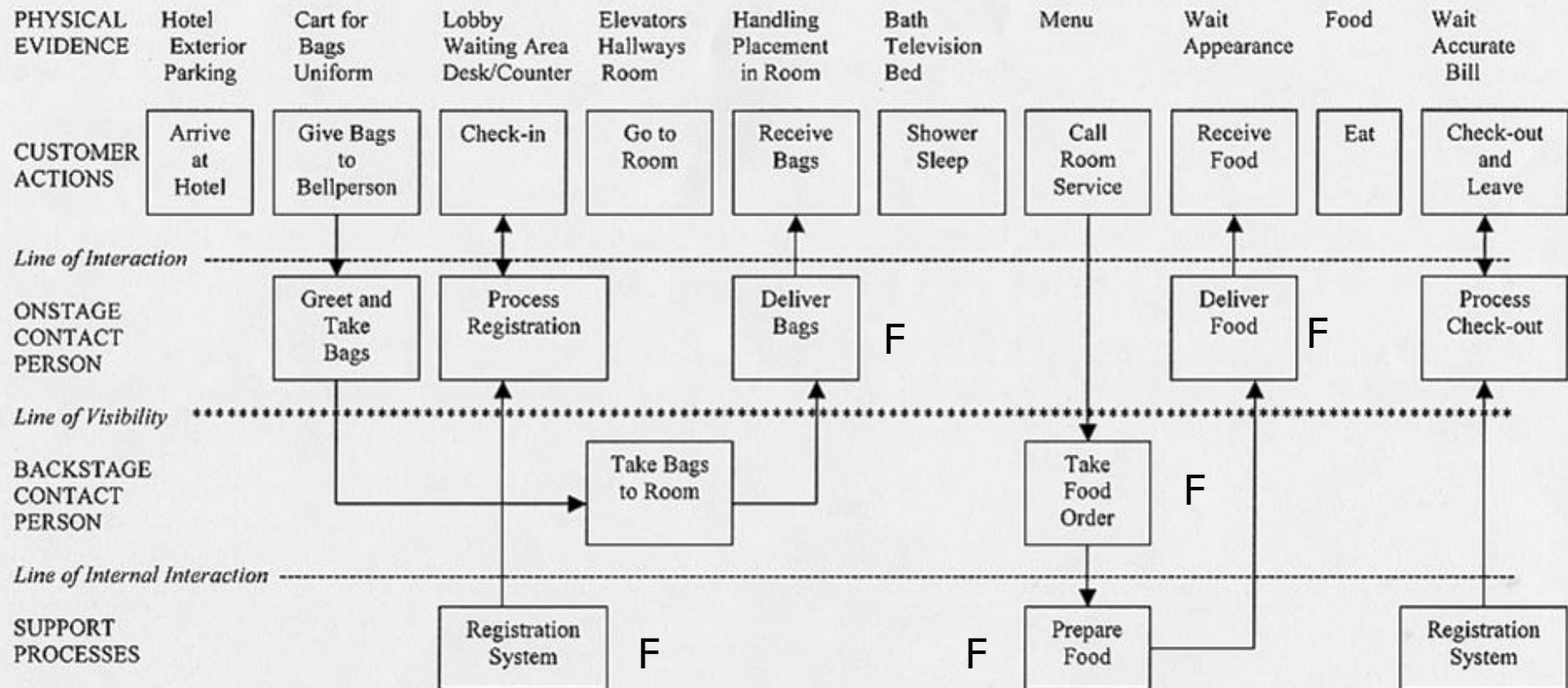
FRONT OFFICE-BACK OFFICE

- We need to identify which processes will be in the front office and which will be in the back office.
- Back Office
 - Do not require the presence of customer
- Front Office
 - Require the use of customer
- In most firms front-office and back-office jobs are *decoupled*
- *Decoupling*:
 - Separate job description
 - Different employees
 - Removed from sites dealing with customers

IN CLASS EXERCISE

■ Question 6

SERVICE BLUEPRINT OF LUXURY HOTEL



F = Possible Fail Point

IN CLASS EXERCISE

■ Question 7

EXPERIENTIAL BLUEPRINTING

Senses	Impact (Hi &Med& Low)	Resources Needed (\$,time, resp.)	How does the description of service and intended exp. align or not align?	What can the business do to change or improve?
Taste				
Touch				
Smell				
Sight				
Hearing				

Description of Service:

Intended experience or emotion:

