

THE ROLE OF CUSTOMER IN NEW SERVICE DEVELOPMENT IN INSURANCE INDUSTRY

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ABSTRACT

New service development has become an important issue as service industries grow and the number of customers increases. More customers and more competition make it essential to continuously develop new services to serve more sophisticated and more demanding customers. In order to respond well and improve customer satisfaction, firms need to integrate the voice of the customer into the new service development process. However, the new service development process is not very well researched. This paper explores how the process works in the insurance industry in Thailand. It proposes a conceptual framework for including the voice of customer into the new service development process. We look at adaptation of general models of new product development and new service development, and how they must be adapted to work in the specific context of insurance. Voice of the customer must be included early in the process, and must continue to be included throughout subsequent stages in order to make sure that the new service fits market demand well and satisfies customers. This sort of better new service development will become one key element in keeping companies competitive as the industry develops.

100

INTRODUCTION

Nowadays, the door to services for foreign investors has opened under the commitment to free trade in service markets under the World Trade Organization. Many competitors will develop and healthy service sector is quite important. Service is currently the highest-growth sector in Thai economy. The insurance industry is a good example of a high-involvement service.

The service sector is quite important, and currently the highest-growth sector in Thai economy. Financial services, such as the insurance industry, form a key element of the broader service sector, and are closely linked to other parts of the economy. The industry is highly competitive in terms of many firms trying to gain market share, though protectionism has shielded the industry full foreign competition. Insurance

is an industry which must pay attention to the impact of international trade barriers (Zimmerman, 1999). However, deregulation is already proceeding, and current players in the industry will find it difficult to survive without upgrading their competitiveness. Already, the single foreign competitor in the market (by virtue of having already been firmly established before most protectionist measures were implemented) controls the largest market share. Local companies will need to upgrade, as will foreign entrants who hope to succeed in the Thai market.

New service development (NSD) is likely to be a key factor for success in the insurance industry. Many aspects of the NSD process are similar to the new product development (NPD) process, which has been

researched fairly extensively. However, NSD has received much less attention (John and Storey, 1998). NSD is an important issue, because although the numbers of customers for most services are rapidly increasing, a great many are still not satisfied with many existing services. Increasing customer satisfaction is not only a matter of delivering current services with higher quality, but rather, a continuous development of new and better ways serve customers in ways that more carefully address their needs. Cooper and Kleinschmidt (1991) assert that good NPD is important to provide value and win customers; likewise, good NSD is likely to give companies a competitive edge.

In high-involvement service as an insurance service, customer insight is one success factor (Oldenboom and Abratt, 2000). In the industry in some countries, competitive advantage currently is likely to come from focus on customers, which is of considerable importance to quality of work in the industry. Companies are able to develop extensive knowledge about customer needs. Customers have become more value conscious and selective in the services they patronize. The role of customer in service production usually has to be made obvious and credible customer (John and Storey, 1998). These efforts to understand customers lead companies to design products, which are able to meet customer needs well (Cooper and Kleinschmidt, 1994). As a significant source of knowledge about customer needs is informants and evaluators, the voice of customer is an ingredient from the beginning of the NSD process. There is a particular need for insurers to understand policyholder wants and needs. Voice of customer, or information from customers, plays a major role in the process of insurance industries (Chow-Chua and Lim, 2000).

This discussion describes the voice of customer that must be taken on a critical role from the early stages through to the final stage of the NSD process, in order to make sure that the new service fits market

demand well and satisfies customers. Voice of customer is a concept adapted from research on quality function deployment (QFD) into the NSD process. Additionally, voice of customer can provide the information support function for creating the NSD process. The purpose of this paper is to introduce a conceptual framework for voice of customer in new service development in the insurance industry. It defines key terms in a problem statement and research objectives, discusses NSD and voice of customer in the literature review, and continues to propose a conceptual framework for NSD, with research hypothesis. The discussion focuses on how the process works in the insurance industry in Thailand.

Problem Statement

Competitiveness in service sectors has increased tremendously because of rising demand for new service development, overloading customers and staff with unexpected challenges. Attention to customer requirements becomes a critical issue in developing new services (Froehle et al., 2000). More customers and more competition make it essential to continuously develop new services to serve more sophisticated and more demanding customers. Empirical investigation suggests that customer focus is often a missing element in trying to achieve product development competence (Jensen and Harmsen, 2001). Among sections of the financial service sector, such as banks, property developers, and insurance, the insurance industry has not distinguished itself with any particular strength in any aspect of NSD. As a result it generally acquires only moderate success with new products (Easingwood and Storey, 1995). With the growth potential and current forces shaping the industry, insurance companies can take advantage of the opportunity by better serving new demand with better product / service development (Chow-Chua and Lim, 2000).

