In Sections 2.5 and 2.6, I have briefly discussed issues related to NPD and NSD. I have also argued that educational programs are in some way a service product in Section 2.3. In this Chapter, I initially introduce the term *service product*, and then define the term *newness* in the educational context. Next, I discuss four service-offering models. Finally, based on these four models, I suggest a model for the offering of new educational service products (the NESPO model).

### 5.1 Service Product

Since the late 1970s, there has been a growing realisation of the importance of services in the world economy (Rust & Oliver 1994). In any fast-changing research area, the definition of terms is an ever-present problem, just as it was for the terms EC and EB, which I discussed in Chapter 4. Before I develop a model for the offering of new educational service products, therefore, I consider the definitions of the term *service product* as they are described in the extant literature.

Let us start by distinguishing the term *service product* from *product service*. Corkindale *et al.* (1989, p.209) distinguish service products and product services in the following way: *service products* are marketed purely as services, e.g. banking, insurance, consultancy and education. *Product services*, quite frequently, are an inseparable part of a package, for example computer installation and maintenance; and customer training for after-sales.

Rust *et al.* (1996, p.16) define the term *service product* more narrowly as:

*The service product is the core performance purchased by the customer, the flow of events designed to provide a desired outcome. It refers to that part of the experience apart from the transfer of physical goods and typically includes interactions with the firm’s personnel.*

In this definition, they use the term *service product* to describe only a part of the service. They point out that a service can be broken into four components: *physical...*
product, service product, service environment, and service delivery (see Figure 5-1). All of these components must be managed to meet customer needs.

![Figure 5-1 The Four Components of a Service](image)

Reproduced from: Rust and Oliver (1994, p.11)

Johne and Storey (1998, p.185) agree with Rust and Oliver and define service product as:

> the predominately intangible core attributes which customers purchase.

They describe the characteristics of service products as follows:

- Service products are predominantly intangible (even though efforts may be made to make them more tangible, for example by supporting financial service products with attractive looking plastic cards).
- Service products are predominantly process rather “things”.
- Service products are often variable in quality because service is commonly produced and consumed simultaneously. Customers of services risk buying an outcome and/or experience which they cannot fully assess prior to purchase.

Johne and Storey (1998, pp.187-188)

Lovelock (2001, p.217) defines a service product as follow:

> When customers purchase manufactured goods, they take title to physical objects. But service performances, being intangible and ephemeral, are experienced rather than owned. Even when there are physical elements to which the customer does take title, ..., a significant portion of the price paid by customers is for the value added by the accompanying service elements, including labor and expertise and the use of specialized equipment.
Using these definitions as my foundation, I argue that educational degree programs may be considered *service products*. The educational degree program (*service product*) consists of the core performance purchased by the students or learners (*customers*), through lectures, tutorials, assignments, workshops, discussions, examinations, … , or similar types of activities (*the flow of events*) designed to provide a qualification and learning outcome (*a desired outcome*). The educational degree program does include certain physical elements such as lecture notes and textbooks, but predominately depends on the intangible attributes of academic teaching and research.

In the next section, I discuss the term ‘*newness*’ in the educational context.

### 5.2 Newness

In this research project, development of new degree programs in tertiary education (*service products as argued above*) leads to the question what is meant by “newness” in this sphere. In this section, I discuss categories of new services, the newness of service products and markets; and illustrate these concepts by educational degree programs.

#### 5.2.1 Classifications of new services

Lovelock (1984) has stressed that the word ‘new’ is one of the most overused in the marketer’s lexicon. Different people have different interpretations of the meaning of ‘newness’ of services. They sometimes consider *service innovation* and *new service* to be synonymous in research discussions. An innovation implies something new or represents a new idea that challenges existing activities and approaches for individuals and the organisations (Rogers 1995; Malhotra *et al.* 1996; Gopalakrishnan & Damanpour 1997 and Menor 2000).

Some researchers have proposed several classifications of new services. For example:

- Carman and Langeard (1980) identify new services as either *core* that directly provides customer benefits or *peripherals* that support or improve a core service. From the strategic perspective, they argue that new services can be described as *multi-site* — new sites providing the same service to the same customer segment, *multi-segment* — using the same site and attracting new customer segments, or *multi-service* — adding new services to the same site for the existing base.
Scheuing and Johnson (1989) identify new services as being represented by either modification, differentiation, market creation, market expansion, market extension or diversification based on a new customer/new service categorisation.

Tax and Stuart (1997, pp.107-108) argue that any change to the service system that requires different competencies from existing operations can be considered a new service. Changes to competencies can be analysed along three separate dimensions:

- The degree to which the new process is fundamentally different from the existing process.
- The degree to which the skills and knowledge of new service participants are different from the existing service.
- The degree to which the physical facilities (layout, flow of people, physical surroundings, required space and ambience) of the new service are fundamentally different from those required for the existing service.

