

New service development: strategy and process in the hospitality sector in Kenya

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ABSTRACT

This paper addresses the issue of new service development (NSD) process in the hospitality sector. While it is recognized that there are significant differences between service sectors, much less has been written about differences between separate services, with most studies concentrating on financial services. The aim of the study is to investigate to what extent findings in the financial services sector are applicable to the hospitality service sector and whether NSD is significantly different for “high contact” services as opposed to “low-contact” services. Utilizing a survey of industry managers in Kenya data will be collected in the areas of NSD strategy and process. This paper tries to fill this gap by integrating the empirical findings from both quantitative and qualitative data. The study will employ a cross-sectional, survey-based methodology and qualitative case studies. The Kenyan sampling frame will include classified hotels.

Key words: *New service development, hospitality, services marketing, strategy, process*

1.0 INTRODUCTION

In recent years marketing of services is attracting a great deal of attention from academicians and practitioners because of their ever-increasing importance in both developed and developing countries (Cunningham, Young, Ulaga & Lee, 2004: 421). According to Lovelock and Wirtz (2004: 4) services form an important part of today’s economy and also account for most of the growth in new jobs. With increasing globalization of the economy and increased competition, firms will increasingly find it difficult to survive just on their past successes.

Despite its significance, many service firms still struggle with their innovative efforts. This realization may be related to the acknowledgement that the way in which innovation is measured may not be as appropriate to the heterogeneous group of sectors referred to as service industries as it is to manufacturing (Kleinknecht, 2000: 169-186). Cooper and Edgett (1996: 26-37) argue that new service development (NSD) is risky because the new service failure rate is almost 50 percent. These trends place service innovation at the heart of the firm’s competitiveness, as constant adaptation in a turbulent environment requires a continuous flow of new offers.

More efficient and effective service development is imperative because the services sector is the major foreign exchange earner in Kenya and represents around 54 percent (Government of Kenya, 2007: 25-26) of the gross domestic product (GDP). According to the Kenya government's statistics in the 2007 Economic Survey (Government of Kenya, 2007) real GDP expanded by 6.1 percent in 2006 compared to a revised growth of 5.7 percent in 2005 and the key sectors which contributed to the growth were hotels and restaurants (14.9 %), wholesale and retail trade (10.9%) and transport and communication (10.8%). Financial intermediation contributed 5.5 percent.

Obviously, this economic change is creating a need for a more thorough understanding of NSD. Much leading practice remains hidden from general view for reasons of confidentiality. Only through skilled academic research, which is later published, can NSD practice be revealed to a wider audience.

1.1 LITERATURE REVIEW

The first research in the field of NSD was based on the well-documented new product development (NPD) frameworks and findings (Booz Allen Hamilton, 1982; Cooper and Kleinschmidt, 1991; Baker and Hart, 1999). However, services are different (Lovelock, 2007: 34) and the validity of NPD models for services remains to be demonstrated. Callon, Laredo and Rabeharisoa (1996) identified three fundamental differences that might invalidate the NPD models applied to services. First, due to inseparability, there is simultaneous innovation in the product and in the procedure. Second, there is no separation between product innovation and organisational innovation. Third, there is no distinction between the creation of the offer and the activity of production and/or commercialization. These differences have led to the NSD process being considered as different from the NPD process (Martin and Horne, 1993; Menor, Takikonda and Sampson, 2002). While NSD has to follow the same generic process as NPD, the relative importance of each stage and how each stage is carried out is affected by the unique characteristics of services.

1.1.1 Service Development

According to Lovelock and Wirtz (2004: 116-117) the word "new" is one of the most overused in the marketer's lexicon. Zeithmal, Bitner and Gremler (2006: 256) posit different categories of

service development, ranging from style changes right through to major innovations. These categories overlap, in part, with the wider-ranging product development categories advocated by Lovelock and Wirtz (2004: 116-117). The two categorizations are shown in Table 1.1.