It is not very surprising that NSD has not achieved outstanding success. Much research on NSD has

followed Booz, Allen and Hamilton's (1982) model of the NPD process. But there is not much work looking at different service industries and different NSD process (Johne and Storey, 1998; Kelly and Storey, 2000). There are many unsuccessful new services, but a low level of NSD activity takes place in the market, although there is some broad recognition that better understanding of consumers is a key (Edgett, 1994). Thus, the new service development process is not very well researched, and there is no widely accepted model of how it works and how it can be made to work better. We look at voice of customer, one mechanism for information transfer about customers into the NSD process. Firms need to integrate the voice of the customer into the new service development process. Voice of customer should have influence at the early stage and throughout the NSD process, particularly in service concept development in the insurance industry.

interaction with customers, and in financial services it can be quite close interaction, so that the service supplier must not only develop the service product, but also the appropriate behavior in the interaction with customers. In implementing NSD well, appropriate behaviors for interaction with customers in delivery of the service is inseparable from the service product itself. How can companies provide new services to meet customer needs? Good offering will be sold both to customers and to businesses or sometimes both of them (Johne and Storey, 1998). In the insurance industry, with its intangible products, service quality and customer orientation are crucial elements (Lado and Olivares, 2001).

It is not surprising that companies in competitive financial industries are paying more attention to developing new services. Better NSD will become a key element in keeping companies competitive as the industry develops. But NSD needs to be better understood. The NPD process has been fairly well defined for quite a while. Much work has followed Booz, Allen, and Hamilton (1982), which remains a standard upon which other models build or against which they are benchmarked. This model, and many later, more sophisticated models, includes formal procedures and a logical progression through stages: new product strategy, idea generation, business analysis, development, testing, and commercialization. NSD follows some part of the standard NPD process. However, most financial services sectors have not created a complete and proficient NSD process yet (Edgett, 1996).

The interaction of customer - contact staffs is related to the involvement of the customer in service concept development. It is important to take internal and external sources into account early, in the idea generation stage. This includes involvement by three distinct groups of people. These are the development staff, the customer contact staff, and the customers themselves, all of whom are important in the NSD

102

Research objectives, thus, focus on investigating the effectiveness of integrating the customer's voice and opinion so that they can contribute to new service development. The main issues of this discussion are as follows:

1. to examine how the voice of customer can be integrated into the initial stages of NSD in the insurance industry;
2. to evaluate influence of voice of customer in each step throughout the NSD process in the insurance industry;
3. to propose a conceptual framework for implementation of voice of customer throughout the NSD process.

New Service Development

New Service Development (NSD) is concerned with developing service products that are new to the company doing the development. All services involve

process. The service / product cannot exist without these people. Many service industry companies adopt a teamwork approach and product champions, implying that development staff is important in NSD. Customer contact staff can help identify customer requirements as well details of how they interact with customers, and their involvement increases the possibility of positive implementation. Likewise, customers themselves should be involved in the development process, which helps make their needs clear. The more involvement by customers, the better new product / service development can focus on customer needs (Johne and Storey, 1998). Thus, analyses of opportunities must include assessing increasing competition, because often firms copy services developed by competitors. A key element, however, is assessing customer needs and the firm's ability to meet those needs. This assessment is aided by involvement of the people who are in contact with customers, and inclusion of customers themselves.

There are several components of development. Some researchers divide new service design into only two distinct parts: design of the service itself, and design of the delivery process (Cowell, 1984; Lovelock, 1996). But others argue that NSD consists of three main activities, service concept development, service system development, and service process development (Edvardsson and Olsson, 1996). Service concept development relates to ideas about how to meet customer needs. Service concept development should start from a thorough description of customers requirements and how NSD can meet those requirements to the customer's satisfaction (Johne and Storey, 1998). It includes objectives and strategy, idea generation and screening, concept development and testing. For example, even at the level of positioning, "instead of emphasizing the death benefit attached to life insurance products, new policies highlighted the education benefit and the love for dear ones" (Long, 2001).