EXPERIENTIAL BLUEPRINTING

FIGURE 6.4: *Clue Design for Double Tree Chocolate Chip Cookie*

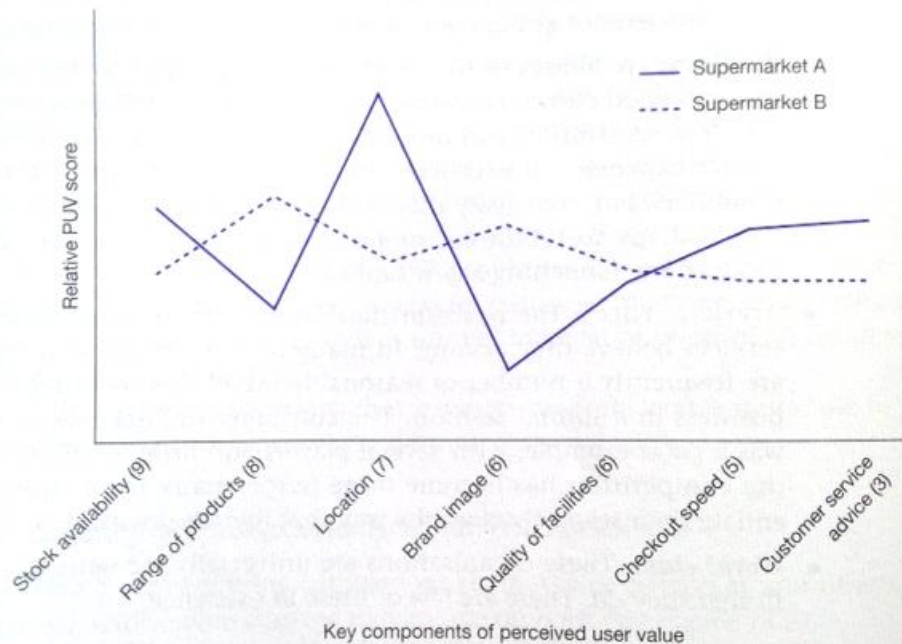
Clue Description: Double Tree Hotel Chocolate Chip Cookie Intended Experience or Emotion Connection from this Clue: Home or Comfort				
Senses	Impact (high, medium, & low)	Resources needed to maintain Clue (\$, time, logistics) Who is responsible?	How does the clue align or not align with above metaphor or descriptive words?	What can the business do to change or improve this clue for better alignment?
Taste	High	\$: Ingredients & labor Time: Constant baking Resp.: Front desk and baker	The cookie aligns well with a sense of home. It creates an image of "mom baking cookies for you after school" and other comfortable connotations. The smell of home baked goods reminds people of childhood and home.	Must produce high quality home made cookies throughout the day. Currently, the clue is well aligned. It is a well made and tasty cookie, always warm and fragrant. It is essential to deliver it hot to the guest, not over-baked, stale, or crumbling. The package should prevent guests from getting chocolate on their hands or clothes.
Touch	Low	\$: Labor Time: Fresh as possible Resp.: Front desk and baker		
Smell	High	\$: Labor and equip Oven near front desk and fan for circulation Resp.: Front desk cooks constantly		
Sight	Med	\$: Labor Resp.: Front desk and baker		
Hearing	None			

