

Developing the Service Product

TYPES OF NEW SERVICES

Major/Radical Innovations : Are new services for markets as yet undefined. E.g., First broadcast television services

Start up businesses : New services for a market that is already served by existing products E.g., online banking for financial transactions

New services for the currently served market : Attempts to offer existing customers of the organization, a service not previously available from the company

Developing the Service Product

Service line extensions : augmentation of the existing service line. E.g., restaurant adding new menu items, an airline offering new routes

Service improvements : changes in features of service that are already offered. E.g., extended hours of service (24x7), added amenities in a hotel room.

Style changes : the most modest service innovations, which have a significant effect on customer perception, emotion and attitude. E.g., changing the color scheme, revising the logo

NEW SERVICE DEVELOPMENT PROCESS

- Idea Generation
- Screen Ideas against new service strategy
- Concept Development & evaluation
- Test concept with customers and employees
- Business Analysis Test for profitability and feasibility

NEW SERVICE DEVELOPMENT PROCESS

- Service development & testing Conduct service prototype test Market testing Test service & other marketing mix elements
- Commercialization
- Post introduction evaluation

Idea Generation

Ideas generated at this phase can be passed through the new service strategy screen. many methods and avenues are available for searching out new service ideas. Methods:-
Interacting with others Creativity techniques -

Concept Development and Evaluation

Who is the target market and who is the decision maker in the purchasing process.
What features must the product incorporate.
What benefits will the service provide to the customer and to the organization. How will client react to the service. How the service can be delivered most cost effectively. What will be the cost to deliver the service.

Evaluation by employees and customers

whether they understand the idea of the proposed service, -whether they are favorable to the concept, and -whether they feel it satisfies an unmet need.

Business Analysis Marketing Assessment Financial Assessment

Marketing Assessment :Target market

Forecasting of sales volume Indication of
product positioning Competitor reaction

Specification of new product development

Financial Assessment: Sales volume and value
Variable cost of production Incremental fixed
cost Contribution and profitability of the new
service

Service Development & Testing

The intangibility presents unique challenges. The stage should involve all who have a stake in the new service. The concepts are refined to the point at which a detailed service blueprint can be constructed.

Service Blueprint

Picture or map that accurately portrays the service system. Helps different people involved to understand and deal with it objectively. Displays the service by simultaneously depicting the process of delivery, the points of customer contact, the roles of customers and employees, and the visible elements of service.

Market Testing

Difficult to test in isolated markets. e.g. Hospital has only one point of delivery. The new service may be offered to the employees and their families for assessing responses. An alternate is to test variations in pricing and promotions in a less realistic context by presenting customers with hypothetical mixes and getting their responses in terms of intentions to try the service under different conditions.

Commercialization

Service goes live & is introduced at the market space. The stage has 2 objectives Built & maintain acceptance of new service among large number of service delivery personnel responsible for service quality. Monitor all aspects of service during introduction and through the complete service cycle. Every detail of the service is assessed. Operating efficiency and costs are tracked.

Post-Introduction Evaluation

The information gathered during commercialization of service is reviewed and changes are made in Delivery process Staffing Service mix No service will stay same. Services are exposed to deliberate or unplanned changes. This calls for formalizing the review process to enhance quality and understand customer perceptions.

Risks of Relying on Words Alone to Describe Services

- **Oversimplification**
- **Incompleteness**
- **Subjectivity**
- **Biased Interpretation**



New Service Development Process

Front End
Planning

- Business Strategy Development or Review

- New Service Strategy Development

- Idea Generation

Screen ideas against new service strategy

- Concept Development and Evaluation

Test concept with customers and employees

- Business Analysis

Test for profitability and feasibility

- Service Development and Testing

Conduct service prototype test

- Market Testing

Test service and other marketing-mix elements

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- Postintroduction Evaluation

Implementation



New Service Strategy Matrix for Identifying Growth Opportunities

Offerings	Markets	
	Current Customers	New Customers
Existing Services	SHARE BUILDING	MARKET DEVELOPMENT
New Services	SERVICE DEVELOPMENT	DIVERSIFICATION

The Structure of Service Production

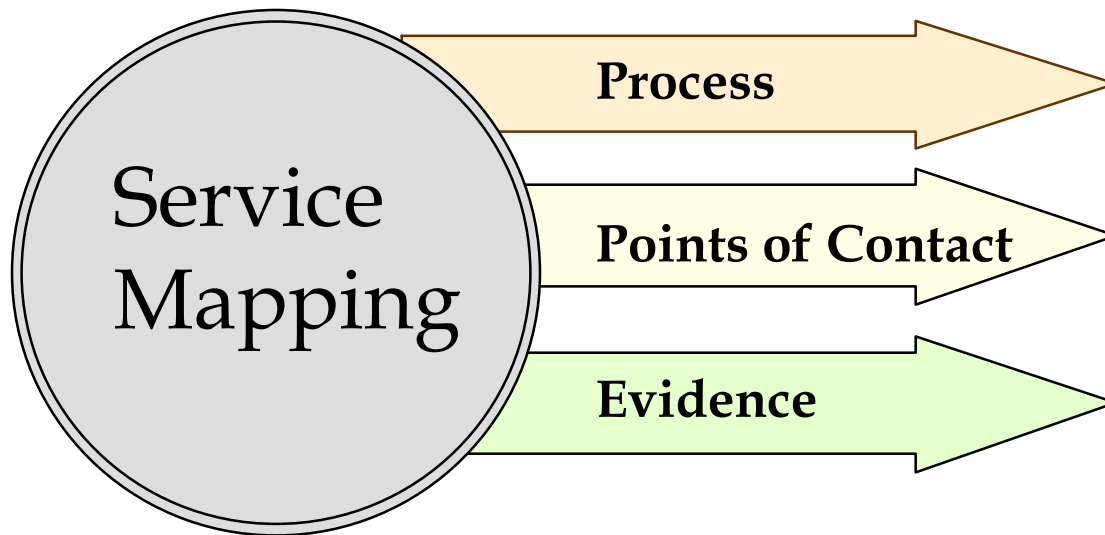
- Interactive Part
 - customer contact with
 - contact personnel
 - systems
 - physical components

-----LINE OF VISIBILITY-----

- Support
 - Management Support
 - Support Functions
 - Technological/Knowledge Support

