

# Chapter 15

## New service innovation

### Introduction

In Europe and the USA services now account for an increasing share of the gross domestic product of these economies, yet compared to new product development, we know relatively little about managing innovation within services. This chapter explores the growth in services and helps to explain some of the factors behind this shift in the balance of activities within economies. It identifies the pivotal role played by technology in facilitating the development of many new service opportunities, most notably internet-related technologies. This chapter also examines how new services are created and what firms need to do to enhance their new service development activities. Finally, the case study at the end of this chapter illustrates how eBay has used service innovation to grow the business and profits for the firm.

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## Learning objectives

**When you have completed this chapter you will be able to:**

- recognise the reasons for the growth in services;
- recognise the wide range of different types of services;
- explain how new services have led to the creation of new business models;
- examine the pivotal role technology plays in new service innovation;
- explain the role of a classification of service innovations; and
- explain the role of the consumer in the new service development process.

## The growth in services

The term knowledge-based economy has been introduced to characterise some of the main changes in the development of economies over the past 20 years. In the most advanced service economies in the world, such as the United States and the United Kingdom, services now account for up to three-quarters of the wealth and 85 per cent of employment (Barrett et al., 2015). Within the EU, services now account for 73.6 per cent of the EU-28's total gross value added in 2013 (Eurostat, 2015). But, when it comes to innovation, how should we view services?

Traditionally, the literature has viewed services as different from products; this is because 'innovation theory' has been developed around science and technological development. The **intangibility** of services clearly makes it difficult for the traditional view to embrace or understand innovation within services. But the development of internet-based firms, such as eBay (see case study at end of chapter), with its community of users driving the development of new services, is clear evidence of innovation outputs within services – even if technology is a key antecedent.

The influence of technology, in general, and information communication technologies, in particular, cannot be overstated. In virtually all industries, there has been a huge growth in specialist knowledge and skills being made available to firms. For example, in civil engineering and architecture, where previously much of the input came from the architect, now the architect employs a range of specialists from, for instance, fire engineering, acoustic engineers, lighting designers, etc. A new range of disciplines has emerged offering specialist knowledge and skills. This has been replicated in virtually all industries (Barrett et al., 2015; Papastathopoulou and Hultink, 2012).

### Growth in knowledge-intensive business services (KIBS)

Occasionally, one would be forgiven for thinking that, in these advanced developed economies, services had replaced all manufacturing activities, and there had simply been a huge growth in coffee bars, smoothie bars and hair salons. The truth is that the development of these economies has led to a massive increase in the amount of specialised business services, which now provide critical inputs to firms in all sectors. It is this area of the economy (United States and Europe) that has witnessed huge expansion and development. It is not simply that people are spending more time and money in hair salons (though that may also be true). It is these **knowledge-intensive business services (KIBS)** that are the key behind the development of the service side of the economies. KIBS include traditional professional business services, such as accountancy and law, but also a new generation of KIBS. Illustration 15.1 shows how the provision of very specialist services to the oil industry has led to huge growth for Halliburton and Schlumberger, the world market leader for oil services.

The growth in information communication technologies during the 1980s and the development of the internet in the 1990s and into the twenty-first century, has led to enormous sums of money being spent by firms in order to ensure that they are equipped to compete. In addition, the introduction of some of these business systems, such as enterprise resource planning systems (ERP), has led to significant reductions in costs and improvements in efficiency. If one then adds to the KIBS the huge growth in entertainment industries, including the gaming industry (Xbox,

### Illustration 15.1

#### Huge growth in oil services

Providing services to oil companies has been an even better business than finding and producing oil in recent years. Since the start of 2003, Exxon Mobil's shares have roughly doubled; those of Royal Dutch Shell's, now the runner-up amongst Western oil majors, have risen about 40 per cent. But shares in Halliburton and Schlumberger, the world market leader for oil services, have more than tripled. Scarcity of equipment and skilled personnel at a time of bumper investment in oil exploration and production have sent the costs of oil services soaring. Despite the slump in oil price, oil services in the global oil field services market is expected to grow from \$350 billion in 2014 to \$521 billion in 2018.



Source: Pearson Education Ltd/Digital Vision

Nintendo, PlayStation, PC games, etc.), the new online gambling industry (such as market leader bwin.party digital entertainment) and the more recent social networking industry (which includes Facebook, Twitter, LinkedIn, Pinterest), one begins to recognise just how much change and growth there has been to economies over the past 10 years. In painting this picture of change that continues to take place in developed economies around the world, we also need to include the biggest internet players, such as Google, Amazon, Apple and Microsoft, and we all recognise the enormous impact the online retailers and the internet search engine firms have on our lives. The transfer of knowledge is one of the key functions of knowledge intensive business services (KIBS). Research by Fernandes and Ferreira (2013) shows that cooperation between KIBS and universities is increasing and has a positive impact on the company's capacity to innovate.

#### Pause for thought



With previously internal activities now simply being outsourced, is the growth in services simply a mirage?

#### Outsourcing and service growth

**Outsourcing** has become very widespread in the last decade and has moved on from limited applications where peripheral business functions are 'outsourced' to much more vital business functions being outsourced today, such as IT support (Edvardsson and Durst, 2014; del-Río-Ortega et al., 2015). Despite the rather mixed record of large-scale, long-term total outsourcing deals with single suppliers in particular in

the IT/IS industry, such contracts are still entered into in significant numbers. The academic literature has identified a number of expected gains that companies can derive from outsourcing. These include:

- the reduction of operational costs;
- the ability to transform fixed costs into variable costs;
- the ability to focus on core competencies;
- access to the industry-leading external competencies and expertise.

There seems little doubt that the growth in services is linked to this enormous growth in outsourcing, with many firms now buying in ‘services’ that previously were undertaken in-house. So, whether it is catering facilities within schools now being bought from local providers by the County Education Authority or whether it is a firm buying in information technology (IT) support rather than providing the service themselves, the evidence is overwhelming that this growth in outsourcing has contributed to the growth in services (Edvardsson and Durst, 2014). Coupled to this debate, however, is the suggestion that manufacturers are now moving into highly profitable knowledge-intensive services. This is certainly the case at IBM, which has moved successfully from manufacturer to service solution provider with its profits now being dominated by IT services. For some firms, lower production costs in India and China are forcing them downstream into the provision of services. For other firms, like IBM and Ericsson, it is recognition that they can offer added value market offerings to their customers by providing additional services. Within sectors of complex products and systems (CoPS), buyers are outsourcing non-core activities and focusing on the provision of services to the final customer. In the pharmaceutical industry, for example, clinical trials that previously were undertaken by the firm are now outsourced to clinical trial specialist firms. Illustration 15.2 shows how firms, including Yahoo and Cisco, are all outsourcing activities to India. Indeed, India is now viewed as a knowledge services cluster (KSC). KSCs are defined as geographic concentrations of lower-cost skills serving global demand for increasingly commoditised knowledge services (Manning, 2013).

There is, however, also an emerging literature that highlights the weaknesses and risks associated with large-scale outsourcing arrangements, in particular, where non-peripheral business functions are concerned. This highlights the risk of becoming dependent on a supplier and draws our attention to other hidden costs of outsourcing, such as the possibility of a loss of vital know-how, in particular with respect to core competencies, as a major risk factor in outsourcing. There is also the problem of selecting the most suited supplier/service provider and their longer-term ability to offer the capabilities that are needed, in particular in business environments with rapid technology change (Edvardsson and Durst, 2014). Another risk that often is overlooked is linked to the broader area of information leakage that arises when business organisations collaborate in order to gain access to knowledge and expertise that they cannot develop on their own. Research by Hoecht and Trott (2006) has demonstrated that there is trade-off between access to cutting-edge knowledge via collaborative research and technology development in knowledge-intensive industries and the risk of losing commercially sensitive knowledge to competitors. This risk, they argue, cannot be controlled by traditional management approaches and legal contracting alone, but requires the operation of social control and, in particular, the development of trust to be contained. Table 15.1 offers a summary of the main risks.

## Illustration 15.2

### India and globalisation: investing in R&D for service innovation

In 2003, Yahoo set up a small office in Bangalore – its office’s head count was fewer than 20 people. Today, the Bangalore office has 1,000 computer scientists and engineers in what is Yahoo’s largest research and development centre outside its California headquarters. Today, Yahoo’s R&D operation in Bangalore takes on advanced work, such as developing new services for Yahoo users that might be launched globally.