PERCEIVED USER VALUE

- PUV are the criteria regarded by customers as being important

Figure 13.3

PUV criteria for two supermarket chains

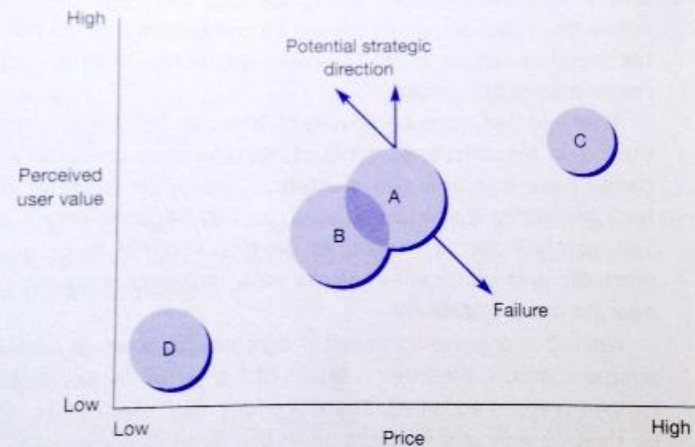


Adapted from Bowman (1998).⁸

PERCEIVED USER VALUE

- PUV are the criteria regarded by customers as being important

Figure 13.4 Perceived user value and price



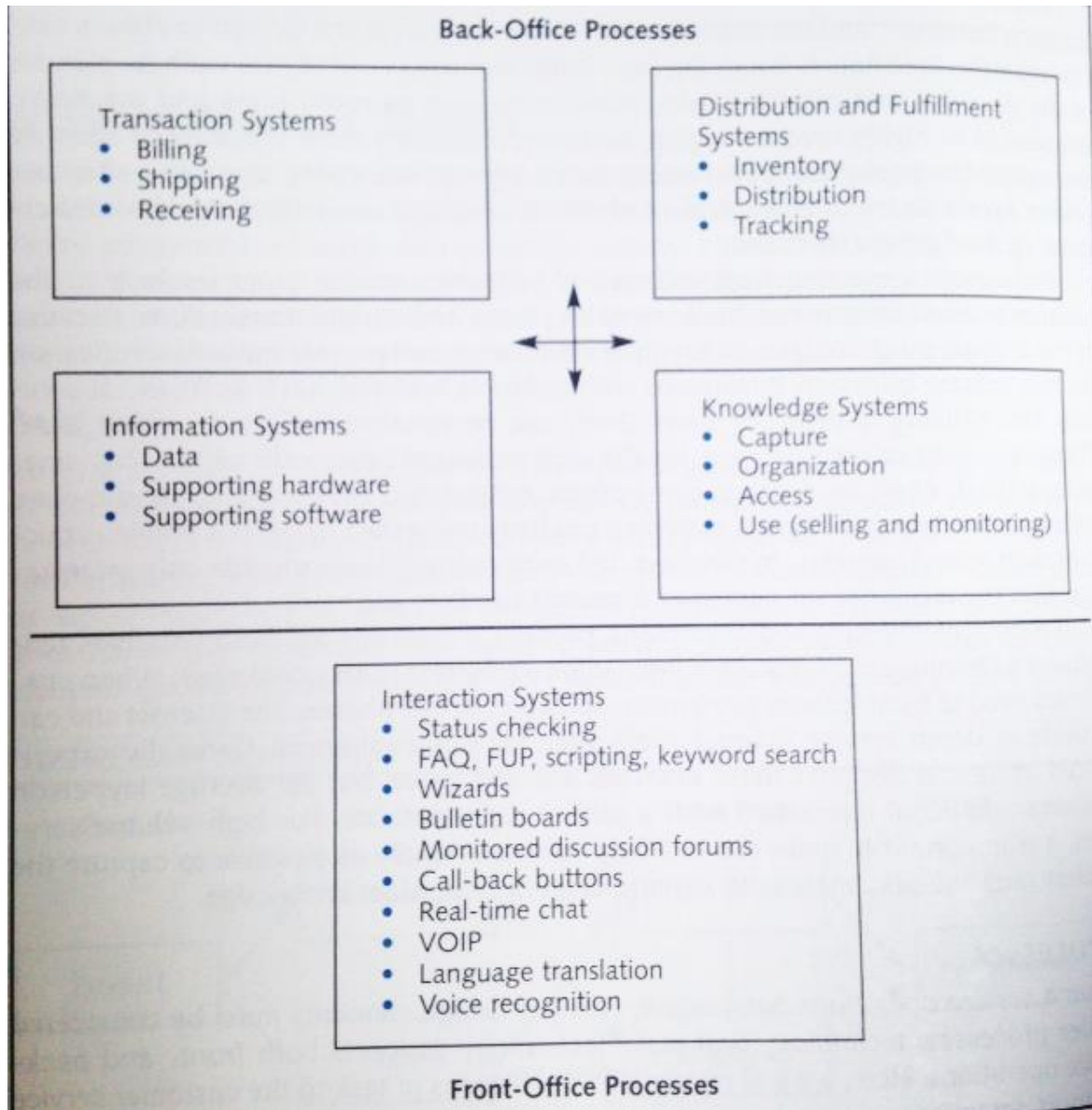
Adapted from Bowman (1998).⁶

PROCESS AND SYSTEM DESIGN ELEMENTS

Design Elements	Topics
Structural	
Delivery system	Process structure, service blueprint, strategic positioning
Facility design	Servicescapes, architecture, process flows, layout
Location	Geographic demand, site selection, location strategy
Capacity planning	Strategic role, queuing models, planning criteria
Managerial	
Information	Technology, scalability, use of Internet
Quality	Measurement, design quality, recovery, tools, six-sigma
Service encounter	Encounter triad, culture, supply relationships, outsourcing
Managing capacity and demand	Strategies, yield management, queue management

INTERNET STRATEGIES

- Retailer
 - Brick-Mortar or Clicks-and-Bricks?
 - Marshalls or Amazon or JC Penney?
- The main cost differences:
 - Bricks: The cost of building and maintaining physical stores
 - Taxes: Not an advantage anymore. Internet sales were exempt from tax
 - Inventory and personnel: Internet firms require much less personnel and inventory
 - Logistics: Internet firms at a disadvantage as they need to ship to customer, and traditional firms ship only to stores.



PROCESS TECHNOLOGY SYSTEMS FOR INTERNET SERVICES

DESIGN PROCESS

6. Business analysis
7. Project authorization
8. Service design and testing
9. Process and system design and testing
10. Market program design and testing
11. Personnel training
12. Service testing and pilot run
13. Test marketing
14. Full-scale launch
15. Post-launch review

AMAZON.COM QUESTIONS

- How does Amazon.com illustrate the sources of service sector growth? Comment on information technology, Internet as an enabler, innovation, and changing demographics.
- What generic approach(es) to service design does Amazon.com illustrate and what competitive advantages does this design offer?
- Is Amazon.com a model for the future of retailing?

DISCUSSION QUESTIONS

- What are the limits in the production-line approach to service?
- Give an example of a service in which isolation of the technical core would be inappropriate.
- What are some drawbacks of customer participation in the service delivery process?
- What ethical issues are raised in the promotion of sales during a service transaction?