Service system development is about the infra-

structure needed to deliver the service, and requires resources to set up such systems if they do not exist or only partially exist. These resources include company staff, customer-contact staff, the physical / technical environment, administrative support system, and customers themselves (Johne and Storey, 1998). Some back office staff and customer-contact staff may lack the idea of a service system, but without empathy for the customer, service firms will find it difficult to make the new service successful. By participating in NSD, staff are stimulated to understanding the organization's activities and objectives, and their specific role in making the new service successful (Kelly and Storey, 2000). This stage includes business analysis, and service design and testing.

Service process development is a sequence of activities that must take place for the service to be effectively delivered, sometimes called "service blueprinting". Customers themselves must be involved in the design of services, and the new service should fit into their own systems also. Many researches have attempted to identify how the process of developing the service process should be organized. Lievens and Moenaert (2001), for example, concentrated on formulating the essential factors for the design of service operations and developed a framework for producing the service package. Scheuing and Johnson (1989) show how the whole NSD process fits together, and include process and systems design and testing as part of service process development, along with marketing and program design and testing, personnel training, service testing and pilot run, test marketing, full scale launch, and post launch activities. Not all observers would consider the marketing after development to be part of NSD.

Voice of Customer and NSD

The voice of customer is the first stage of developing critical customer requirements in a "house of quality". The voice of customer can be translated from

customer requirements into what customers are doing with the product and how it will be used. Thus, voice of customer is one part of the QFD, and can be used across functional teams to determine customer requirements and translate them into product design (Han et al., 2001). QFD itself represents an investment in people and information from customers throughout the NPD process. The insurance industry can use QFD to enable it to measure customer "wants" and map them against the engineering "how" in a way that highlights trade-off, and drives the product design towards customer requirements. QFD takes the voice of the customer from the beginning of product development and deploys it throughout the firm (Vonderembse and Raghunathan, 1997). A major advantage of products designed with QFD is reduced production costs, shorter development time, and higher quality. QFD can give considerable benefits in delivery of quality products and services based on the needs of customers, or voice of customers (Hwang and Teo, 2001).

Firms need to integrate the voice of the customer into the new service development process. Voice of Customer is transformed into customer requirements based on the image of that customers do with the product and how it will be used (Han et al., 2001). This means that voice of customer can be developed as a critical customer requirement, which should be included early in the NSD process, and must continue to be included throughout subsequent stages in order to make sure that the new service fits market demand well and satisfies customers.

It seems obvious that marketers who target customers precisely need to know what it is the customer wants and needs in services / products (Pitta et al., 1996). For instance, many insurance firms acquire groups of employees in organizations as customers, and can choose products which are appropriate for them. The main concern in NSD must focus on creating and developing multiple target marketing, and

differentiating services for them (Koco, 2000; Wecker, 2000). Voice of customer is an efficient way to do this carefully.

Among companies which consider voice of customer in designing their services, marketing, sales force, market research, and media can all participate to provide useful information to incorporate voice of customer. In the past, some research has shown that products are launched without much inclusion of customer ideas into the NPD process. One more recent survey on sources of new product ideas reported that business product managers are using voice of customer input more frequently (Kelly and Storey, 2000).

Hart and Baker (1994) emphasized capturing information which is input into decisions at every stage of NPD. The importance of directly listening to customer information is very crucial. Clearly, unbiased information is critical for input into the stages of the NSD process to design the best service product. However, much customer information in the NSD process is necessarily highly conceptual, because there is nothing concrete to show the customer as with products, and the quality of such marketing information can depend strongly on the quality of the relationship between supplier and buyer. This relationship depends on the sales force.

Research Hypotheses

Although voice of customer could help practitioners create new services according to customer needs and requirements, leading to customer satisfaction (Han et al., 2001), there is very little research on applying the voice of customer framework in NSD. Indeed, little has been done to understand the integration of any customer information into the NSD process. One study from the higher education service sector reveals that voice of customer can be very helpful in delivering the right new service, derived from customer needs (Hwang and Teo, 2001). Companies in product industries

cultivate direct customer contact, collect information from customers on their needs, and use customer-supplier information to design and deliver products and service (Zhang and Doll, 2001).

