Service Management –
New Service Development

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New Service Development

- Starting with service concept and strategy to provide service with features that differentiate it from competition (cf. lecture #2 “Service Strategy”)
- Design process is never finished

- 2 basic types of service innovation (Chew, 2010)
  - Service enhancement for incremental growth
  - New growth idea (Anthony et al., 2008), or new service idea that could become a new growth platform (Laurie et al., 2006)

- How to develop new services? -- e.g.,
  a) NSD Process Cycle (Johnson et al., 2000)
  b) Service Innovation Process (Thomke, 2003)
A) NSD Process Cycle

- Full-launch review
- Full-scale launch

(Johnson et al., 2000; Fitzsimmons & Fitzsimmons, 2011)
Technology as Innovation Driver

- Technological advances are often basis for service innovation
- e.g., Amazon: built up a loyalty customer base and gain competitive advantage as a technology first-mover (1995)
- e.g., mobiles by Apple combined with app store represent platform for dozens of new services

<table>
<thead>
<tr>
<th>Source of technology</th>
<th>Service example</th>
<th>Service industry impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power/energy</td>
<td>Nuclear energy</td>
<td>Less dependence on fossil fuel</td>
</tr>
<tr>
<td>Materials</td>
<td>Synthetic engine oil</td>
<td>Fewer oil changes</td>
</tr>
<tr>
<td>Information</td>
<td>eCommerce</td>
<td>Increase (local) market to worldwide market</td>
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</table>
B) Service Innovation Process

- Service innovation process consists of five phases (designed for new innovations where success is less certain)

1. **Evaluate ideas** – Conceive, assess, prioritize ideas from internal and external sources

2. **Plan and design** – Assign design needs, complete design, build rollout plan

3. **Implement** – Develop test plan, implement idea

4. **Test** – Monitor performance of idea, report results of fast feedback by market, improve process in a stable operating environment

5. **Recommend** – Complete, review and approve, communicate recommendation

(Thomke, 2003)
Service Design Elements

- Service design elements -- creating a consistent service offering

- Structural design elements:
  a. **Delivery system** – process structure, service blueprint, strategic positioning
  b. **Facility Design** – servicescape, layout
  c. **Location** – geographic demand, site selection, location strategy
  d. **Capacity planning** – strategic role, queuing models

(Fitzsimmons & Fitzsimmons, 2011)
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*(Fitzsimmons & Fitzsimmons, 2011)*
Service Design Elements

- Managerial design elements:
  a. **Information** – technology, scalability, use of Internet
  b. **Quality** – measurement, design quality, recovery, tools
  c. **Service encounter** – encounter triad, culture, supply relationships, outsourcing
  d. **Managing capacity and demand** – strategies, yield management, queue management

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**Example:**
**Hairdresser**

- Looking up current number of customers in store on web page
- Free cutting of fringe and repairing of cuts
- Family-type atmosphere
- Walk-in customers – “Take a number”

(Fitzsimmons & Fitzsimmons, 2011)
Service Blue Printing

• “The development of a new service is usually characterized by trial and error. Developers translate a subjective description of a need into an operational concept that may bear only a remote resemblance to the original idea. No one systematically quantifies the process or devises tests to ensure that the service is complete, rational, and fulfills the original need objectively.” (Shostack, 1984, p. 133)

• “A service blueprint allows a company to explore all the issues inherent in creating or managing a service.” (Shostack, 1984, p. 135)

• Service blueprint - capturing service design in a visual diagram (like building)

• “Service blueprinting, which started as an entirely manual process, has been automated by companies to provide “living blueprints” accessible to key parties online [...].” (Bitner et al., 2010, p. 210).

(Fitzsimmons & Fitzsimmons, 2011)
How to design a service blueprint?

(1) **Identifying processes** - breakdown of complex processes into steps; identification of parts of service not seen by customer, e.g. purchasing of supplies

(2) **Isolating fail points** – build (fail-safe) sub processes to **correct possible errors**

(3) **Establishing time frame** – consideration of execution time of service as major cost determinant; **calculating** maximum of **deviation**

(4) **Analyzing profitability** – quantifying costs of delay; establishment of **time-of-service-execution standard** to measure performance / control uniformity and quality; serves as model for distribution of service

(Shostack, 1984, p. 135)
Characteristics of Service Processes

- **Complexity** – number of steps and sequences in process

- **Divergence** – amount of discretion or freedom that server has to customize the service

- **Object of service process** – goods, information, people

- **Type of customer contact** – no contact, indirect, direct

*(Fitzsimmons & Fitzsimmons, 2011)*
The taxonomy of services processes (Wemmerlöv, 1990) categorizes services according to the level of divergence, the degree of customer contact as well as the type of object of the service process.

- Fill out the table with exemplary service processes.
- Discuss it with your neighbor!
Divergence

- Leads to **uniformity** that tends to reduce costs, improve productivity
- Indicates shift to “economy of scale” (**volume-oriented**)
- + increases in **reliability**; more quality and service availability
- - Conformity and **inflexibility**, limiting customization options

Complexity

- Steps of functions are dropped
- **Specialization** strategy
- + resources focused on narrower service offering; easier distribution and control; **expert position**
- - perceived as “**stripped down**”; danger of full-service alternatives

Complexity

- **Expanding** service line
- Greater penetration in market
- + increased efficiency by **maximizing revenue** generated from each customer
- - confusing customers; **reduction** of overall **service quality**; danger of specialized competitors

Divergence

- Greater **customization** and flexibility tend to higher prices
- Indicates **niche positioning strategy**
- + **prestige**, customization, personalization
- - service **difficult to manage**, control and distribute; customers may not be willing to pay higher prices

(Shostack, 1987)
How to Design a Service System?

- Service experience = **theater**; service design similar to **staging a production** (Grove & Fisk, 1992)
- Experience economy in which service providers **compete on the design** of customer experiences (Pine & Gilmore, 1999)

- Diverse **approaches** to design the service system
  a) **Production-line approach**
  b) **Customer as co-producer**
  c) Customer contact approach – **Isolating technical core of low-contact operations** from high-contact operations and design both separately (Chase, 2010); line of visibility; appropriate for **processing-of-goods category**
  d) Information empowerment – **empowerment** of employees and customers through **IT**

(Spohrer & Maglio, 2010; Fitzsimmons & Fitzsimmons, 2011)
A) Production-Line Approach

- Delivery of **routine services** provided in **controlled environments** to ensure **consistent quality** and efficiency
- Competitive advantage with **cost-leadership strategy**

- **Limited discretionary action** of personnel – identical service at any location
- **Division of labor** – total job is broken into simple tasks
- **Substitution** of technology for people – e.g., ATM
- Service **standardization** – limited service options guarantee predictability and preplanning; routine processes; helps to ensure service quality

(Fitzsimmons & Fitzsimmons, 2011)
B) Customer as Co-Producer

- Customer represents **productive labor** at the moment it is needed – opportunity to increase productivity by shifting some activities to customer (Edvardsson et al., 2010)
- Increasing degree of customization through co-creation – open innovation (van Hippel, 1986)
- **Cost leadership strategy with some customization**

- **Self-Service** – customer receives benefits for her labor in form of convenience
- **Smoothing service demand** – smoothing variations in service demand; allows uniform utilization of capacity (e.g., midweek discounts)
- **Customer-generated content**

(Fitzsimmons & Fitzsimmons, 2011)
Literature

Books:

Papers:
Literature


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