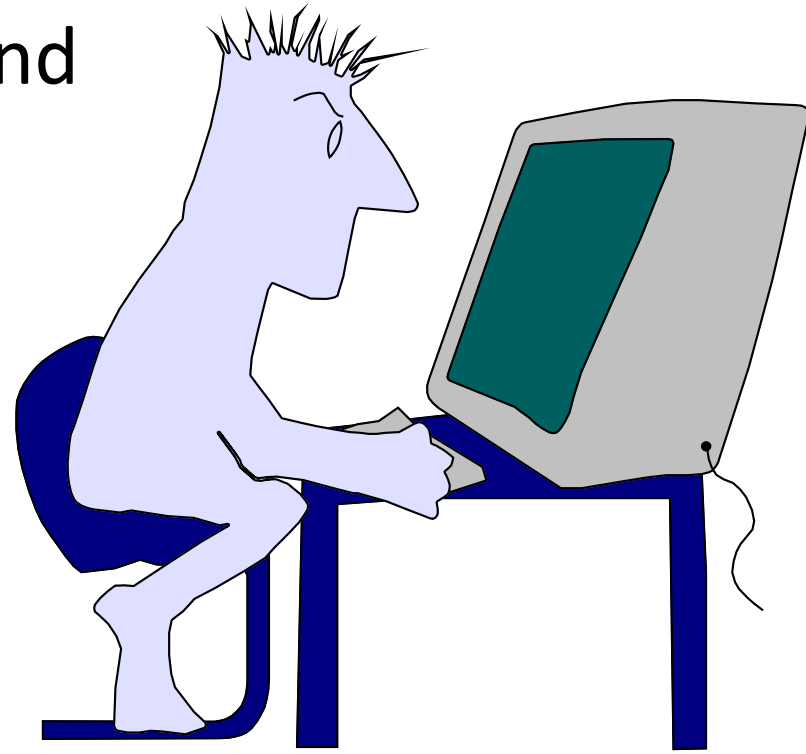
Service Mapping/Blueprinting

A tool for simultaneously depicting the service process, the points of customer contact, and the evidence of service from the customer's point of view.



Blueprinting

- Looks at the basic systems of your organization ---- “a process”
- Answers the questions: Who does what, to whom, how often, and under what conditions?



Service Blueprint Components

CUSTOMER ACTIONS

line of interaction

“ONSTAGE” CONTACT EMPLOYEE ACTIONS

line of visibility

“BACKSTAGE” CONTACT EMPLOYEE ACTIONS

line of internal interaction

SUPPORT PROCESSES

Building a Service Blueprint

Step 1

Identify the process to be blue-printed.

Step 2

Identify the customer or customer segment.

Step 3

Map the process from the customer's point of view.

Step 4

Map contact employee actions, onstage and backstage.

Step 5

Link customer and contact person activities to needed support functions.

Step 6

Add evidence of service at each customer action step.

Application of Service Blueprints

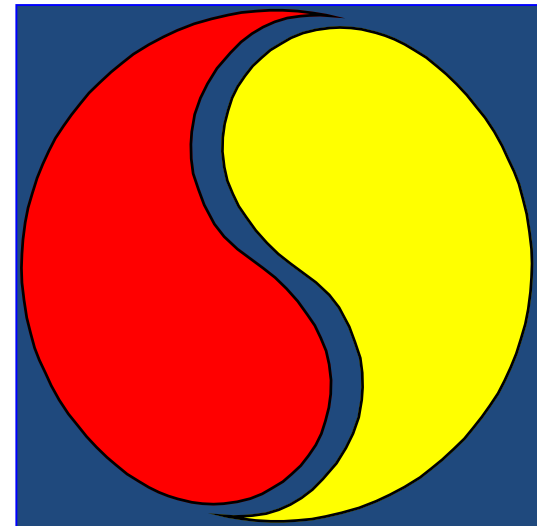
- **New Service Development**
 - concept development
 - market testing
- **Supporting a “Zero Defects” Culture**
 - managing reliability
 - identifying empowerment issues
- **Service Recovery Strategies**
 - identifying service problems
 - conducting root cause analysis
 - modifying processes

Blueprints Can Be Used By:

- **Service Marketers**
 - creating realistic customer expectations
 - service system design
 - promotion
- **Human Resources**
 - empowering the human element
 - job descriptions
 - selection criteria
 - appraisal systems
- **Operations Management**
 - rendering the service as promised
 - managing fail points
 - training systems
 - quality control
- **System Technology**
 - providing necessary tools:
 - system specifications
 - personal preference databases

Benefits of Blueprinting

- Clarifies elements of the service.
- Shows the sequence of delivery.
- Separates onstage from backstage
 - customer contact from support component.
- Identifies likely fail points.
- Identifies capacity bottlenecks.
- Allows management of the whole rather than the pieces.



Using Blueprints

- For Service Design
- For internal communication
- For measurement design

Planning and Creating Services

- A service product comprises all elements of service performance, both tangible and intangible, that create value for customers
- The service concept is represented by:
 - A core product
 - Accompanied by supplementary services

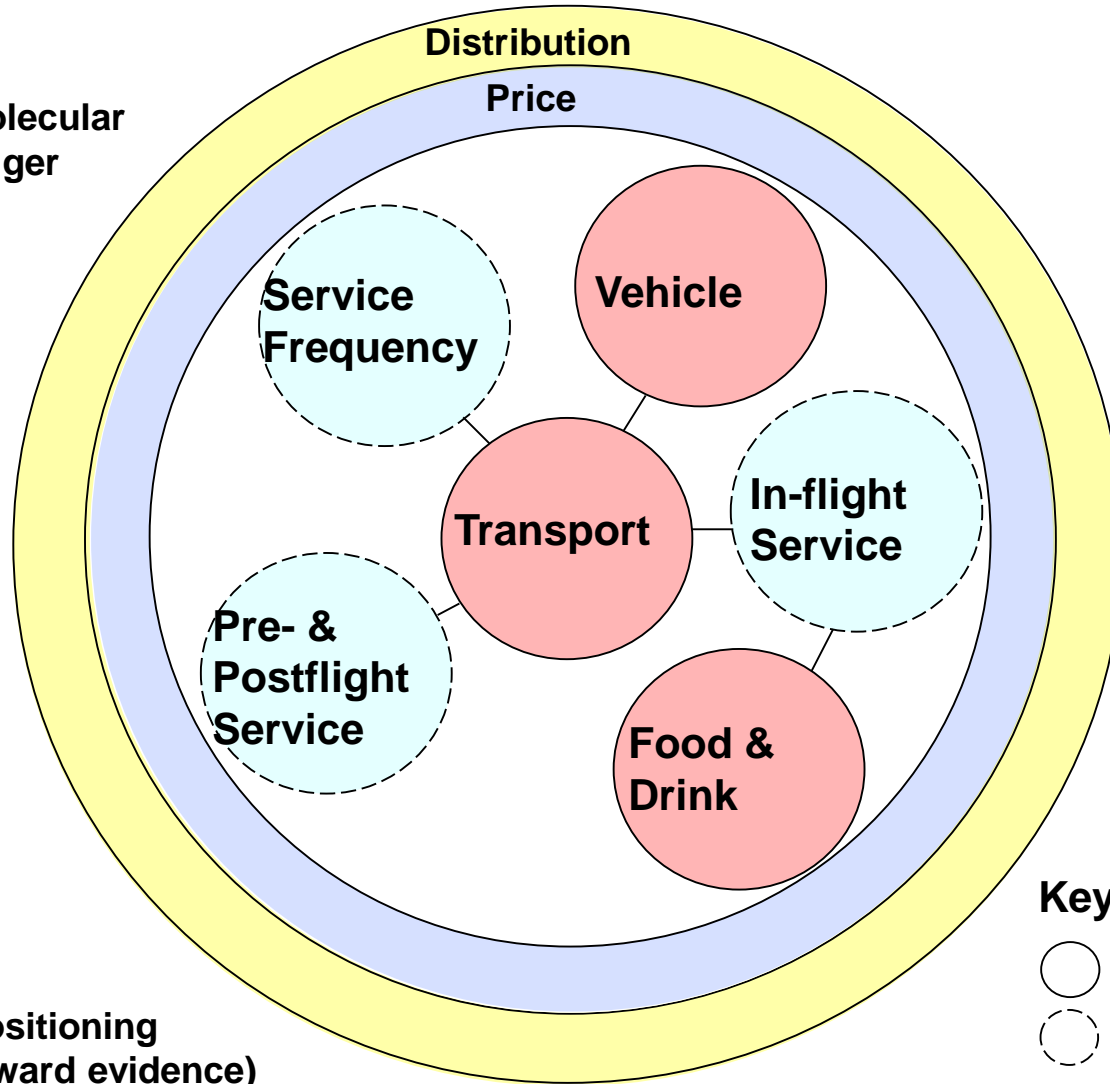
Core Products and Supplementary Services