Large pools of highly skilled, English-speaking engineers and computer scientists hired at lower cost than in the developed world are an important factor. Yet, companies are setting up R&D centres for reasons that go beyond cost savings.

Cisco, the world’s largest maker of network switches and routers, has made one of the largest R&D commitments to India. Cisco chose India as the location from which to expand its globalisation vision because India has a highly skilled workforce, supportive government, innovative customers and world-class partners.

India has benefited in a huge growth in services as it reaps the benefits of firms offshoring activities to low wage economies such as India. The extent of knowledge transfer and functional collaboration across distances and cultures is unknown, but economists would expect India to benefit in the long term. Questions remain, of course, such as: the existence and maintenance of a non-offshore corporate strategic ‘core’ and



Source: Chris Stowers/Getty Images

whether the movement of offshoring up the value chain, ultimately, gravely threatens that core?

Source: Norlander, P., Erickson, C., Kuruville, S. and Kannan-Narasimhan, R. (2015) India’s outsourcing industry and the offshoring of skilled services work: a review essay, *E-Journal of International and Comparative Labour Studies*, vol. 4, no. 1

**Table 15.1 Main outsourcing risks**

Main negative outcomes of outsourcing
1 Dependence on the supplier
2 Hidden costs
3 Loss of competencies
4 Service provider’s lack of necessary capabilities
5 Social risk
6 Inefficient management

## Different types of services

The service sector is vast and it varies considerably from public services in the form of state-funded education for 97 per cent of children in the United Kingdom to specialist business services in the form of internet website design and maintenance. Each sector of the service economy (such as leisure, charities, public services, financial services) has its own set of specific challenges. Yet, at the same time, the distinctions between some of these sectors is blurring. Some charities and not-for-profit organisations are offering their services to compete with the private sector. Healthcare provision is a prime example. Similarly, some public-funded organisations, such as the BBC, offer their services in the commercial world and generate large revenue streams. The BBC iPlayer now competes with commercial players such as YouTube and others. Table 15.2 offers a classification of services and includes professional business services, such as accountancy, and public services, such as libraries. This overview helps demystify the service notion. It clarifies the different sectors within services and illustrates the different challenges facing each sector (Empson et al., 2015; Papastathopoulou and Hultink, 2012).

**Table 15.2** Typology of services

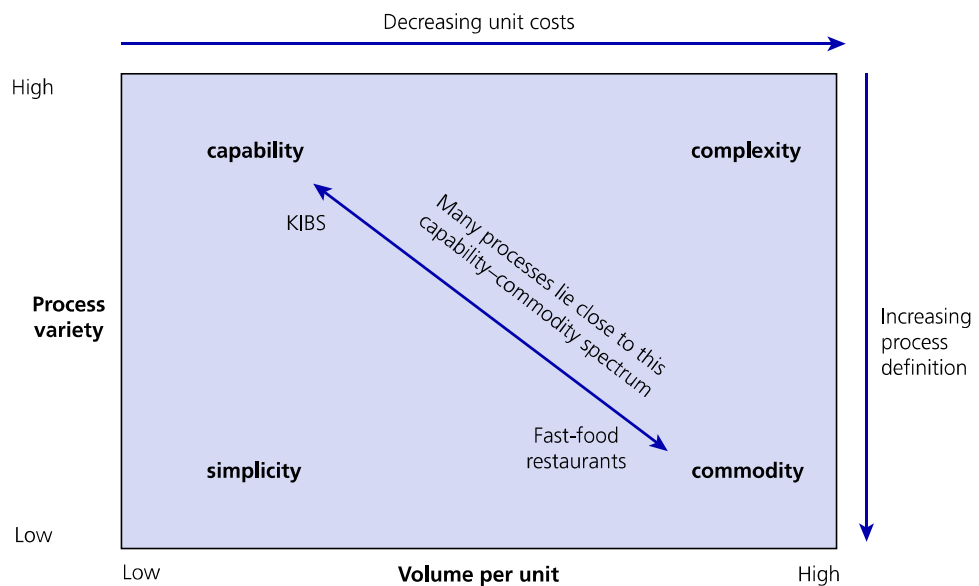
	<b>Business-to-business services (traditional)</b>	<b>Business-to-business services (KIBS)</b>	<b>Consumer services</b>	<b>Internal firm services</b>	<b>Public services</b>	<b>Not-for-profit services</b>
<b>Description</b>	Services provided for businesses	Specialist services provided to businesses	Services provided to individuals	Services provided by internal functions	Services provided by local and national government	Services provided by charities
<b>Examples</b>	Accountancy Legal advice Training	Management consultancy IT consultancy	Shops Hotels Banking	Finance Personnel IT	Health Education Leisure	Hospices Counselling Aid agencies
<b>Customers</b>	Frequently purchased by professionals, who may not be end users	Frequently purchased by professionals, who may not be end users	Health and beauty Purchased by consumer of the service	Consumers of the service have no choice of provider	Prisons Funded Purchased by consumer of the service	Funded through charities, maybe government grants; consumers chosen or choose
<b>Challenges</b>	Providing high-quality tailored and personal service	Providing high-quality services to businesses that have high purchasing power	Providing a consistent service to a wide variety of customers	Delivering customised, personal service, and demonstrating value for money	Delivering acceptable public services against a backcloth of political pressures	Balancing needs of volunteers, donors and overwhelming needs of customers

Source: Adapted from Johnston, R. and Clark, G. (2012) *Service Operations Management*, 4th edn, Prentice Hall, © Pearson Education Ltd., Harlow; and Empson, L., Muzio, D., Broschak, J. and Hinings, B. (2015) *Researching Professional Service Firms: An Introduction and Overview*.



An area of service innovation that is seeing huge change and growth is that of e-healthcare services. Often, these are associated with the healthcare and wellbeing need of the elderly and/or people with chronic diseases. Yet, the current growth is in services for the ‘worried well’, those so-called people who are healthy, but overly concerned with their own health. This group is willing to pay a substantial premium to secure e-healthcare services, such as blood-tests and many other treatments (Chen et al., 2014).

From the perspective of innovation, however, we are less concerned with the type of organisation or even the industry sector in which it operates. We are more concerned with how the service is managed and, in particular, how it is designed and operated. In order to investigate this area, it is useful to separate out the wide range of services undertaken. For example, services in Table 15.2 range from bespoke specialist industry services to homogenised customer services found within fast-food restaurants. One way is to use the two key parameters: volume of transactions within a certain amount of time and the variety of tasks to be carried out by a given set of people and processes. At one end of the spectrum is a service we are all familiar with: that of fast-food restaurants where the volume is high and process variety is low. This type of service can be classified clearly as a commodity. Whereas, at the other end of the spectrum, we have specialist business services, such as internet website design, where the volume is low and process variety is very high (the designer can draw upon a limitless amount of imagination). Johnston and Clark (2012) have developed a simple matrix that helps to capture the different types of service processes (see Figure 15.1). On the vertical axis is process variety and on the horizontal axis is volume per unit, with fast-food restaurants sitting in the bottom right-hand quadrant as a commodity service process and internet website design sitting in the top left-hand corner. It is capability-based service processes where the



**Figure 15.1** Four main types of service processes

Source: Johnston, R. and Clark, G. (2012) *Service Operations Management*, 4th edn, Prentice Hall, Harlow, © Pearson Education Ltd.



provider frequently works with the customer to clarify the problem and/or to develop a customised solution, such as management consultants and web designers.

## Technology and new service development

Business opportunities based on new technology developments have been (and continue to be) identified and exploited by entrepreneurial individuals, leading to the creation of multinational businesses. Indeed, technology has become the most significant enabler of innovation in services. The application of different technologies in the context of existing service products has changed the way services are delivered and, thereby, gave rise to the development of highly innovative service products. For example, the internet technology that gave rise to the development of e-commerce has brought radical transformations in consumers' shopping practices. In contrast to the increasing significance of technology in the development of innovative services in practice, literature has largely overlooked and failed to explain the role technology plays in the development of new services (Boone, 2000; Menor et al., 2002). Technology changes the nature of service development in many ways: it can reduce the tasks of service developers by empowering customers with certain technical mechanisms, such as user toolkits. Therefore, the effect of technology is evident in transforming the roles of both employees and customers. Within this framework, technology also increases the organisational socialisation by easing the connectivity between service developers and customers (cf. Bitran and Pedrosa, 1998). Indeed, **new service development** processes that traditionally have been undertaken by marketing departments now have to involve technology teams in the development of technology-based services. Technology may also transform the structure of new service development processes. Service firms that have insufficient capabilities to develop a particular technological service may outsource service production. Illustration 15.2 shows how a variety of firms are utilising skills and resources in India to deliver and develop services.