Insurance industries also need to understand customer wants and modify their product / service, policies, and strategies, and sell the product / service to the right customer or market segments. This is meant that voice of customer should play a major role in the NSD process (Chow-Chua and Lim, 2000). But such research has not been done in the insurance industry. In fact, according to much research, few companies in any sector pay enough attention to customer information support in NPD until relatively late in the product development cycle. This is one important factor in many product launch failures (Goffin and New, 2001). Therefore, research on NSD should address the impact of voice of customer on NSD outcomes.

Voice of customer could contribute valuable marketing information to the new service development process, which would give service providers a better understanding of actual customer needs. Therefore, we propose a conceptual framework for including voice of customer in NSD. The impact of voice of customer can be proposed as follows:

Proposition: The influence of voice of customer can contribute positively to throughout new service development process.

Figure 1 shows in general form that this proposition about including voice of customer is essentially about building information flow into the NSD process. The other figures (figures 2a, 2b and 2c) illustrate many of the stages in the process where the information flow about and from customers is critical.

Conclusion

It is proposed that voice of customer can contribute to a major transformation in service design which can improve the NSD process and resulting new services. In highly competitive markets, and with the liberalization of international trade in services, the insurance industry needs to incorporate voice of customer in developing new services to better meet customer expectations. Success in the financial services sector can be enhanced by increasing designers' awareness of customer information. A review of work on NPD suggests that the concept of voice of customer can contribute positively to development of new services in the insurance industry. Companies should incorporate voice of customer in developing the concepts for new services early in the design process. The result of better adaptation to market needs would be enhanced customer satisfaction.

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Figure 1: Voice of Customer in New Service Development