- In mature industries, core products often become commodities
- Supplementary services help to differentiate core products and create competitive advantage by:
 - Facilitating use of core product (a service or a good)
 - Enhancing the value and appeal of the core product



Augmenting the Core Product

Shostack's Molecular
Model: Passenger
Airline Service



Key

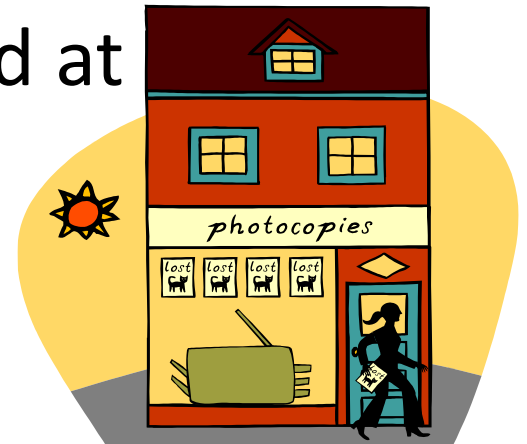
○ Tangible Elements

○ Intangible Elements

Marketing Positioning
(weighted toward evidence)

Augmenting the Core Product

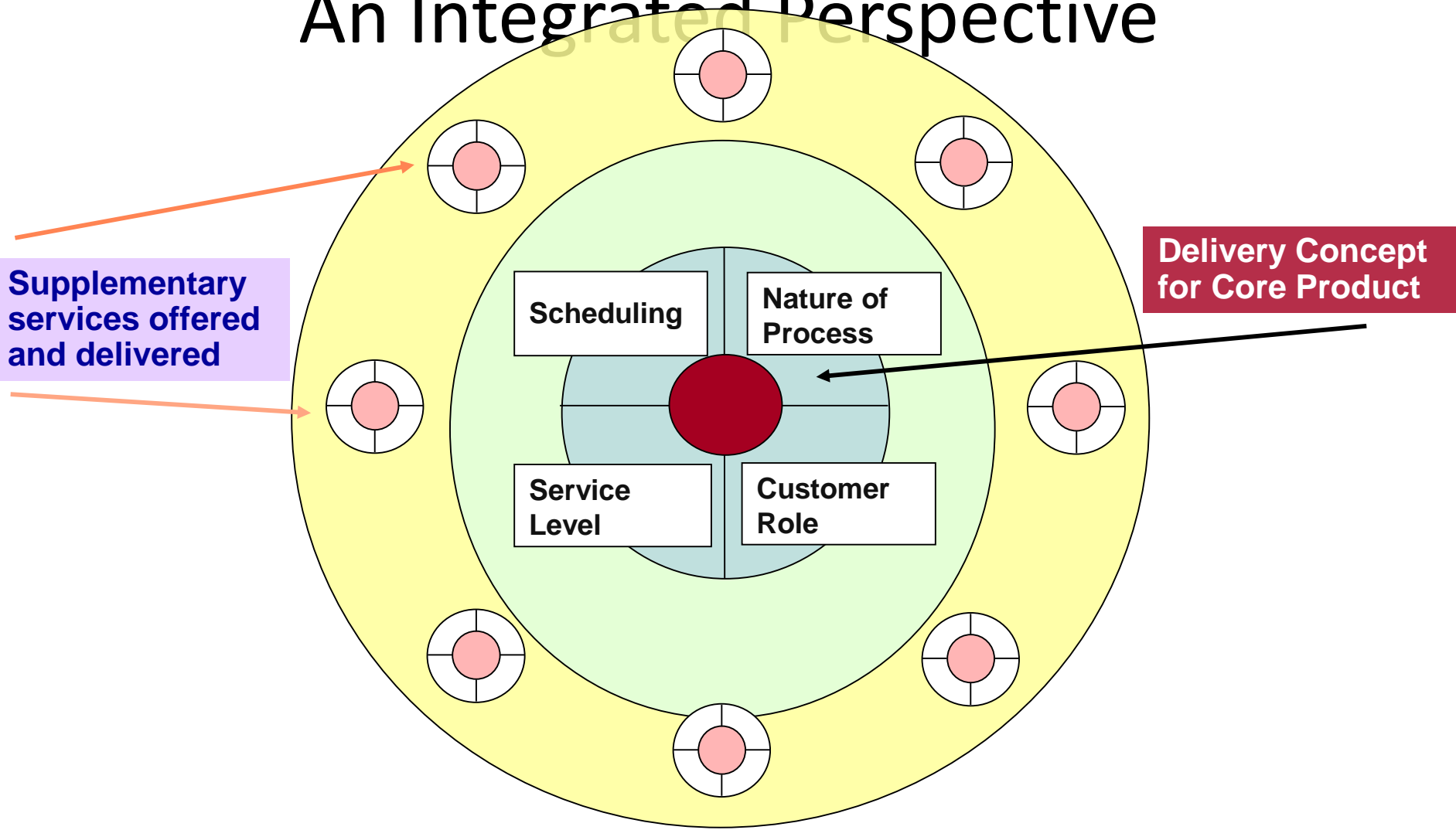
- Are supplementary services needed to facilitate use of core product or simply to add extra appeal?
- Should customers be charged separately for each service element?
- Or should all elements be bundled at price?