## New services and new business models

For many years, innovation literature overlooked the concept of new service innovation. Innovation was deemed to require a new physical 'thing'. But the world of business suggested new services could deliver potentially even more significant changes than new products – they could deliver new business models. The one caveat here is that, frequently, the new service is underpinned by a new technology application. Nonetheless, there are a range of firms that have introduced new services that have completely changed an industry sector. Customers usually are unable to conceptualise or visualise the benefits of revolutionary new products, concepts and technologies. A good example here is the online auction concept; eBay was not the first, but slowly it became the dominant player. Ryanair was the first in the European market to offer a budget airline service, where the price of an airfare was cut in return for a cut-down service. Ryanair identified that, within Europe, the short flying times meant that customers did not always value the extra tariff for additional services and preferred a discounted ticket price over extra services. Within the airline industry others, most notably Flybe, have continued with new service

**Table 15.3 A range of new services that also create new business models**

Company	Industry sector	New service/new business model
Airbnb	Accommodation	A website for people to list, find and rent lodging
eBay	Online auction	A way of buying and selling through a community of individual users
Uber	Transportation	Smartphone users can organise private trip requests from Uber drivers who use their own car
Ryanair	Airline	A way of consuming air travel with no-frills service and emphasis on economy
Zoopla	Finance	A way to lend and borrow money online
Napster; iTunes, Spotify	Music retailer	A way to buy and download music
Google	Internet search engine	A fast way to search for information on the internet
bwin.party digital entertainment	Online gambling, e.g. poker	Gambling and gaming from your own home
Facebook	Social networking	A community of users online who can chat and share music, images and news from their own home
YouTube	Online video and film archive	A community of users sharing home-made video clips plus recorded favourite film clips

innovations. In 2006, Flybe launched the first online check-in facility – Q-Buster. It was also the first to provide customers with the online ability to select seats in advance. Table 15.3 illustrates how other service innovations have revolutionised an industry sector.

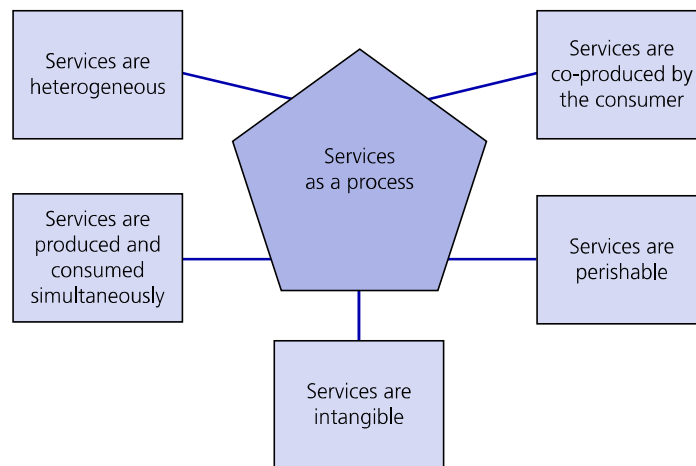
**Pause for thought**



It seems services are so diverse that they cover almost every aspect of business. Even tangible products, such as cars, are now wrapped in services. Should we separate services from products?

**Characteristics of services and how they differ from products**

Within marketing literature, many differences between goods and services are discussed. Significantly, these differences are referred to as characteristics of services and are identified as intangibility, heterogeneity and simultaneity, i.e. the three key characteristics that distinguish services from products, with interaction with the consumer the key distinguishing characteristic in service development. Moreover, the literature suggests that, whilst offer development, process development and market development occur simultaneously, in those industries where services dominate it is process development that is significant. Frequently, this has involved a fundamental rethink and redesign of business processes resulting in radically new offerings, such as the purchase of airline seats using the internet, including the ability to select one's



**Figure 15.2 Services as a process**

preferred seat on the aircraft at the time of making the reservation (see Table 15.3). Whichever service one considers, it involves a number of activities which, when linked together, can be described as a process. Figure 15.2 shows the key characteristics of services. In a study of the top 500 service firms and top 100 financial firms in Taiwan, Jaw et al. (2010) found that service characteristics of heterogeneity and perishability and market orientation positively influence a firm's resources and innovation.

## Classification of service innovations

In services, often it is not feasible to distinguish product and process innovation due to the simultaneous production and consumption of services. The service product is the core of the new service offering, consisting of the essential functional benefit(s) conveyed by the service. Service process innovation, on the other hand, is a new service delivery system. Boone (2000) states that process technology innovation often is utilised to increase efficiency (reducing operational costs) and effectiveness (i.e. reducing time costs, improving quality and increasing flexibility) of firms and their offerings. Innovation in services does not always necessitate changes in the core service-offering characteristics. A service innovation can involve integration of an existing core service offering and innovative service process. For example, during the last two decades, the internet has emerged as the most innovative service process. The effects of the internet-based technologies on the way that businesses compete and manage their operations in general have also been profound (Empson et al., 2015; Lusch and Nambisan, 2015). For this reason, many service firms have been exploring ways to exploit the internet in delivering their existing service products (see Table 15.2).

In much the same way as new products are classified dependent on level of newness, services have been classified depending on the level of change. Lovelock's (1984) classification is the most widely known and usefully illustrates the different levels of change that can occur within service innovation (see Table 15.4). Yet, they are rather limited in explaining the role of technology in the identification of different innovation types.

**Table 15.4** Typologies for innovations

Booz, Allen & Hamilton (1982)	Lovelock (1984)
<b>New-to-the-world products:</b> New products that not only represent a major new challenge to the supplier, but are also seen to be quite new in the eyes of customers	<b>Major innovation:</b> New services for markets as yet undefined; innovations usually driven by information and computer-based technologies
<b>New product lines:</b> New products that represent major new challenges to the supplier	<b>Start-up business:</b> New services in a market that is already served by existing services
<b>Additions to existing product lines:</b> New products that supplement a company's established product lines, so rounding out the product mix	<b>New services for the market presently served:</b> New service offerings to existing customers of an organisation (although the services may be available from other companies)
<b>Improvements and revisions to existing products:</b> New products that provide improved performance and so replace existing products	<b>Service line extensions:</b> Augmentations of the existing service line, such as adding new menu items, new routes and new courses
<b>Repositionings:</b> Existing products that are targeted to new markets or market segments	<b>Service improvements:</b> Changes in features of services that are currently being offered
<b>Cost reductions:</b> New products that provide similar performance at a lower cost of supply	<b>Style changes:</b> The most common of all 'new services'; modest forms of visible changes that have an impact on customer perceptions, emotions and attitudes, with style changes that do not change the service fundamentally, only its appearance

Source: Ozdemir, S. (2007) 'An analysis of internet banking adoption in Turkey: consumer, innovation and service developer dimensions', PhD thesis, University of Portsmouth.

Furthermore, the diffusion of innovations literature concerns the objective newness of an innovation, rather than the perceived newness of an idea, practice or physical object.

## The new service development process

New service development can be defined as the overall process of developing new service offerings from idea generation to market launch (Papastathopoulou and Hultink, 2012; Ranaweera and Sigala, 2015). Offer development is a combination of the development of core product/service attributes (i.e. product or service development) and the processes by which consumers evaluate, purchase and consume the service (i.e. product or service augmentation development). Similarly, due to the nature and distinctive characteristics of services, when developing a new service, emphasis should be given not only to its core attributes but also to the existence of other supplementary services (Papastathopoulou and Hultink, 2012). Although product augmentation or a supplementary service often brings incremental changes, it can differentiate the core service and add value to it by providing innovative support processes. This can be seen in the internet economy, where providing value added services to customers constitutes the basis of differentiation. For example, the ability to print off your boarding pass at home prior to taking a flight can remove one of the most frustrating aspects of flying: queuing.