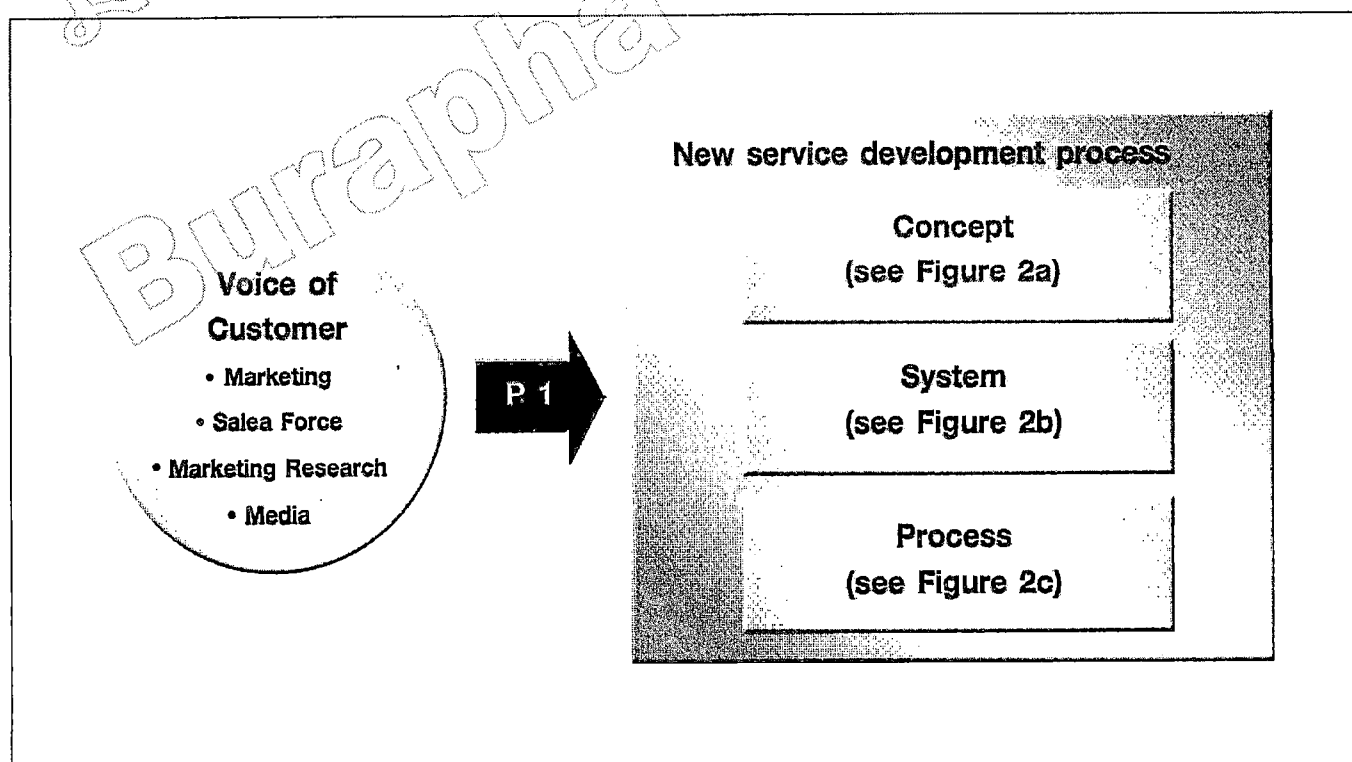


Figure 2a: Service Concept Development Based on Schuing and Johnson (1998):
Edvardsson and Olsson (1996)

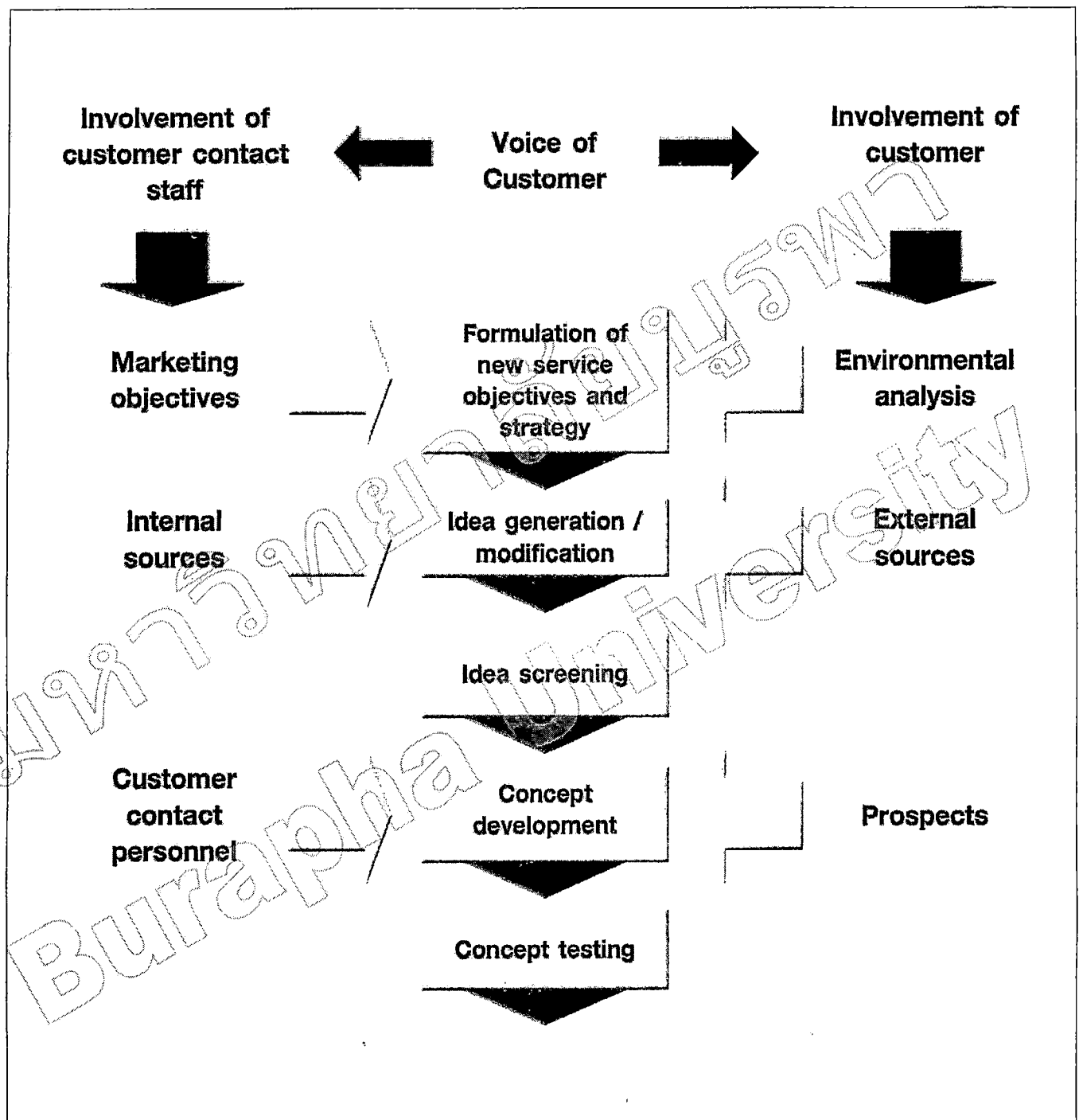


Figure 2b: Service System Development Based on Schuing and Johnson (1998):
 Edvardsson and Olsson (1996)