Designing a Service Concept

- Core Product
 - Central component that supplies the principal, problem-solving benefits customers seek
- Supplementary Services
 - Augment the core product, facilitating its use and enhancing its value and appeal
- Delivery Processes
 - Used to deliver both the core product and each of the supplementary services

Core and Supplementary Product Design: An Integrated Perspective



Documenting Delivery Sequence Over Time

- Must address sequence in which customers will use each core and supplementary service
- Determine approximate length of time required for each step
 - Customers may budget a specific amount of time for an activity
- Information should reflect good understanding of customers, especially their:
 - Needs
 - Habits
 - Expectations
- Question: Do customers' expectations change during service delivery in light of perceived quality of each sequential encounter?

Core and Supplementary Services at Luxury Hotel (Offering Much More than Cheap Motel!)



What Happens, When, in What Sequence? Time Dimension in Augmented Product

Reservation



↑
Before Visit



**Time Frame of An Overnight Hotel Stay
(Real-time service use)**

Flowcharting Service Delivery

Helps to Clarify Product Elements

- Offers way to understand totality of customer's service experience
- Useful for distinguishing between core product itself and service elements that supplement core
 - Restaurants: Food and beverage (core)
 - Reservations (supplementary services)
- Shows how nature of customer involvement with service organizations varies by type of service:
 - People processing
 - Possession processing
 - Mental Stimulus processing
 - Information processing

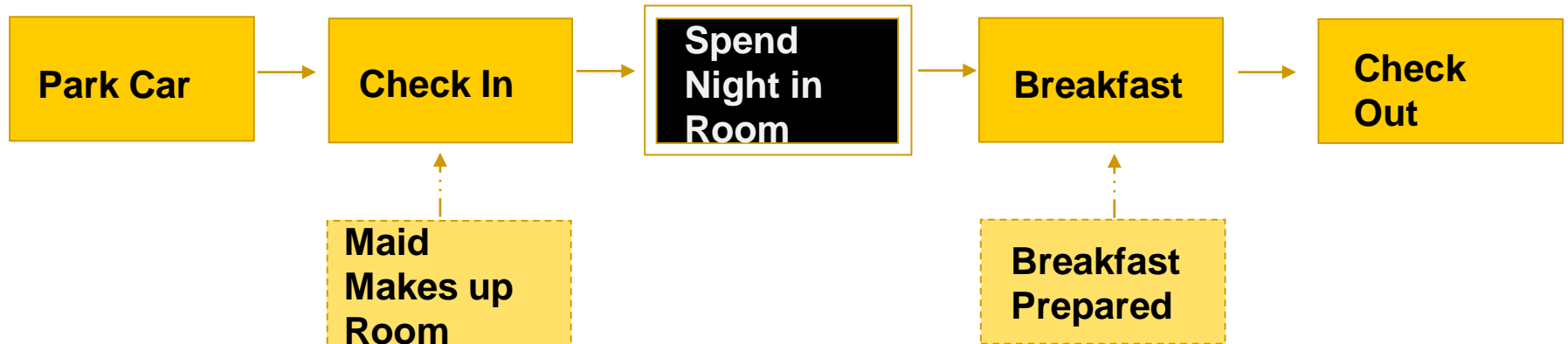


Defining Core and Supplementary Elements of Our Service Product

- How is our core product defined and what supplementary elements augment it?
- What product benefits create most value for customers?
- Is our service package differentiated from competition in meaningful ways for target customers?
- What are current levels of service on core product and each supplementary element?
- Can we charge more for higher service levels? For example:
 - **Faster response and execution**
 - **Better physical amenities**
 - **Easier access**
 - **Higher staffing levels**
 - **Superior caliber personnel**
- Alternatively, should we cut service levels and charge less?

Simple Flowchart for Delivery of a People-Processing Service

People Processing - Stay at Motel



Managerial Implications

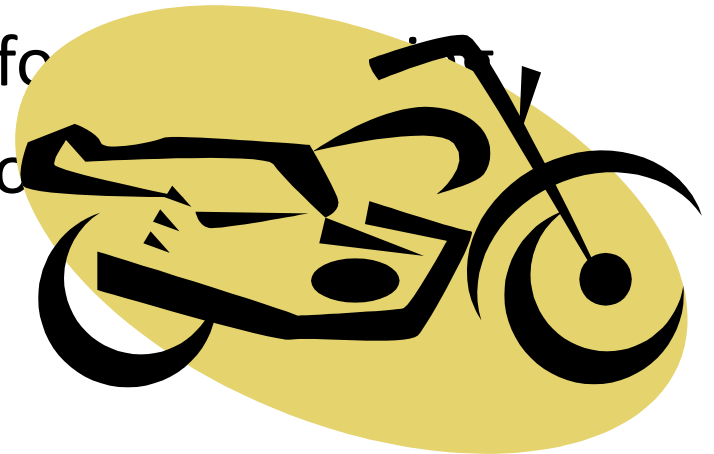
- To develop product policy and pricing strategy, managers need to determine:
 - Which supplementary services should be offered as a standard package accompanying the core
 - Which supplementary elements could be offered as options for an extra charge
- In general, firms that compete on a low-cost, no-frills basis needs fewer supplementary elements than those marketing expensive, high-value-added services
- Each flower petal must receive consistent care and concern to remain fresh and appealing

Service Products

- A product implies a defined and consistent “bundle of output” and also ability of firm to differentiate its bundle of output from competitors’
- Service firms can differentiate their products in similar fashion to various “models” offered by manufacturers
- Providers of more intangible services also offer a “menu” of products
 - Represent an assembly of elements that are built around the core product
 - May include certain value-added supplementary services

Product Lines and Brands

- Most service organizations offer a line of products rather than just a single product
- They may choose among three broad alternatives:
 - Single brand to cover all products and services
 - A separate, stand-alone brand for each product
 - Some combination of these two



A Hierarchy of New Service Categories (1)

1. Major service innovations
 - New core products for previously undefined markets
2. Major process innovations
 - Using new processes to deliver existing products with added benefits
3. Product-line extensions
 - Additions to current product lines
4. Process-line extensions
 - Alternative delivery procedures

A Hierarchy of New Service Categories (2)

5. Supplementary service innovations
 - Addition of new or improved facilitating or enhancing elements
6. Service improvements
 - Modest changes in the performance of current products
7. Style changes
 - Visible changes in service design or scripts

Reengineering Service Processes

- Service processes affect not only customers, but also cost, speed, and productivity with which desired outcome is achieved
- Reengineering involves analyzing and redesigning processes to achieve faster and better performance
 - Running tasks in parallel instead of sequence can reduce/eliminate dead time
- Examination of processes can lead to creation of alternative delivery methods that constitute new service concepts
 - Add/eliminate supplementary services
 - Resequence delivery of service elements
 - Offer self-service options