Nonetheless, relative to new product development (NPD), the service innovation concept is little studied. This is despite the fact that the service component has become an integral part of most manufactured products. For example, the purchase of a motorcar now involves a wide range of service offerings including finance, breakdown cover, warranty, etc. In recent years, more attention has been given to innovation in services with some research expressing severe doubts about applying concepts developed in NPD to the service sector, arguing that precisely how innovation occurs in service sectors remains unclear (Ranaweera and Sigala, 2015).

Service innovation has been dominated by NPD models. The linear and more interactive models of NPD insufficiently emphasise the significance of customers and cannot capture the dynamic process of consumer involvement in the creation of innovative services. It is accepted widely that gaining an understanding of the factors that are likely to influence customer evaluations of a new product or service and how customers are likely to relate to it is necessary for ensuring a successful market outcome. Change is afoot, however, service markets are becoming global, open and competitive. Knowledge is more available, technology more complex and service life cycles are shortening. In order to satisfy this challenge, more innovation management tools are required to get better and more successful, new or improved services. Research by D’Alvano and Hidalgo (2012) suggests that leading service firms have a high use of innovation management tools.

The internet has provided the mechanism through which many more industries can now develop offerings. Indeed, the development of a service ‘offer’ requires far more attributes to be brought into consideration than for a tangible product. Nowhere is this more clearly visible than in the eBay case study at the end of this chapter. It is this technology dimension that now forms such a significant part of service development. This was recognised by Den Hertog (2002), who offers four dimensions of service innovations all of which are influenced by the technological options available. These are: service concept, new client interface, new service delivery system and technological options. Table 15.5 illustrates how eBay has exploited these four dimensions.

**Pause for thought**



It seems much of the growth in services can be attributed to the exploitation of new technology, such as the internet. Are these really services or are they products?

**Table 15.5 Four dimensions of service innovation by eBay**

Four service dimensions	Illustration
New service concept	Online auction community of traders
New client interface	Introduction of payment system that helps eBayers trade more easily – PayPal
New service delivery system	Huge investment in technology infrastructure to improve reliability and performance
Technological options	Introduction of voice over internet protocol service – SKYPE

Source: Adapted from Den Hertog, P. (2002) Knowledge-intensive business services as co-producers of innovation, *International Journal of Innovation Management*, vol. 4, no. 4, 491–528.

## New service development models

The marketing literature argues that because product development processes have not been employed in the development of new services, and because of the distinctive nature and characteristics of services, the process has been haphazard or ad hoc. However, although new product development models represent a useful framework for studying the development of new services, more research is required to integrate the influence of the unique characteristics of services into the process of new service development. **New service development models** are derived from the process models that initially were created for the development of manufactured products (Fitzsimmons and Fitzsimmons, 2000; Ranaweera and Sigala, 2015).

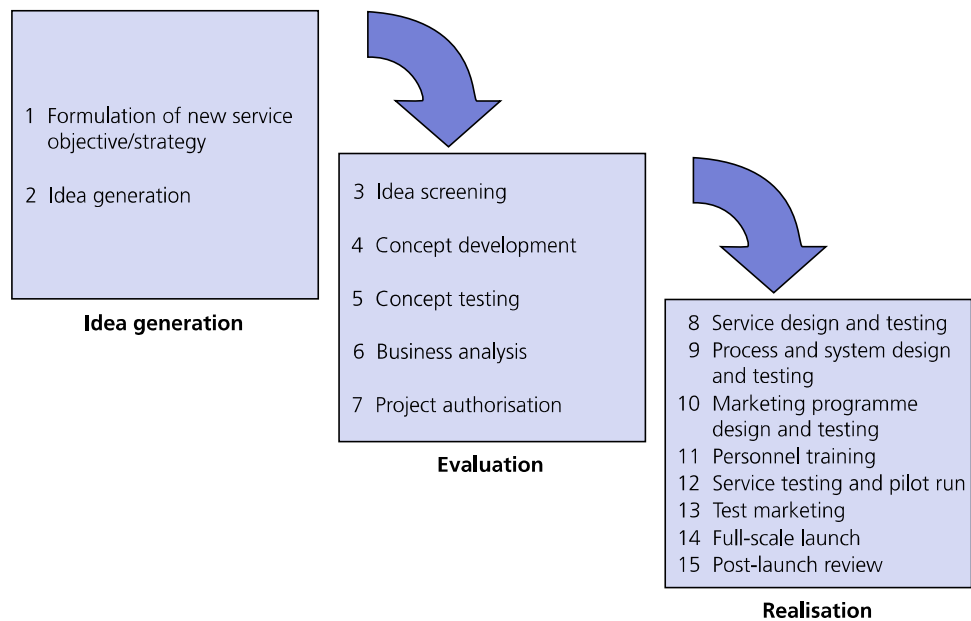
We have seen in Chapter 11 that the concept of open innovation captures the increasing propensity of firms to work across their traditional boundaries of operation. This phenomenon has been studied largely from the viewpoint of manufacturing businesses. Evidence is emerging that business service firms are more active open innovators than manufacturers; they are more engaged in informal relative to formal open innovation practices than manufacturers; and they attach more importance to scientific and technical knowledge than to market knowledge compared to manufacturing firms (Mina et al., 2014).

Indeed, researchers have emphasised that, with few exceptions, it is useful to integrate the models created in the study of product development into those dealing with service development. The applicability of these models depends on the nature of different services.

### Sequential service development models or Stage-Gate<sup>®</sup> models

The majority of new service development models are based on the new product development framework. These stages include new product development strategy, idea generation, screening and evaluation, business analysis, development, testing and commercialisation (Figure 15.3 offers an illustration of such a sequential model). The number of these stages varies across different studies. Similarly, a widely applied approach has been the Stage-Gate model that initially was suggested by Cooper (1999) and has been used to conceptualise service activities (Stevens and Dimitriadis, 2005). Besides different stages of the product development process, the model also includes certain gates where decisions are given on the basis of the information generated in the previous groups of activities. Therefore, these gates represent the review points for the preceding stages (Phillips et al., 1999). Stage-Gate models suggest a more comprehensive and action-oriented process compared to their predecessor – sequential new product development models. However, the common point of these models is that both are characterised by a sequence of a linear progression of activities (Stevens and Dimitriadis, 2005). Indeed, limitations of these models derive from their sequential nature. One of the most important limitations is that they are very costly, time-consuming and overly bureaucratic processes. Each stage of the process is needed to be completed before proceeding to the subsequent stage. For this reason, they do not allow for parallelisation of the activities. Furthermore, because of the time-consuming nature of the process, the new market opportunity identified at





**Figure 15.3** The service innovation process – a sequential model

Source: Adapted from Scheuing and Johnson, 1989.

the beginning may no longer exist when the product is commercialised. In addition, their structured and inflexible pattern gives very little chance for adaptation of the process to special service or project-specific features. Sequential models also increase the communication problems across different departments in the design and development processes. With Stage-Gate models, a failure in a particular gate may result in dropping potentially successful products.

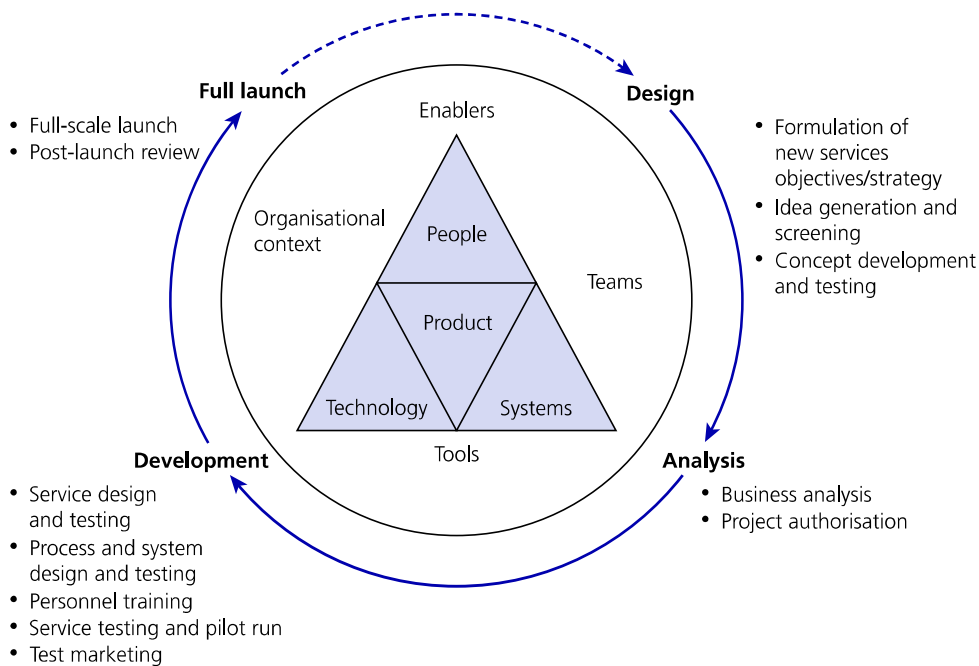
New product or service development is an iterative process that also proceeds after the commercialisation or market launch stage. In this context, new product development models that characterise the process as being iterative in nature have also been applied in the context of services. These models are also referred to as spiral models or interactive models. They are more sophisticated models compared to linear models of product development, as each stage is repeated several times, which gives provision for feedback. The new service development model suggested by Johnson et al. (2000) conceptualises iterative stages of the service development process (see Figure 15.4). Indeed, actors, systems and technology of the process are identified as playing a significant role in the process of new service development (NSD).