Table 1.1: New product categories

Zeithmal, <i>et al.</i> , (2006: 256)	Lovelock and Wirtz (2004:116-117)
<p>Major or radical innovations. New services for markets as yet undefined.</p> <p>Start-up businesses. New services for a market that is already served by existing products that meet the same generic needs.</p> <p>New services for the currently served market. New services that attempt to offer existing customers of the organisation a service not previously available from the company.</p> <p>Service line extensions. Represent augmentation of the existing service line.</p> <p>Service improvements. Changes in certain features of existing services currently on offer to the currently served market.</p> <p>Style changes. Highly visible changes on service appearance.</p>	<p>Major service innovations. New core products for markets that have not been previously defined.</p> <p>Major process innovations. Using new processes to deliver existing core products in new ways with additional benefits.</p> <p>Product-line extensions. Additions by existing firms to their current product lines.</p> <p>Process line extensions. Distinctive new ways of delivering existing products so as to either offer more convenience and a different experience for existing customers or to attract new customers who find the traditional approach unappealing.</p> <p>Supplementary service innovations. Adding new facilitating or enhancing service elements to an existing core service or of significantly improving an existing supplementary service.</p> <p>Service improvements. Involve modest changes in performance of current products.</p> <p>Style changes. Highly visible changes on service appearance that create excitement and may motivate employees.</p>

As the preceding typologies suggest, service innovation can occur at many different levels although not every type of innovation has an impact on the characteristics of the service product or is experienced by the customer. It can be argued from Table 1.1 that although there are a variety of different ‘new’ services considered, some are more new than others. The first three levels provide the greatest management challenges.

While Cravens and Piercy (2006: 222) classify new goods and services introductions are classified according to newness to the market and the extent of customer value created. The authors argue that new-product initiatives may include one or more of the following three

categories: transformational innovation - products that are radically new and the value added is substantial; substantial innovation - products are significantly new and create important value for customers and incremental innovation - new products that provide improved performance or greater perceived value (or lower cost).

Kasper, van Helsdingen and Gabbott (2006: 348) further propose that service innovations are either new to the world, new to the market or new to the firm and each requires a different set of skills and market entry strategy. A new category, on its own, is a service breakthrough – services that are so new, so different from existing services that they have caused a revolution (or discontinuity) in the particular industry. It can be argued that the amount of variation in the levels of ‘newness’ creates difficulties in allocating service innovations to the various classes.

1.1.2 NSD strategy

Theory has advanced to the degree showing that services have marketing and development needs which extend beyond those of tangible products. In particular, the intangibility and experiential dimensions of services suggest a need for a specific research focus for NSD (Edgett, 1994: 40-49 and Storey & Easingwood, 1999: 193-203). Furthermore, noting that the failure rate for NSD remains high, several researchers (Edgett, 1994: 40-49 and Johne & Storey, 1998: 214-218) argued that there is a lack of knowledge about how new services are or should be created. Approaches to NSD are less well understood. But, in view of the shift in economic activity away from manufacturing towards services, it is increasingly important to understand the NSD process.

1.1.3 NSD process

There are three main activities in the NSD process: service concept development; service system development; and service process development (Lovelock, Vandermerwe & Lewis, 1999: 408-410). Service concept development includes objectives and strategy, idea generation and screening, concept development and testing (Scheuing & Johnson, 1989a: 17-21). Service concept development relates to ideas about how to meet customer needs, and it should start from a thorough description of customer requirements and how NSD can meet those requirements to the customer’s satisfaction.

Service system development is about the infrastructure needed to deliver the service, and static resources required to set up such systems if they do not exist or only partially exist. These resources consist of the service company's staff, physical/technical environment, administrative support system and customers themselves (Johne & Storey, 1998: 184-251). Service process development builds a sequence of activities that must take place for the service to function or be effectively delivered.

Johnson *et al.* (2000: 17-18) suggested a model describing the NSD sequence which identifies four broad stages and 13 tasks that must be produced to launch a new service, as well as the components of the firm which are involved in the process. The NSD process cycle represents a progression of planning, analysis and execution activities. Johnson *et al.* (2000:18) integrate many of these facilitating conditions, activities and outcomes in their NSD process cycle. The cyclic nature is meant to suggest the highly iterative and non-linear processes typically employed in most NSD efforts. Additionally, the NSD process cycle recognizes that the fundamental NSD stages revolve around the design and configuration elements and that the resources such as development teams and tools play an enabling function in the development process (Menor, Tatikonda & Sampson, 2002:140). According to Johnson *et al.* (2000: 2-3) articulating the interaction among the three strategic components (service design, service development and service innovation) is important because it influences the configuration of the product and processes employed in developing new services.