Physical Goods as a Source Of New Service Ideas

- Services can be built around rentals: Alternatives to owning a physical good and/or doing work oneself
 - Customers can *rent* goods—use and return for a fee—instead of purchasing them
 - Customers can hire personnel to operate own or rented equipment
- Any new durable good may create need for after-sales services now and in future—*possession processing*
 - Shipping
 - Installation
 - Problem-solving and consulting advice
 - Cleaning and maintenance
 - Upgrades
 - Removal and disposal



Creating Services as Substitutes for Owning and/or Using Goods

	Own a Physical Good	Rent Use of a Physical Good
Perform Work Oneself	<ul style="list-style-type: none">▪ Drive Own Car▪ Use Own Computer	<ul style="list-style-type: none">▪ Rent a Car and Drive it▪ Rent Use of Computer
Hire Someone to Do Work	<ul style="list-style-type: none">▪ Hire a Chauffeur to Drive▪ Hire a Typist to Type	<ul style="list-style-type: none">▪ Hire a Taxi or Limousine▪ Send Work Out to a Secretarial Service

Achieving Success in Developing New Services

- Services are not immune to high failure rates that plague new manufactured products
 - **“dot.com” companies**
- In developing new services
 - **Core product is of secondary importance**
 - **Ability to maintain quality of the total service offering is key**
 - **Accompanying marketing support activities are vital**
 - **Market knowledge is of utmost importance**



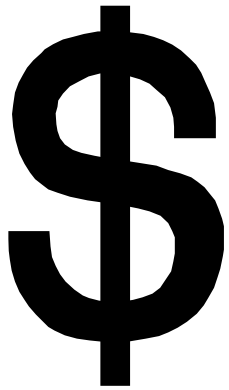
Success Factors in New Service Development

- Market synergy
 - Good fit between new product and firm's image/resources
 - Advantage versus competition in meeting customers' needs
 - Strong support from firm during/after launch
 - Firm understands customer purchase decision behavior
- Organizational factors
 - Strong interfunctional cooperation and coordination
 - Internal marketing to educate staff on new product and its competition
 - Employees understand importance of new services to firm
- Market research factors
 - Scientific studies conducted early in development process
 - Product concept well defined before undertaking field studies

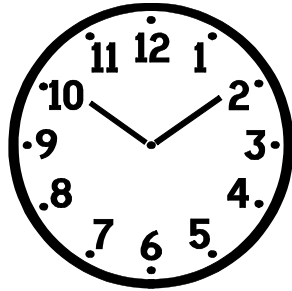
What Do Customers Know about the Prices of Services?



Customers Will Trade Money for Other Service Costs

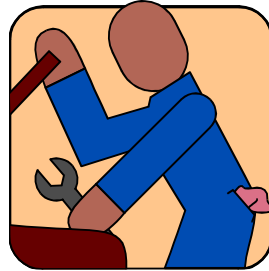


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Time

or



Effort

or

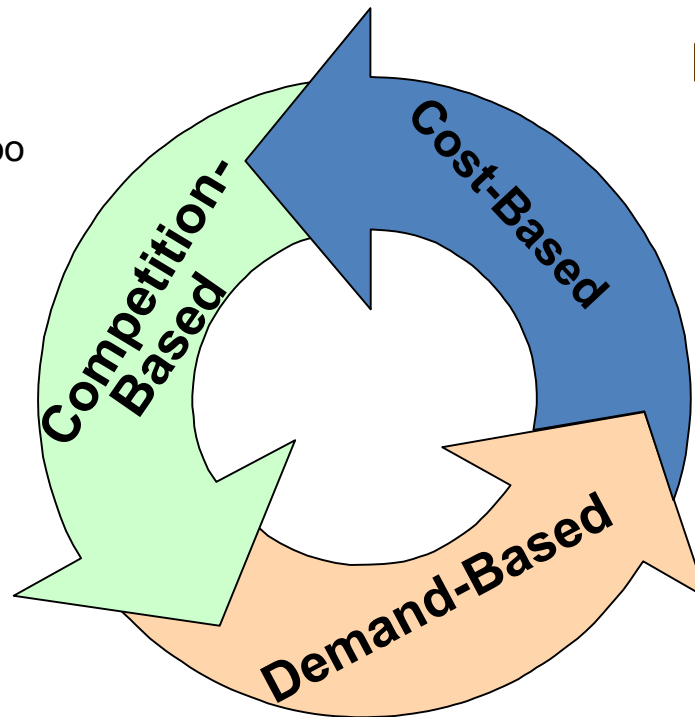


Psychic Costs

Three Basic Price Structures and Difficulties Associated with Usage for Services

PROBLEMS:

1. Small firms may charge too little to be viable
2. Heterogeneity of services limits comparability
3. Prices may not reflect customer value