However, the model still includes the limitations of sequential development processes as mentioned previously.

## Concurrent service development models

**Concurrent service development** or simultaneous engineering overcomes the limitations of the sequential type of models and offers more flexible ways of developing innovative services. Essentially, it enables the parallelisation of the activities. The objective of this approach is to consider the whole service development processes





**Figure 15.4** The new service development cycle

Source: Adapted from Johnson et al. (2000) 'A critical evaluation of the new service development process: integrating service innovation and service design', in Fitzsimmons, J.A. and Fitzsimmons, M.J. (eds) *New Service Development: Creating Memorable Experiences*, Sage Publications, London.

rather than individual stages. In concurrent service development, communication is improved and expertise of all departments is employed. Therefore, these types of service development processes are relatively faster and less costly compared to sequential service development models. It also avoids potential design errors that may arise in the future stages. However, specialisms of different people from different departments may also create problems during collaborative working, as these people frequently do not speak the same 'language' and they may have little understanding about each other's activities. This, in turn, may lead to an increase in time to market and costs.

### Innovation in action

#### How a gap year led to Rat Race Adventure Sports

Jim Mee left university and took a job with Red Bull. His role included events management. He was posted to Scotland and developed a love for the outdoors. In 2003, he left Red Bull to go adventuring. He spent a year climbing in the Alps, Russia, Alaska and South America, where the idea for Rat Race Adventure Sports was formed.

He returned to Britain, envisaging playgrounds for extreme sports in towns and cities with potential for mass participation. In July 2004, he hosted his first event, a 60-mile

assault course in and around Edinburgh, and Rat Race Adventure Sports was born.

Mee sold his house to fund the £100,000 venture. The event spread to Manchester, Nottingham, Cardiff and London as part of the annual Men's Health Survival of the Fittest series, which attracts 25,000 competitors. Entry costs of up to £110 are subsidised for charity fundraisers.



Source: James Appleton/Alamy Images

Rat Race is hosting 17 events in 2014, including ultra-marathons, coast to coast trekking, biking, mountaineering and Thames river racing. The company is based in Clifton Moor, York, and has 24 staff and sales for 2014 were just over £5 million.

Rival organisers moved into the market, most notably with Tough Mudder, which started in 2010 and is now an annual 10-mile obstacle course.

Mee is also aiming to make a profit from the retail arm he added in 2013, having struggled to shift stock. The showroom and website sell branded kit, such as clothing, footwear, rucksacks and nutrition packs.

## Service innovation and the consumer

One important characteristic of services that distinguishes them is that customers are **co-producers** of services. Therefore, the role customers play in services is more crucial relative to manufacturing products. Importantly, Lusch and Nambisan (2015) identified three different methods of customer involvement in the new product development process: customer as resource, customer as co-producer and customer as user. Table 15.6 illustrates further ways consumers can provide input to the new service development process at every stage. Traditionally, quality function deployment (QFD) has been the most widely known method employed during this stage. QFD has been defined as a system that is capable of linking customer requirements to design characteristics of the product or service through certain market research methods, such as direct discussion or interviews, surveys, focus groups, customer specifications, observation, etc. (cf. Zeithaml and Bitner, 2003; see also Chapter 5).

### Consumer user toolkits

There has been much written in NPD literature about the need to involve customers at an early stage in the process and to integrate them into the process in order to

**Table 15.6 Customers' input into the new service development process**

New service development stages	Activities performed by the customer
1 Strategic planning	Thoughts and feedback on long-term plans
2 Idea generation	State needs, problems, criticise existing services; identify gaps in the market; state service requirements; state new service adoption criteria
3 Idea screening	Suggest desired features, benefits and attributes; show reactions to concepts; show level of purchase intent for concepts; indication of sales and market size
4 Business analysis	Possible feedback on financial data, including profitability of concepts; also pricing levels
5 Formation of cross-functional team	Either participate in team selection or even form part of the team
6 Service design and process system design	Review and jointly develop 'blueprints'; suggest improvements by identifying weak or fail points; observe service delivery trial by personnel
7 Personnel training	Observe and participate in simulated service delivery process and suggest improvements
8 Service testing and pilot	Participate in a simulated service delivery process and suggest final improvements and design changes
9 Test marketing	Provide feedback on the marketing plan; detailed comments about marketing mix – suggest improvements
10 Commercialisation	Adopt the service as a trial; feedback about overall performance of the service along with improvements; word-of-mouth communication to other potential customers

Source: Adapted from Allam, I. and Perry, C. (2002) A customer-oriented new service development process, *Journal of Services Marketing*, vol. 16, no. 6, 515–34.

fully capture ideas. Despite this, customer involvement in NPD has been limited and largely passive in most industries. There are many reasons for this limited utilisation of consumers in NPD, but perhaps the most limiting factor is the disconnection between customers and producers. Another reason is that research within marketing has shown, for many years, that gaining valuable insight from consumers about innovative new market offerings, especially discontinuous new products, is extremely difficult and can sometimes lead to misleading information (see Chapter 16). Indeed, frequent responses from consumers are along the lines of 'I want the same product, only cheaper and better'. Von Hippel (1986) has suggested that consumers have difficulty in understanding and articulating their needs and describes this phenomenon as 'sticky information'; that is, information that is difficult to transfer (similar to the notion of tacit knowledge). The co-creation of e-service innovations is being used by many firms to improve their performance (Chuang and Lin, 2015; Perks et al., 2012). Recent research, however, has shown that 'user toolkits' can facilitate the transfer of so-called 'sticky information' and have enabled firms to understand better the precise needs and desires of customers. Given these difficulties of utilising consumers effectively in the new service development process, how, then should firms proceed?

The earlier section on technology may provide some indications. Today, technology enables innovative ways of involving and integrating customers to the product and process development process. In this context, it is here that new technologies, most notably in the form of ‘toolkits’, offer considerable scope for improving connection between consumers and producers. Franke and Piller’s (2004) study analysed the value created by so-called ‘toolkits for user innovation and design’. This was a method of integrating customers into new product development and design.

The so-called toolkits allow customers to create their own product, which in turn is produced by the manufacturer. An example of a toolkit in its simplest form is the development of personalised products through uploading digital family photographs via the internet and having these printed onto products, such as clothing or cups, thereby allowing consumers to create personalised individual products for themselves. User toolkits for innovation are specific to a given product or service type and to a specified production system. Within these general constraints, they give users real freedom to innovate, allowing them to develop their custom product via iterative trial and error (Franke and Piller, 2004; von Hippel, 2001). Research by Thomke and von Hippel (2002) found that toolkits are particularly useful when market segments are shrinking and customers are asking increasingly for customised products. However, employment of toolkits can lead to increasing supplier costs. For example, Jeppesen (2005) found that using toolkits may be costly for suppliers due to the increased need for consumer support. This is due largely to overcoming difficulties faced by consumers. He revealed further that, under these conditions, consumer communities that enable consumer-to-consumer interaction can facilitate problem solving concerning the usage of toolkits in the consumer domain, thereby reducing operational costs.