Scheuing and Johnson (1989b: 25-34) make the important distinction between the design of the service and the design of the delivery process. Because services are, by their nature processes, delivery systems assume a high importance in the development of successful new services (Langeard & Eiglier, 1983: 68-72). The model shows the involvement of customer-contact staff and customers in the process. More recently, Zeithmal, *et al.* (2006: 258) suggested a model describing the NSD sequence which identifies nine tasks that must be produced to launch a new service.

Lovelock and Wirtz's (2007: 34) four-way classification placed hospitality and financial services in different quadrants, indicating that they have different service characteristics. Hospitality enterprises provide people-processing services, because they involve tangible actions to people's

bodies. Furthermore, the implication is that customers need to be physically present throughout the core service delivery in order to receive the desired benefits of such services. In addition, there are a number of tangible as well as intangible services that surround the provision of hospitality services, adding to the complexity of the service experiences (e.g. facilitating hotel booking over the internet). Nevertheless, hospitality involves the physical person and his or her experiences.

1.2 THE PROBLEM STATEMENT

Despite its recognized by both marketing academics and practitioners as being of increasing strategic significance (Storey & Easingwood, 1999:193-203), NSD remains an underdeveloped area (Martin & Horne, 1995: 40-56) lacking in empirical research (Alam & Perry, 2002: 515 and Smith & Fischbacher, 2005: 1025) with most empirical studies into NSD have concentrated on the financial services sector (Syson and Perks, 2004: 255-260; Vermeulen, 2004: 43-50; Blazevic & Lievens, 2004: 379-391; Roberts & Amit, 2003: 107-122; Kelly & Storey, 2000: 104-121 and Oldenboom & Abratt, 2000: 233-245).

While new technologies create new possibilities for NSD, which are out of reach for a single firm (Heikkinen & Tähtinen, 2006: 271), prior studies have indicated that hotels do not always take the lead in implementing a new kind of technology (Cho & Olsen, 1998: 376-394). Such a slow response causes the hospitality industry to lag behind other industries (Gamble, 1988: 303-321). According to Cho and Olsen (1998: 376-394), information technology (IT) can transform the nature of products, processes, firms, industries and competitions in the hospitality industry.

Previous empirical studies have not reached consensus on a well-formalised development process – in fact, they have often led to contradictory results. Menor, Takikonda and Sampson (2002: 135-157) underlined that significant effort is required to clarify the existing works, which are scarce and scattered. while Lovelock and Gummesson (2004: 20-41) suggest abandoning services as a general category altogether and focus research on service subfields. Previous studies of NSD in the hospitality sector (Ottenbacher, Shaw & Lockwood, 2005: 113-128; Victorino, Verma, Plaschka & Dev, 2005: 555-575 and Jones, 1996: 86-96) have not addressed the question of whether hotel service firms have different approaches to NSD strategy and

process. It is likely that NSD process and strategy in the hospitality service sector may differ significantly from separate service sectors.

While it is recognized that there are significant differences in the development of services as opposed to goods, we now need to discover to what extent findings in the financial services sector are applicable to other service sectors. The detailed literature review reveals a lack of empirical research on whether NSD strategy and process is significantly different for hospitality services as opposed to financial services. This literature gap provokes the need for an exploratory study on the NSD strategy and process in the hospitality services sector.

1.3 RESEARCH METHODOLOGY

According to Cooper and Schindler (2008: 185-186) qualitative studies may be combined with quantitative ones to increase the perceived quality of the research, especially when a quantitative study follows a qualitative one and provides validation for the qualitative findings. There is a strong suggestion within the research community that research, both quantitative and qualitative, is best thought of as complementary (Malhotra, 2007: 176) and should therefore be mixed in research of many kinds (Amaratunga, Baldry, Sarshar & Newton, 2002: 23). There is a strong suggestion within the research community that research, both quantitative and qualitative, is best thought of as complementary and should therefore be mixed in research of many kinds.