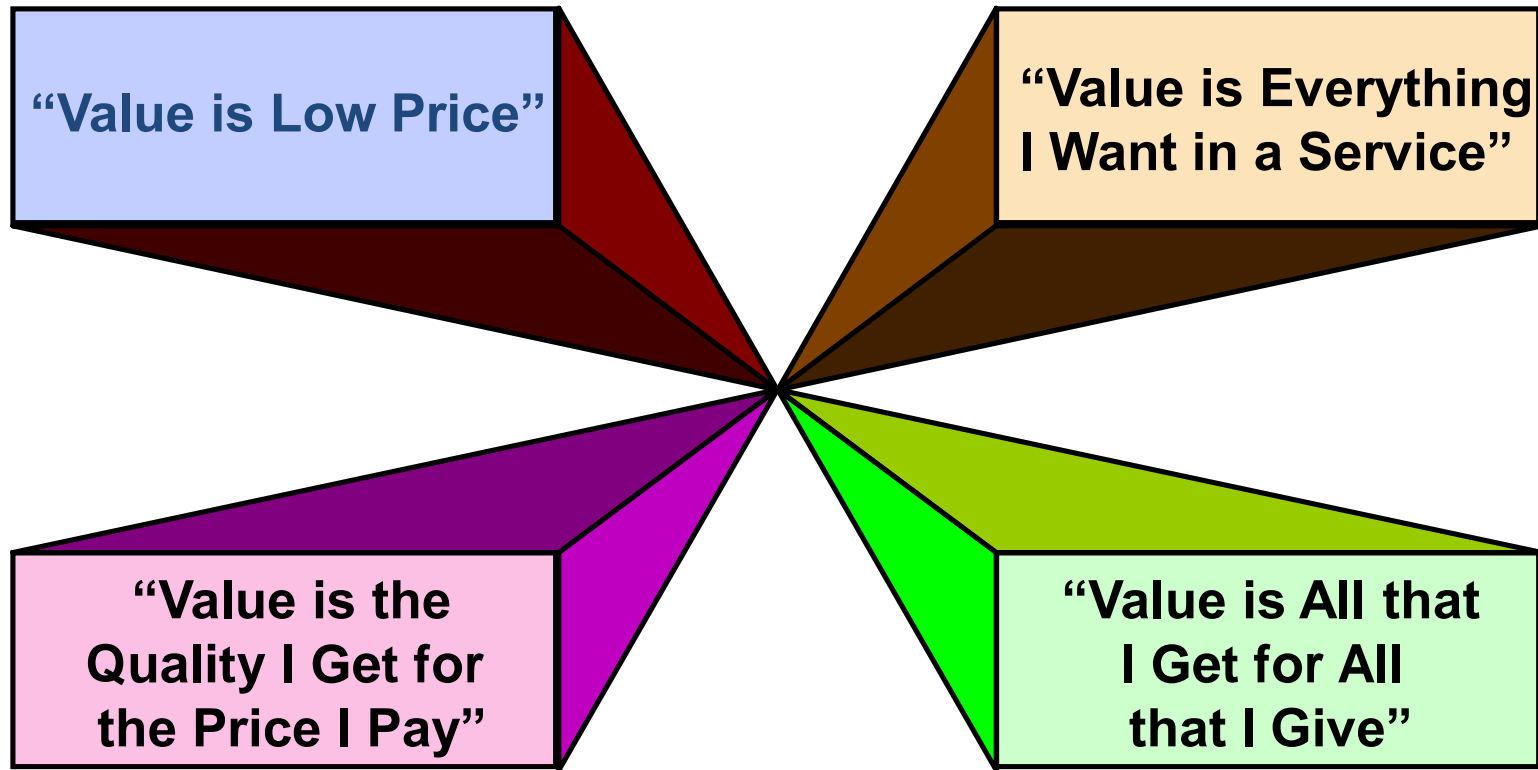
PROBLEMS:

1. Costs difficult to trace
2. Labor more difficult to price than materials
3. Costs may not equal value

PROBLEMS:

1. Monetary price must be adjusted to reflect the value of non-monetary costs
2. Information on service costs less available to customers, hence price may not be a central factor

Four Customer Definitions of Value



Pricing Strategies When the Customer Defines Value as Low Price

“Value is Low Price”

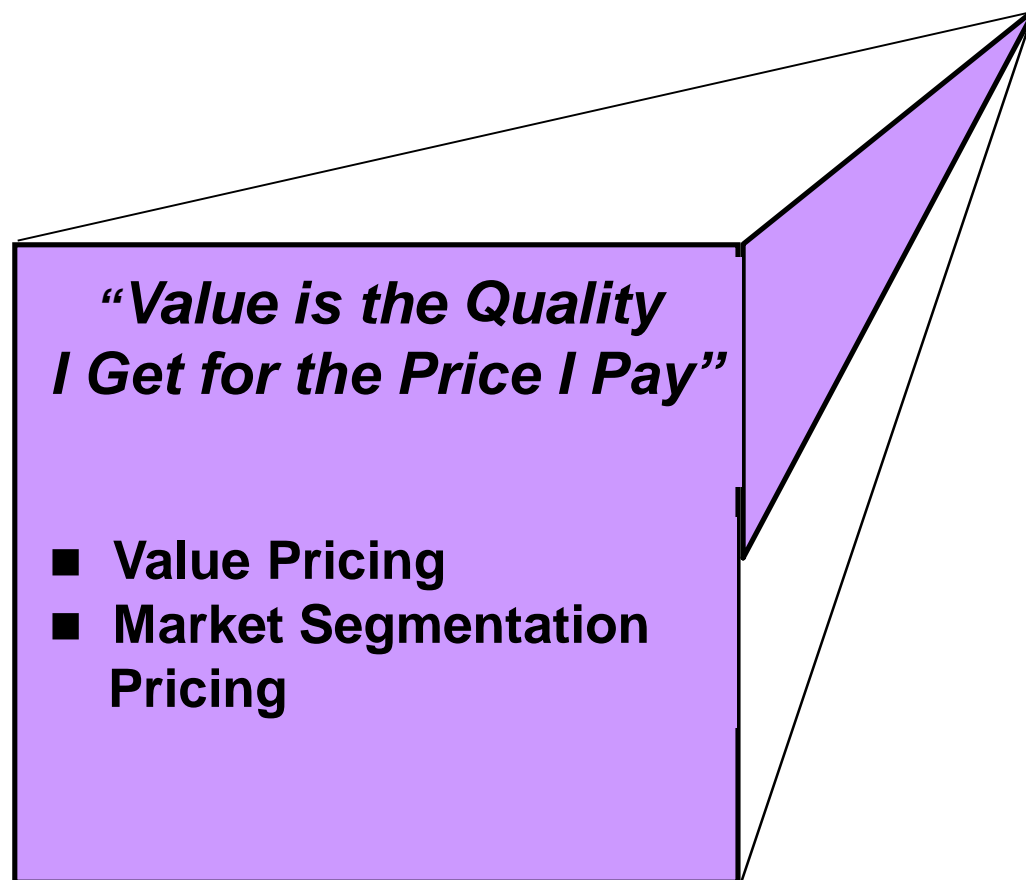
- **Discounting**
- **Odd Pricing**
- **Synchro-pricing**
- **Penetration Pricing**

Pricing Strategies When the Customer Defines Value as Everything Wanted in a Service

“Value is Everything I Want in a Service”