The idea of integrating users into the design and production process is a promising strategy for companies being forced to react to the growing individualisation of demand (Franke and Piller, 2004). Over the past few years, many more firms have turned to the internet as a mechanism for communicating with their customers. Significantly, the internet enables manufacturers to communicate directly with their customers without the need for intermediaries, such as retailers and wholesalers. In some product category areas, most notably software-related ones, the internet provides the opportunity for firms to interact with customer groups and for customers to interact with customers (as eBay does with its ‘community’ of users). Powerful user networks can be established around product ideas, technology ideas or, most significantly, company capabilities. That is, genuine new product opportunities may be developed. This is especially so in dynamic markets where new technologies are emerging that may offer considerable advantage to firms, as in the case of online gambling, online auctions, social networking and internet banking.

## Consumer testing of services

Customers also embrace the role as users in the development of new services. The role of users in this process is testing new services. As was mentioned earlier, due to the intangible nature of services, it is often easier to modify services relative to manufactured products. For this reason, consumers often test services following their market launch rather than during the initial stages of service development. For example, one of the fastest growing parts of the services sector is the software industry and it

has been using lead users as active testers of their new service offerings for many years. Microsoft has been Beta testing the initial versions (prototypes) of its new software with voluntary users. Indeed, the employment of Beta testing has given rise to the emergence of online user communities that provide collaborative assistance to service firms in developing their new offerings. Internetworking giant Cisco even gives its customers open access to its information, resources and systems through an online service that enables the company's customers to engage in a dialogue. In this way, customers who access Cisco's knowledge base and user community assist other customers to solve the problems they encountered (Prahalad and Ramaswamy, 2000). Yet, involving consumers only at the end of the service development process has received criticisms from marketing literature (van Kleef et al., 2005). For example, in the field of UK commercial banking, Athanassopoulou and John (2004) revealed that most successful developers communicated with their lead users throughout the new service development process, whereas less successful ones concentrated their communication at the end of the process.

## Case study

### Developing new services at eBay

This case study explores the remarkable success of eBay and illustrates how its continual development of new services has enabled it to remain the world's leading auction site and deliver extraordinary financial results for investors. The company's decision to make PayPal independent reinforces this drive for growth.

#### Introduction

Founded in September 1995, eBay is The World's Online Marketplace for the sale of goods and services by a diverse community of individuals and small businesses. This eBay community includes more than 100 million registered members from around the world. According to Media Metrix, people spend more time on eBay than any other online site, making it the most popular shopping destination on the internet. On an average day, there are millions of items listed on eBay. People come to eBay to buy and sell items in thousands of categories from collectibles like trading cards, antiques, dolls and housewares to practical items like used cars, clothing, books, CDs and electronics. Buyers have the option to purchase items in an auction-style format or items can be purchased at a fixed price through a feature called Buy It Now. Currently, eBay has local sites that serve Australia,

Austria, Belgium, Canada, France, Germany, Ireland, Italy, Korea, The Netherlands, New Zealand, Singapore, Spain, Sweden, Switzerland, Taiwan and the United Kingdom. In addition, eBay has a presence in Latin America and China through its investments in MercadoLibre.com and EachNet.com respectively.

eBay, Inc. is, possibly, the most successful web-based enterprise in existence. This California-based company is known universally and is synonymous with the auction model of online selling. eBay was pivotal in helping to facilitate buying and selling between individuals and businesses. Eighty per cent of items sold are now at a fixed price and Amazon has become a fierce rival. The industry leader also created one of the first trusted online commercial communities, whereby the exchange between sellers and buyers is regulated by the evaluations and recommendations of each. eBay continues to dominate the auction industry and remains on the leading edge in innovation in services. It is now considering mobile payment services and loans.

#### How eBay works

Figure 15.5 illustrates how eBay works. It is, essentially, the same as that of a physical auction. Prior to



bidding or listing an item for sale, buyer and seller must register with eBay. All items listed by eBay can be viewed by all, including non-registered users but, to trade (i.e. buy or sell), you must register. Figure 15.5 shows the process for a typical trade:

- 1 Item is listed.
- 2 A seller's track record of selling is made available to all.
- 3 Potential buyers can bid.
- 4 Sellers view buying track record of buyers.
- 5 eBay notifies winning bidder and seller of winning bid.
- 6 Payment is made and goods shipped.
- 7 Buyers and sellers leave feedback on each other.

eBay receives its income from charging sellers a Final Value Fee which is a percentage of the winning bid and postage. The first 20 listings each month are free and 35p for each listing after that. The move into higher-value items, such as automobiles, has provided eBay with substantial additional income. eBay charges a vendor approximately £15, depending on vehicle value, to display a vehicle that may sell for several thousand pounds. eBay will then also take a small percentage of this winning bid.

The entire system is based upon trust and there is, clearly, an opportunity for rogue traders to operate and steal money from genuine traders. The use by eBay of the feedback system allows vendors and buyers to view the trading record of

each other before agreeing to trade. This helps genuine traders to determine authentic traders from rogue ones. New traders will have to establish themselves as genuine before others will trade with them. This is possible by agreeing to pay for goods prior to receiving them or, if one is a vendor, forwarding goods prior to receiving the money.

**The birth of eBay**

eBay was born in September 1995. Its original name was AuctionWeb. The idea fell out of a discussion between Pierre Omidyar, a 30-something French-born computer programmer, and his fiancée, who was an avid Pez collector (sweet dispensers). With the help of his friend Jeff Skol, Omidyar launched AuctionWeb; it was incorporated in 1996 and changed its name to eBay in 1997.

After a year of trading, however, the start-up company was struggling to develop quickly. Worryingly for the founders, there were many competitors (including Yahoo's own online auction site) and the technology and internet were developing and changing rapidly. Omidyar and Skol needed significant amounts of money if they were to make eBay successful. In 1997, Omidyar drove to Silicon Valley's Sand Hill Road to seek venture capital funding for his fledgling online flea market. Though it was growing at 40 per cent a month – without any marketing – and enjoyed 30 per cent margins, eBay also needed pro-

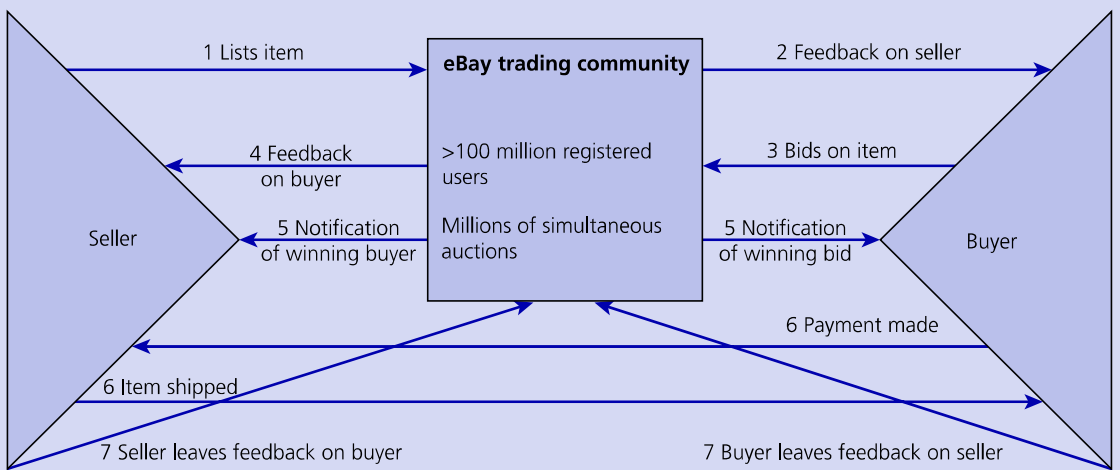
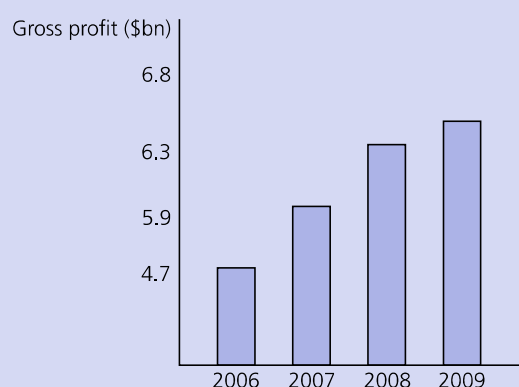


Figure 15.5 How eBay works



fessional management. Competition was intense: there were 150 other auction sites, many of them free, unlike eBay's fee-based service. Omidyar had no PowerPoint presentation and no business plan and his company's computer server was down – meaning there was no active website for him to showcase. This was not a good start for Omidyar but, within four weeks, Benchmark, a venture capital firm, had agreed to invest \$6.7 million, valuing eBay at about \$20 million. According to Benchmark, it seems Omidyar recognised that he needed help. In particular, he required better qualified people to run the business. In addition to its investment, Benchmark offered its services and its industry contacts. Benchmark's investment generated a return of \$4.5 billion, probably the greatest profit ever generated in the venture capital industry. But the investment paid off for eBay, too. Indeed, it was Benchmark that helped recruit Ms Whitman as CEO and Mr Swette as chief operating officer. Whilst no one doubted that the business model developed (connecting individual buyers and sellers online and taking a cut of the transaction) was excellent, it was the development of this to a public offering that has enabled eBay to become the giant it is today.

