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New service development: areas for exploitation and exploration

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Abstract

The management of new service development (NSD) has become an important competitive concern in many service industries. However, NSD remains among the least studied and understood topics in the service management literature. As a result, our current understanding of the critical resources and activities to develop new services is inadequate given NSD's importance as a service competitiveness driver. Until recently, the generally accepted principle behind NSD was that "new services happen" rather than occurring through formal development processes. Recent efforts to address this debate have been inconclusive. Thus, additional research is needed to validate or discredit the belief that new services happen as a result of intuition, flair, and luck. Relying upon the general distinctions between research exploitation and exploration, this paper describes areas in NSD research that deserve further leveraging and refinement (i.e. exploitation) and identifies areas requiring discovery or new study (i.e. exploration). We discuss the critical substantive and research design issues facing NSD scholars such as defining new services, choice in focusing on the NSD process or performance (or both), and specification of unit of analysis. We also examine what can be exploited from the study of new product development to further understanding of NSD. Finally, we explore one important area for future NSD research exploration: the impact of the Internet on the design and development of services. We offer research opportunities and research challenges in the study of NSD throughout the paper. © 2002 Elsevier Science B.V. All rights reserved.

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1. Introduction

The importance of the service sector is emphasized by virtually any economic measure chosen. By all accounts, services dominate most developed economies given that significantly more than half of these countries' gross domestic product is in the service sector, and projected economic and job growth through the 21st century is expected to be dominated by services (Pilat, 2000). Concurrent to this growth, the globalization of services and rapid technological progress, afforded by information and communication technology, are increasing the pressures for service firms to compete on new offerings (Menor, 2000). The benefits that accrue from providing new services include: (1) enhancing the profitability of existing offerings, (2) attracting new customers to the firm, (3) improving the loyalty of existing customers, and (4) opening markets of opportunity (Storey and Easingwood, 1999). As reported in a recent study, service firms report that 24.1% of revenues came from new

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services introduced in the last 5 years and that 21.7% of company profits are derived from these new services (Griffin, 1997b).

The management of new service development (NSD) has become an important competitive concern in many service industries (Johnson et al., 2000; Fitzsimmons and Fitzsimmons, 2000; Johne and Storey, 1998; Meredith and Roth, 1998; Gallouj and Weinstein, 1997). However, NSD remains among the least studied and understood topics in the service management literature despite the plethora of rigorous research and models on product development, especially in recent years. As a result, our current understanding of the critical resources and activities to develop new services is inadequate given NSD's importance as a service competitiveness driver. Until recently, the generally accepted principle behind NSD was that "new services happen" rather than occurring through formal development processes. Recent efforts to address this debate have been inconclusive, thus additional research is needed to validate or discredit the belief that new services happen as a result of intuition, flair, and luck (Langeard et al., 1986). Cooper and de Brentani's (1991, p. 77) observation that investigation into why new services succeed or fail is still in its infancy, "approximately where similar research into manufactured products stood in the early 1970s" continues to ring true today—especially in operations management (OM). Compared to physical products, services are generally underdesigned and inefficiently developed (Froehle et al., 2000). Behara and Chase (1993, p. 87) quip that "if we designed cars the way we seem to design services, they would probably come with one axle and five wheels".

Service design and development issues are increasingly being recognized as important to managers. A recent *Business Week* cover story titled "Why Service Stinks" (Brady, 2000) posited that companies know how valuable customers are and as a result are more inclined to lavish considerable service only to those most valued customers. Less valuable customers, on the other hand, are served more frugally. The anecdotal evidence offered by Brady suggests that service organizations intentionally treat customers unequally. Such practice, from the OM viewpoint, is justified. Consider the early literature in service design that focused on demand management. This research advocates the necessity for matching service offerings with modes or channels of delivery, segmenting customers according to their set of needs or desires for service offerings, then channeling the customer to the delivery mode appropriate to service his/her service needs (Northcraft and Chase, 1985). Why might the services received vary between customers? Because they have been designed that way.

The objective of this paper is to provide a basis for identifying what is understood, hence, exploitable, about NSD and what issues still need to be explored. While we conclude that there are many opportunities to further—and a few challenges that hinder—understanding of NSD, a fair amount of conceptual and empirical investigations exist on this sub-area of service management (see Tatikonda and Zeithaml, 2001; Johnson et al., 2000; Johne and Storey, 1998). One contribution of this paper is to provide a structured review of the extant research with extensive citations to cross-functional literatures. We hope that this catalog helps researchers locate papers in new areas.

We rely upon March's (1991) notions of *exploitation* and *exploration* to highlight the distinction between potential research areas available for leveraging existing knowledge and creating new knowledge, respectively. Emanating from the study of organizational learning, exploitation research activities involve the utilization and refinement of existing knowledge; exploration research activities revolve around the search and discovery of new knowledge. We posit that each of these aspects of exploitation and exploration are essential to an ongoing and future research agenda in NSD. Further, maintaining a balance of exploitation and exploration research efforts is critical to enriching and expanding understanding in NSD. For example, additional utilization and refinement of NSD process models (see Section 2.1) and application of NPD-related tools and knowledge (see Section 3.3) are useful areas for NSD research exploitation. On the other hand, the discovery of guidelines for design-of-implementation in services (see Section 3.4) or the search for understanding of issues complicating the design and development of services on the Internet (see Section 4.2) constitute valuable avenues for future NSD research exploration.

The extant conceptual and empirical work in NSD, a transfunctional research topic (Karmarkar, 1996), emanates primarily from service marketing and to a much lesser extent from OM. However, much of that work—

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