- **Prestige Pricing**
- **Skimming Pricing**

Pricing Strategies When the Customer Defines Value as Quality for the Price Paid



Pricing Strategies

When the Customer Defines Value as All that is Received for All that is Given

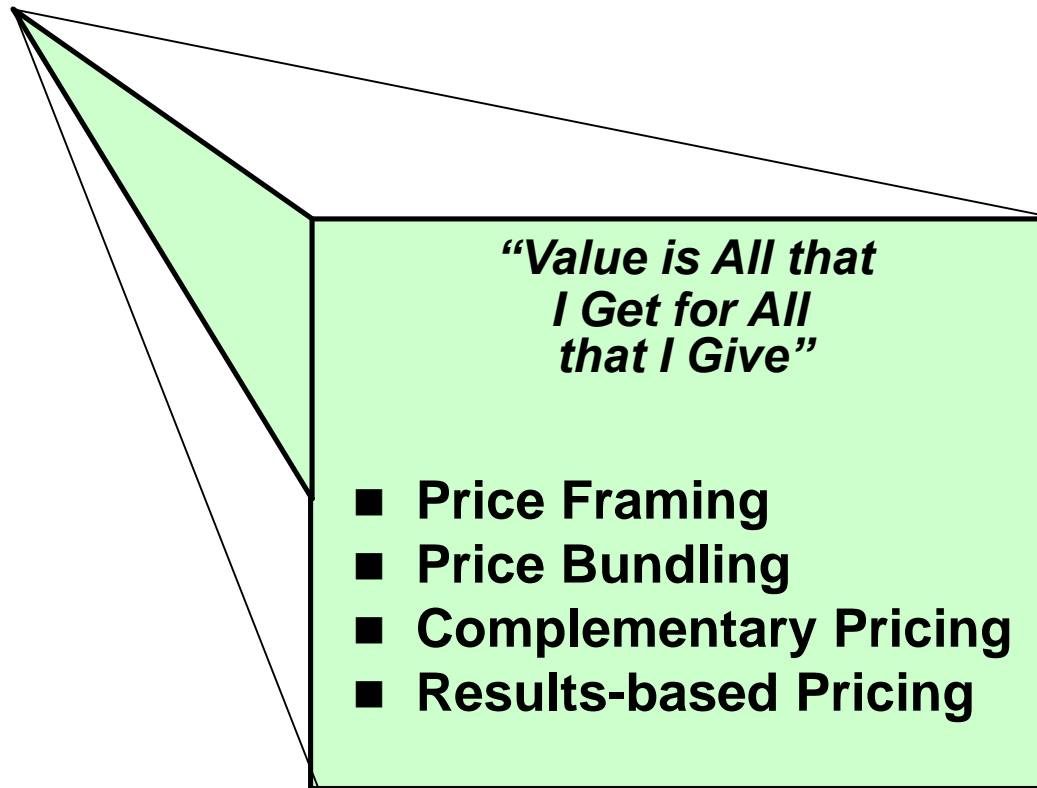
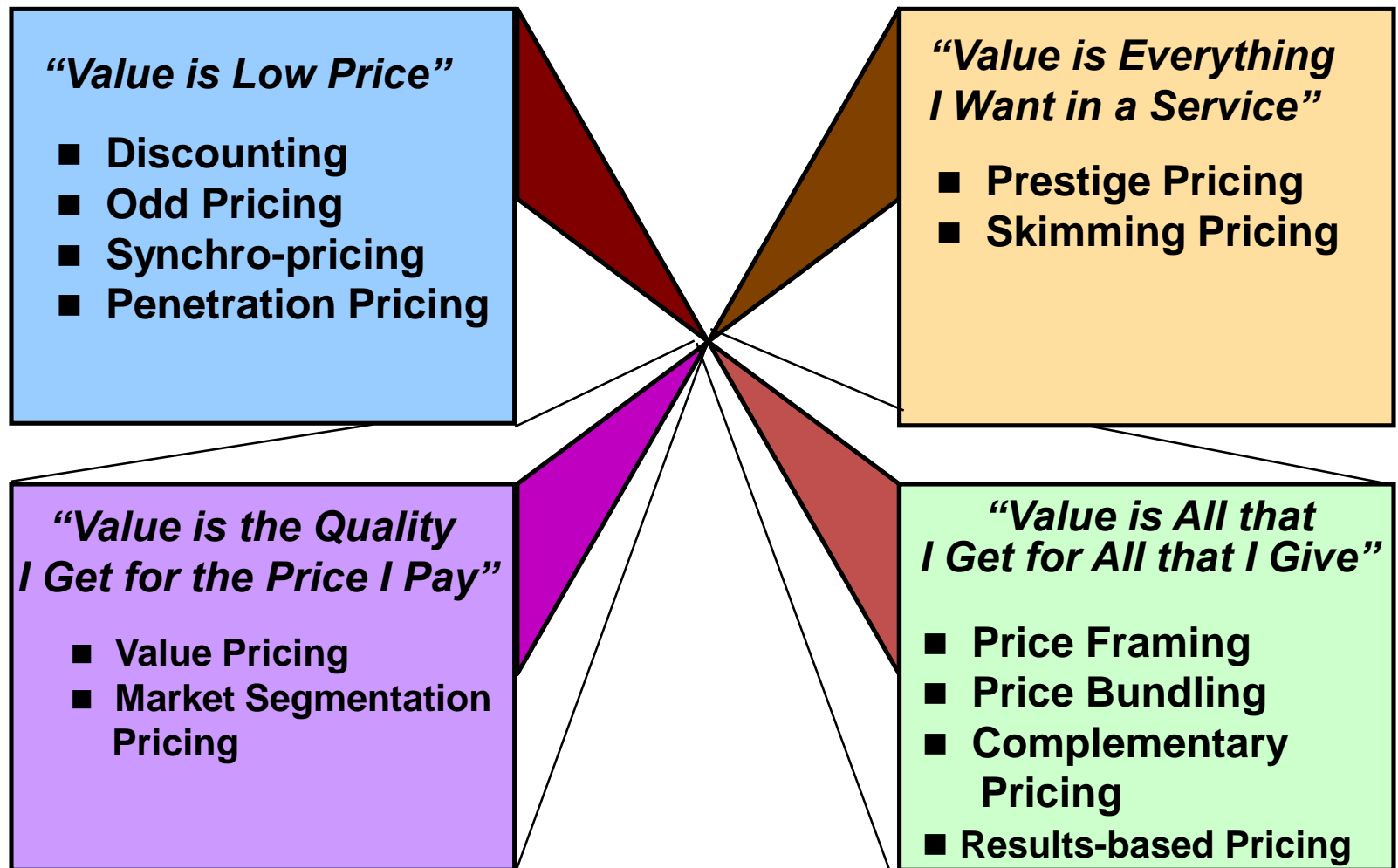


Figure 16-10

Summary of Service Pricing Strategies for Four Customer Definitions of Value



Service Promotions

- Services impact customers more directly than products do
- Marketing of services has to be more deliberate and considered
- Service provider has to carefully audit his resources and competencies
- Positioning must be razor sharp
- Services more intractable than products

Service Promotions

- Service provider must define service very precisely and also design the appropriate service-product mix
- Promotion more challenging due to intangible nature of services
- Same basic service can be provided in vastly different service facilities providing different levels of amenities and luxuries

Service Promotions

- Same service can be delivered in various ways
- Marketing mix conveys the positioning of a service

All Principles of Marketing Apply to Services

SERVICE DISTRIBUTION

- Direct Delivery of Service Channels for services are often direct- from creator of the service directly to the customer
- Services cannot be owned, there are no titles or rights to most services that can passed along a delivery channel
- Inventories cannot exist, making warehousing a dispensable function

Delivery of Service through Intermediaries

- Intermediaries may co-produce service, fulfilling service principals' promises to customers. eg: Franchise Services They make service locally available Provide time and place convenience for the customers
- Provide retailing function for customers because they represent multiple service principals. eg: travel agents Primary types of intermediaries – Franchisees, Agents & Brokers, Electronic Channel