The appointment of Ms Whitman as CEO is regarded, universally, as an outstanding move by eBay. She was able to develop eBay from one of the many auction websites into the leading site. In those early days of 1997, the eBay site was in black and white and the typeface was basic courier. The company was called eBay and the website was called AuctionWeb, but both brands appeared on the site. The eBay web pages appeared amateurish compared to what Whitman was used to at P&G, Disney and Hambro; many thought she would not join, but she did. After Omidyar explained eBay's impressive growth rate, margins and profitability, Whitman realised the potential. Furthermore, when Omidyar explained that people had met their best friends on eBay, there was an emotional connection to the site and the eBay community. Whitman joined the company on 2 January 1998. The company had just 35 employees, and she began filling senior management positions. She hired auditors and set up the selection process for investment banks to lead the offer. By September 1998, she, Omidyar and Gary Bengier, eBay's then chief financial officer, began three weeks of roadshows to investors. That autumn, eBay



**Figure 15.6** eBay profits

enjoyed a sensational IPO. The shares began trading on Nasdaq on 24 September at \$18. By the close of trading, they had nearly trebled to \$47. The cash raised was put to work immediately. Whilst eBay's peers burned their start-up cash, eBay became a phenomenon – a Silicon Valley company that has always made a profit and is the world's most successful internet group. Moreover, the profit potential was huge; eBay had almost no cost of goods, no inventories, few marketing costs and no large capital expenditure (see Figure 15.6).

### The business model

The business model developed by eBay is unique and has evolved over time as the business has grown. The founders' intention was that eBay should be made up of a community and this vision has helped shape the business. According to the chief operating officer, Brian Swette, the business has grown by constantly responding to what the users have wanted. It is the eBay community that has designed the business model. eBay supports the desire to respond to the user community by employing approximately 5,000 people, about half of whom are involved in customer support and about 20 per cent of whom are in technology. eBay does not need to spend large sums of money trying to understand what its customers want because its customers constantly request and suggest changes. For example, over 100,000 messages from users are posted each week in which tips are shared and system glitches highlighted. The technology systems that eBay has introduced over time enables the company to trace every move of every potential customer; this yields





rich information that can be acted upon. In addition, category managers for eBay play a crucial role in the company's development. Unlike other positions, say product managers in large firms, these roles involve listening, adapting and enabling. It is the category managers' responsibility to develop tools to help users buy and sell more effectively.

### The development of new services

#### *International*

Between 2000 and 2005, eBay expanded internationally, and had country-specific sites in the UK, Germany, Japan, Italy and Australia and, in 2005, purchased a majority stake in Korea's largest online auction site.

In 2008, the company had expanded worldwide, had hundreds of millions of registered users, more than 15,000 employees and revenues of almost \$7.7 billion.

#### *Online payment system: PayPal*

In 2002, eBay purchased PayPal, the world's largest online payment system, in an all-stock deal worth about \$1.5 billion. The deal was eBay's largest investment to date and it was recognition by eBay that Billpoint, its own payment system, had been unsuccessful. Furthermore, about 60 per cent of PayPal's revenues were generated on eBay; hence there was a natural association between the two firms. The acquisition of PayPal allowed eBay to expand beyond its core auction services. eBay and PayPal both prospered because their strategies capitalised on the internet's strengths. eBay has employed the 'network effect', in which new customers are added at almost zero marginal cost and to the benefit of other users. Together, eBay and PayPal enhanced the internet's potential by reducing the number of steps for buyers. This should accelerate the number of transactions, thereby improving revenues (for an interesting story on what happened to the \$1.5 billion, see Illustration 1.4).

When eBay acquired PayPal in 2002, one of the main risks facing PayPal was its dependence on eBay for 60 per cent of its revenues. Since this time, PayPal has grown rapidly in line with the wider online payment market. This turned out to be a shrewd investment by eBay, as we will see later in the case.

#### *Mobile/smart phones*

Offering the ability for customers to use eBay on the move and via wireless technology is a natural development of the firm's technology. In most ways the eBay product has the necessary components to be a success in wireless markets: it delivers highly personalised content that is time-sensitive in nature.

#### *eBay shops*

In 2004, eBay began offering commercial sellers the concept of a shop on the site, where they could direct consumers to view more of their merchandise. This has proved extremely popular for the large sellers.

### Dangers, threats and challenges

#### *Competition*

Whilst eBay is the internet's most successful business, the internet is, nonetheless, currently dominated by the two biggest search engine companies: Yahoo and Google. Also, there is disenchantment within certain parts of eBay's user community. This is largely because eBay is moving away from its 'user community' to keep its gross profit margins above 80 per cent. But heavier spending on marketing, including the first TV campaigns in countries like the UK and China, ate into operating profit margins, cutting them by one point to 30.4 per cent. Alibaba, the Chinese ecommerce giant, also poses a considerable threat to eBay. Alibaba provides consumer-to-consumer, business-to-consumer and business-to-business sales services via web portals. It also provides electronic payment services, a shopping search engine and data-centric cloud computing services. The group began in 1999 when Jack Ma founded the website Alibaba.com, a business-to-business portal to connect Chinese manufacturers with overseas buyers.

#### *Fixed-price sales*

The move, in 2004, to sell an increasing number of goods at fixed prices, rather than through auction, was seen as controversial amongst some suppliers. Many sellers welcome the changes because of the new buyers they attract to the site. Others, however, believe corporations will get special treatment from eBay – and destroy its culture.

### **Fraud**

The continual coverage in the popular media of fraud on the internet in general and criminals using eBay to amass ill-gotten gains clearly does not help eBay. But, there are so many millions of users who have very positive experiences of using the site that it seems unlikely that existing users will be put off using the online auction site. Should one of its competitors develop a more foolproof trading model, however, this would be a serious threat to the business.

### **Maturing markets and slow growth**

After a run of more than 10 years as a public company, during which it consistently turned in financial results that made every other dotcom firm green with envy, more recently, margins have declined. Worse, the company's rock-solid profit margins showed uncharacteristic signs of erosion. eBay's much-admired business model has enabled it to keep its gross profit margins above 60 per cent. eBay spent \$100 million (£53 million, €77 million) in 2005 expanding its presence in China in a race to dominate what is likely to become the world's biggest Internet market.

In 2005, Visa, Microsoft and eBay announced a global service to combat identity theft on the internet, especially 'phishing' incidents. Phishing refers to the practice of emails being sent to users purporting to be from institutions such as their bank and urging them to click on a web link to update their online account information.

### **Shill bidding**

Critics have claimed the practice of shill bidding is widespread on eBay. A shill is an associate of a person selling goods or services who pretends no association to the seller and assumes the air of an enthusiastic customer. The intention of the shill is to encourage other potential customers, unaware of the set-up, to purchase said goods or services. The word 'shill' is probably related to 'shillaber', a word of obscure early twentieth-century origin with the same meaning. eBay tried to reassure customers and stated that any such fraudulent bidding is strictly prohibited on their auction site.

### **Charity**

eBay allows sellers to donate a portion of their auction proceeds to a charity of the seller's choice. The programme is called eBay Giving Works in the USA, and eBay for Charity in the UK. eBay provides a partial refund of seller fees for items sold through charity auctions.