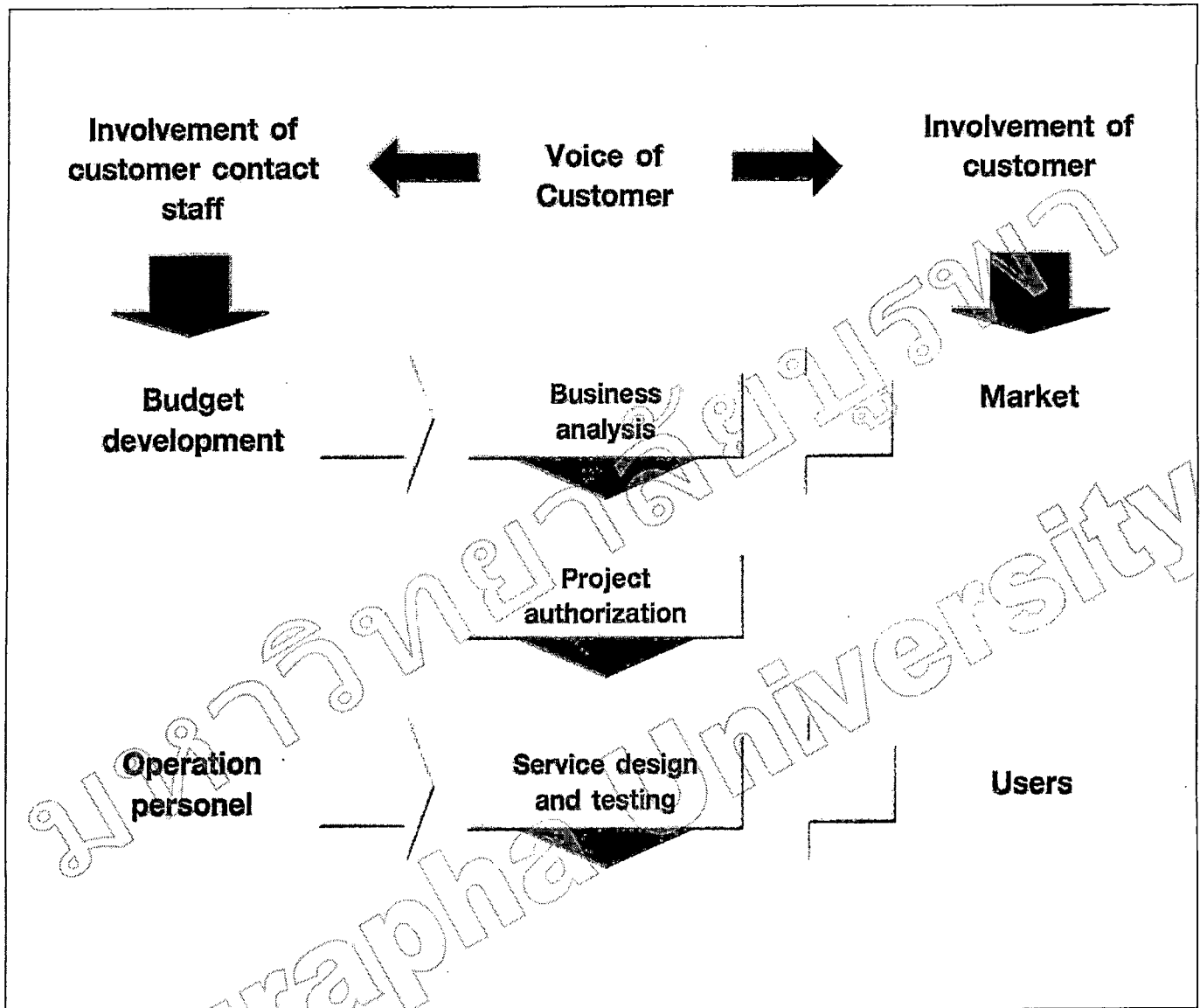


Figure 2c: Service Process Development Based on Schuing and Johnson (1998):
Edvardsson and Olsson (1996)