COMMON ISSUES INVOLVING INTERMEDIARIES

- conflict over objectives and performance
- conflict over costs and rewards
- control of service quality
- empowerment versus control channel
- ambiguity – lack of role clarity

DIRECT/ COMPANY OWNED CHANNELS Benefits

- Company has control over the outlets thus owner can maintain consistency in service provision
- Control over hiring, firing, and motivating employees
- Allow expansion or contraction of sites without being bounded by contractual agreements
- Owns the customer relationship

DIRECT/ COMPANY OWNED CHANNELS Challenges

- Company must bear all financial risk
- Large companies are rarely experts in local market. When adjustments are needed in business formats for different markets, they may be unaware of what these adjustments should be

Service partnerships

They are very much like company owned channels except that they have multiple owners. eg: Jet & Kingfisher

Benefit: risk, resources and effort are shared

Disadvantage: control and returns gets distributed

FRANCHISING

Benefits for Franchisor –

- Leveraged business format for greater expansion and revenues- increased revenues, market share, brand name recognition and economies of scale for Franchisors
- Can maintain consistency in outlets across cultures and countries

Benefits for Franchisor

- Company can obtain connection to the (knowledge about) local markets
- Franchisees must contribute their own capital for equipment and personnel, thereby bearing part of the financial risk of doing business.

Benefits for Franchisee

- Franchisees obtain an established business format
- They receive benefit of national or regional brand marketing expertise as well as established reputation
- Minimized risk of starting a business

Challenges for Franchisor

- Difficulty in maintaining and motivating franchisees
- Highly publicized disputes and conflict
- Inconsistent quality that may undermine the company's image, reputation and brand name
- Customer relationships are controlled by the franchisee rather than the franchisor

Challenges for Franchisee

- Encroachment – the opening of new units near existing ones without compensation to the existing franchisee
- Disappointing profits and revenues
- Lack of perceived control over operations
- High fees

AGENTS & BROKERS Benefits

- Reduced selling and distribution costs – eg: if an airline need to contact every potential traveler to promote its offerings, cost would be exorbitant
- Intermediary's possess special skills and knowledge in their areas – eg: Passport Agent
- Wide representation – they act as company representative in different areas

AGENTS & BROKERS Benefits

- Knowledge of local markets – knowing the culture and taboos of a country is critical for successful selling
- Customer choice – agents provide retailing service (assorted services of multiple service providers) for customers

Challenges: Loss of control over pricing and other aspects of marketing

- Representation of multiple service principals

ELECTRONIC CHANNELS Benefits

- Consistent delivery for standardized services
- Low cost
- Customer convenience
- Wide distribution
- Customer choice and ability to customize
- Quick customer feedback

ELECTRONIC CHANNELS Challenges

- Customers are active, not passive
- Lack of control of electronic environment
- Price competition
- Inability to customize with highly standardized services
- Requires changes in consumer behavior
- Security concerns
- Competition from widening geographies

STRATEGIES FOR EFFECTIVE SERVICE DELIVERY THROUGH INTERMEDIARIES

Control Strategies- create standards both for revenues and service performance, measure results, and compensate or reward on basis of performance level

STRATEGIES FOR EFFECTIVE SERVICE DELIVERY THROUGH INTERMEDIARIES

Empowerment Strategies :Allow greater flexibility to intermediaries

Help intermediary develop customer oriented service processes

Provide needed support systems

Develop intermediaries to deliver service quality

Change to a cooperative management structure

Five Major Approaches to Overcome Service Communication Channels

FIGURE 16.2
Five Major
Approaches to
overcome Service
Communication
Channels



(1) Approaches for Addressing Service Intangibility

- Use narrative to demonstrate the service experience
- Present vivid information
- Use interactive imagery
- Focus on the tangibles
- Use brand icons to make the service tangible
- Use association, physical representation, documentation, and visualization
- Feature service employees in communication
- Use buzz or viral marketing
- Leverage social media
- Aim messages to influencers
- Create advertising that generates talk because it is humorous, compelling, or unique
- Feature satisfied customers in the communication
- Generate word-of-mouth through employee relationships

(2) Approaches for Managing Service Promises

- Create a strong service brand
- Coordinate external communication

(3) Approaches for Managing Customer Expectations

- Make realistic promises
- Offer service guarantees
- Offer choices
- Create tiered-value service offerings
- Communicate the criteria and levels of service effectiveness

(4) Approaches for Managing Customer Education

- Prepare customers for the service process
- Confirm performance to standards and expectations
- Clarify expectations after the sale
- Teach customers to avoid peak demand periods and to seek slow demand periods

(5) Approaches for Managing Internal Marketing Communication

- Create effective vertical communications
- Sell the brand inside the company
- Create effective upward communication
- Create effective horizontal communications
- Align back-office and support personnel with external customers through interaction or measurement
- Create cross-functional teams of sales, service, and operations people when developing new services or engaging in service improvements
- Maintain a customer focus throughout all functions

The Service Delivery Process

Four Stages Of Operational Competitiveness

- Stage 1: Available for Service
 - operations are a “necessary evil”
 - operations are “reactive”
 - the primary mission is to avoid mistakes
 - technological investment, training, and personnel costs are minimized
 - may actually work if no competition
 - however, it may attract competition

Four Stages Of Operational Competitiveness

- Stage 2: Journeyman
 - prompted by the arrival of competition
 - operations become outward-looking
 - investment in technology is linked to long-term costs savings
 - processes are developed, implemented, and monitored
 - emphasis shifts from controlling workers to managing processes
 - operations still viewed as a secondary function

Four Stages Of Operational Competitiveness

- Stage 3: Distinctive Competencies Achieved
 - the firm has mastered the core service
 - understands complexity of making changes
 - operations are now viewed equal with other departments
 - view of technology changes from “cost savings” to “enhancing the customers experience”
 - front-line management listens to customers

Four Stages Of Operational Competitiveness

- Stage 4: World Class Service Delivery
 - company's name is synonymous with service excellence
 - mission goes beyond satisfaction to “delightment”
 - technology provides a means to accomplish tasks that the competition cannot duplicate
 - Front-line supervisors move to mentoring

Role of technology in Services Marketing

- Radically alter ways in which service firms do business *with customers* (new services, more convenience), *Behind the scenes* (re engineering , new value chains)
- Create relational databases about customer needs and behavior, mine data banks for insights
- Leverage employee capabilities and enhance mobility
- Centralize customer service –faster and more responsive
- Develop national/ global delivery system
- Create new, internet based business models

Applying IT

**All services can benefit from IT,
but mental stimulus processing and information
processing services have most to gain**

- Remote delivery of information based services
“ anytime , anywhere”
- New service feature through web sites, email,
internet (information, reservations)
- More opportunities to self service
- New types of services