### **eBay bans negative seller views**

In 2008, eBay announced a major change to its business model. eBay said problems were occurring, and slowing down trade, when buyers left negative comments about sellers who then retaliated with their own views. The decision, which will affect users worldwide, has angered many sellers. Sellers feel it will leave them unprotected. They argue that by still allowing buyers to leave dissenting comments about sellers, eBay has skewed the whole trading process. However, eBay believes the change is necessary and is putting in additional tools to protect sellers and promote a fair marketplace:

- Sellers can add buyer requirements to their listings to prevent unwanted bidders. Sellers can block buyers with too many policy violations, unpaid items or who are not registered with PayPal. This can help dramatically reduce the number of unpaid items.
- Sellers can require buyers to pay right away. If you use Buy It Now, sellers require buyers to pay you immediately using PayPal.
- Sellers have an easy way to report problems with buyers. Sellers can use the seller reporting hub to report an unpaid item, feedback extortion, or any other problem with a buyer.



Source: Bloomua/Shutterstock.com



### Growth via acquisition continues

Since its inception, eBay has used a strategy of growth via acquisition and this strategy continues, as Table 15.7 shows.

#### *Jack Abraham, founder of Milo, helps drive innovation and profits at eBay*

During the third quarter of 2007, eBay lost money for the first time as a public company. After years of astonishing growth, growth and profits were slowing. John Donahoe had been picked by Meg Whittam to be her replacement. But finding growth proved difficult.

Jack Abraham had built Milo (a specialist search engine people could use at home to find out what products were in stock at local stores) and sold it to eBay in 2010. Part of the sale involved Abraham working for eBay to integrate the Milo technology. It powered a product called ‘eBay Now’, which enabled shoppers to use a phone to order a product from a local store and get it delivered in under an hour. The Milo team became known as the eBay Local team, with Abraham in charge. But, he had no authority over eBay.com and the people who did had plenty of their own ideas. Abraham believed eBay should have a feed like the Facebook News Feed. It could show updates from eBay sellers and product categories. According to Abraham, eBay could turn the feed on without waiting for users to start following anybody, since it already knew search and shopping histories.

John Donahoe backed Abraham’s idea and eBay launched the feed 2.0 in 2013. Since then, it has seen greater engagement amongst users who have feed, including increased visits to eBay.com, more clicks on its homepage and longer eBay sessions.

#### *eBay to make PayPal independent*

PayPal is now considerably bigger than eBay. PayPal is estimated to be valued at \$45 billion, whilst eBay is valued at \$30 billion. After the split, eBay has agreed to route 80 per cent of its sales through PayPal for the next five years. This is similar to present transactions.

With the growth in mobile payment, PayPal has an opportunity to capture a large chunk of this market. PayPal now provides its own electronic wallet, which lets users tap one button to check out on a website or app. PayPal’s recent acquisition of mobile payments start-up Paydiant will help the company bring its wallet into physical stores. PayPal also provides the infrastructure behind the scenes, powering transactions within popular apps like Uber, Airbnb and Houzz. PayPal has the edge right now on the web as a first-person payment provider. Its challenge now is to become dominant when it comes to in-store payments. As PayPal severs its ties with eBay, it may be able to attack these challenges, step outside the shadows of apps and become a prominent payment method for consumers. Independent from eBay, it may also be able to make a genuine move into finance and offer loans, etc.

**Table 15.7 eBay acquisitions**

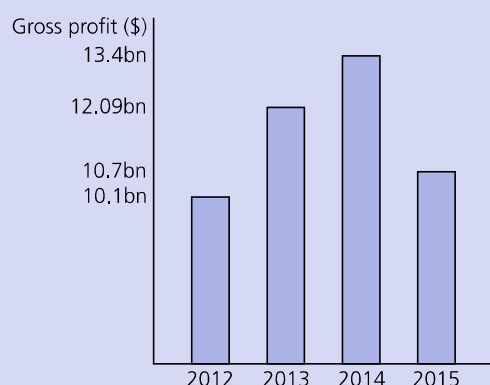
Year	Firm acquired	Business	Country
2010	Milo	Shopping engine	United States
2011	alaMaula	Online classifieds	Argentina
2011	Zong	Payments through mobile carrier billing	United States
2011	The Gifts Project	Group purchasing of gifts	Israel
2011	Zvents	Local events	United States
2012	Svpply	Social shopping	United States
2013	Decide.com	Price-forecasting	United States
2013	Braintree	Payments	United States
2013	Bureau of Trade	Content/Commerce	United States
2013	Shuttl	Rapid fulfilment service	United Kingdom
2014	PhiSix Fashion Labs	Virtual clothing	United States

## Conclusions

Meg Whitman transformed eBay from a purely domestic group that held auctions in 300 categories into a global enterprise, operating in 18 countries and offering 16,000 categories. She expanded the range of goods sold from mainly collectibles – Beanie Babies dolls accounted for 8 per cent of items sold at the time of the IPO – to include used cars, motorcycles, computers, time-share holiday homes and even golf tee-off times. A Gulfstream corporate jet has been sold on eBay for \$4.9 million. The move away from auction and into mainstream sales goes against the principles on which eBay was established.

The fraud issue remains a concern. The introduction of deposit accounts would help overcome the problem of bogus bidders. The deposit account would enable a percentage of the successful bid to be automatically deducted or eBay could make an automatic deduction from users' credit cards. Whilst eBay can produce statistics showing how many auctions are successful, the numbers give no indication of how many sellers actually get paid.

During her 10 years with the company, Whitman oversaw expansion from 30 employees and \$4 million in annual revenue to more than 15,000 employees and \$8 billion in annual revenue when she stepped down in 2008. Since 2015, Devin Wenig has taken charge of the task of continuing to drive growth at



**Figure 15.7** eBay profits

eBay. It seems innovation and new services will form a big part of this plan.

PayPal's rapid growth suggests a bright future for the digital-payments company. eBay, meanwhile, has considerable challenges ahead as it attempts to turn around its slow-growing online marketplace, now without PayPal helping to prop it up (see Figure 15.7).

*Sources:* Moules, J. and Abrahams, P. (2002) Companies and Finance, the Americas: eBay set to buy Paypal for \$1.37bn, FT.com, 9 July; Nuttall, C. (2005) Visa, Microsoft, eBay combat 'phishing', FT.com, 14 February; eBay chief takes the rough with the smooth, *Financial Times*, 18 April. BBC (2008) BBC News.co.uk/eBay to ban negative seller views, 5 February; The eBay bidscam, www.thetimesonline.co.uk.

## Questions

- 1 eBay is one of the only major internet-based firms consistently to make a profit from its inception. What is eBay's business model? Why has it been so successful?
- 2 Other major websites, like Amazon and Yahoo, have entered the auction marketplace with far less success than eBay. How has eBay been able to maintain its dominant position?
- 3 Why did eBay ban the leaving of negative feedback on sellers? What has been the impact of this change?
- 4 eBay makes every effort to conceptualise its users as a community (as opposed to, say, 'customers' or 'clients'). What is the purpose of this conceptual difference and does eBay gain something by doing it?
- 5 eBay has long been a marketplace for used goods and collectibles. Today, it is increasingly a place where major businesses come to auction their wares. Why would a brand name vendor set up shop on eBay?
- 6 The development of the eBay feed shows the need for eBay to continue to incorporate new services within its activities. What other mobile applications could it utilise?
- 7 Given the growth opportunities available to eBay, which ones and in which order should it develop?

## Chapter summary

This chapter has explored the area of new service innovations. It should be clear from the chapter that there is a considerable overlap between product development and service development. There are clear differences between products and services, most notably that with services the consumer is co-producer, but so many products now incorporate services that it is sometimes unclear why we treat them separately. The chapter has reviewed the wide range of services within the economy and also shown how new technology is providing a driving force for many new services. This is illustrated very clearly in the eBay case study at the end of the chapter.

## Discussion questions

- 1 Discuss the differences between product innovation and service innovation.
- 2 What are the factors that have led to the increase in services?
- 3 How has new technology contributed to the growth in services?
- 4 Discuss how some new services have created new business models.
- 5 Explain why manufacturing firms are increasingly involved in offering services. Discuss some examples.
- 6 Explain the key roles played by the consumer in new service development.
- 7 Explain how various groups of people in the organisation might use a service blueprint.

## Key words and phrases

**Intangibility** 524

**Knowledge-intensive business services (KIBS)** 524

**Outsourcing** 525

**New service development** 530

**New service development models** 535

**Sequential service development** 535

**Concurrent service development** 536

**Co-producer** 538

**Consumer user toolkits** 538

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