In research design, therefore, the issue then becomes not whether one has uniformly adhered to prescribed canons of either logical positivism or phenomenology but whether one has made sensible method decisions, given the purpose of the study, the questions being investigated and the resources available (Amaratunga, *et al*, 2002: 19). The paradigm of choices recognizes that different methods are appropriate for different situations.

The researcher will make use of both exploratory research to clarify the exact nature of NSD strategy and process in the hospitality sector, and then use descriptive research design to look for distinguishing characteristics, elemental properties and empirical boundaries of NSD. Extensive qualitative research will be conducted in the early stages of the study. This study derives from this mix of issues and will therefore use both qualitative and quantitative approaches.

Views on NSD will be derived from the extensive literature research. The literature will include information on strategy, empirical results conducted on NSD, challenges, problems and criticisms associated with NSD. The researcher will use face-to-face or personal interviewing method for top managers in the hospitality sector and industry experts and investigation of secondary data to analyze and evaluate the environmental context of the problem, as discussed in chapters four and five. The interviews will be used to orient questions used in the survey. Self-administered questionnaire will be used for the large scale survey.

1.4 PURPOSE OF THE STUDY

The purpose of the study is to test the underlying theory of NSD. The literature study will be expanded by an empirical research on NSD strategy and process in the hospitality sector in Kenya. In particular, the research will establish the extent to which findings and concepts of NSD generated primarily in the financial sector can be extended to the hospitality sector. More specifically, the study will pursue the following three research questions:

- (i) What are the differences in NSD strategies of classified hotels?
- (ii) What are the differences in NSD processes of classified hotels?
- (iii) What is the significant difference between the theoretical framework of NSD and industry application?

1.5 THE DEMARCATION AND SCOPE OF THE STUDY

The study will use an exploratory research design aimed at identifying the sequence of events during innovation processes. This method provides the best way to avoid the “ex-post rationalization” phenomena. The exploratory research helps discover ideas and insights (Churchill & Brown, 2007:79). Thus, it becomes possible to compare what people assert during different stages of a specific decision.

The investigations will cover the hospitality sector in Kenya. The following aspects should be noted:

- The study will cover the theory on the NSD as revealed in the literature review.
- The empirical part of this study will focus on chain and independent hotels’ comparison of new service development.

- The investigation will focus on the types of NSD derived from the literature namely product development, service concept development, system development, process development, product augmentation and market development.
- Selected hospitality sector firms will be used to determine the way new services are developed in the service sector.
- The study will be limited to classified hotels as representative of the hospitality sector.

The study will focus on the development of standardized offers, having noted that development process for non-standardized offers may be impossible to compare (Lovelock & Wirtz, 2004: 13-16) hence the focus on classified hotels. Findings of the study will be used to compare with the financial services sector to provide opportunities to establish cross-case patterns in the development process and strategy. The financial services sector and the hospitality industry will be used to exemplify maximally differing service sectors.

The reason hospitality sector was chosen is threefold: it represents a high relative weight in the totality of tourist expenditure; it is indispensable for the development of the remaining services required of a tourist destination; and lastly, it includes a set of firms that is homogenous in production and in competitive setting. Kenya was selected for the empirical study because it provides a good example of a developing country that has embraced tourism as a tool for socio-economic development (Akama & Kieti, 2007: 735). More detail will be discussed and defended in the research design and procedure.

1.6 CONCLUSION

Faced with unstable and often turbulent business environment dominated by rapid changes in customer needs and by fierce competition, globalization and technical innovations most offerings are fast become obsolete. As a result managers of hospitality firms will significantly enhance their innovative efforts in the industry. The findings of the research are expected to test the underlying theory of NSD and to formulate a new service development conceptual framework for the hospitality industry. In particular, the research will establish the extent to which findings and concepts of NSD generated primarily in the financial sector can be extended to the hospitality sector.

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