Johnson et al. (2000, p.4) summarise ideas put forward by Heany (1983) and Lovelock (1984) and then classify new services into two main categories: radical innovations — offerings not previously available to an organisation’s existing customers; and incremental innovations — changes to offerings previously available to an organisation’s existing customers.


For the purposes of this research project, I selected the most recent categorisation of new services (that of Lovelock 2001) and apply it to classify the ‘newness’ of educational service products. Lovelock’s categorisation is comprehensive and offers an overview of educational degree programs. It also builds a framework for specific descriptions of different aspects of services, product and process development. Table 5-1 shows the typology of Lovelock’s new service categorisation.
### Table 5-1 A Hierarchy of New Services Categories

*Based on: Lovelock (2001, pp.245-246).*

<table>
<thead>
<tr>
<th>New Service Category</th>
<th>Description</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Major service innovations</strong></td>
<td>New core products for markets that have not been previously defined. These products usually include both new service characteristics and radical new process.</td>
<td>New degree programs which have never been offered by any institution. The development and delivery processes are also new.</td>
</tr>
<tr>
<td><strong>Major process innovations</strong></td>
<td>Using new processes to deliver existing core products in new ways with additional benefits.</td>
<td>The University of Phoenix competes with other universities by delivering undergraduate and graduate degree programs with other universities in a non-traditional way. It has no permanent campus but offers courses either online or at night in rented facilities. Its students get most of the benefits of a college degree in half the time and at a much lower price than they would at other universities (Lovelock 2001, p. 245).</td>
</tr>
<tr>
<td><strong>Product line extensions</strong></td>
<td>Additions to current product lines by existing firms. The first company in a market to offer such a product may be seen as an innovator; the others are merely followers, often acting defensively.</td>
<td>A university offers new types of degree programs, new to the university, but not new to the market.</td>
</tr>
<tr>
<td><strong>Process line extensions</strong></td>
<td>Less innovative than major process innovations but often represent distinct new ways of delivering existing products, either with the intent of offering more convenience and different experiences for existing customers or of attracting new customers who find the traditional approach unappealing.</td>
<td>In the past, lectures were delivered either face-to-face or by distance learning mode. Now, they combine both with some face-to-face lectures and workshops together with perhaps on-line and/or computer network systems.</td>
</tr>
<tr>
<td><strong>Supplementary service innovations</strong></td>
<td>Take the form of adding new facilitating or enhancing service elements to an existing core service or of significantly improving an existing supplementary service.</td>
<td>All the study materials are included so that students do not need to purchase any materials. The course fee includes all the expenditure. Students can have their own web sites because they are studying that particular course. Work placement is available to students etc.</td>
</tr>
<tr>
<td><strong>Service improvements</strong></td>
<td>The most common type of innovation. They involve modest changes in the performance of current products, including improvements either to the core product or to existing supplementary services.</td>
<td>Cut down number of students in a class or increase number of contact hours, or hire a high profile academic to deliver the course.</td>
</tr>
</tbody>
</table>
### New Service Category

| **Style changes** | They represent the simplest type of innovation, typically involving no changes in either process or performance. | Simply change of the name of the degree. For example, a university offered a Bachelor of E-Commerce in 2000. In 2001, they found that E-Business is more popular so that they just change the name of the degree program. |

As the above typology suggests, Lovelock believes that service innovation can occur at many different levels; yet not every type of innovation has an impact on the characteristics of the service product or is experienced by the customer.

### 5.2.2 Newness of service products and markets

Johne and Storey (1998, p.187) adapted Ansoff’s matrix (1987, p.109) which introduced the concept of the growth vector of a new product to specify the direction in which the firm intends to develop its strategic portfolio (see Figure 5-2).

<table>
<thead>
<tr>
<th><strong>Product</strong></th>
<th><strong>Mission</strong></th>
<th><strong>Present</strong></th>
<th><strong>New</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Present</td>
<td>Market penetration</td>
<td>Product development</td>
<td></td>
</tr>
<tr>
<td>New</td>
<td>Market development</td>
<td>Diversification</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 5-2 Growth Vector Components**

*Reproduced from: Ansoff (1987, p.109)*

Johne and Storey (1998, p.187) separate the term ‘newness’ into ‘high’ and ‘low’. The high and low levels of newness of a market and a product can provide opportunities for product development. These authors suggest that businesses have two dimensions to consider – market newness and product newness – which presents four opportunity vectors for product development (or better ‘offer development’). Figure 5-3 shows how each of the four growth vectors may be served by distinct types of product development.
5.2.2.1 Newness of service product and market matrix

Based on Johne and Storey’s (1998) matrix above, I categorise four distinct types of service product (educational degree program) development.

**Type 1: Market penetration: low market newness, low product newness**

Market penetration denotes a growth direction through the increase of market share for the existing product-markets (Ansoff 1987, p.109). Institutions can offer programs based on their extant degree subjects, with some modifications (improvement) of the subject content, but providing the same services/facilities to students – low service product newness. They can also aim at the same marketing audience/students – low market newness. Through these ‘new’ programs or service product improvement, institutions achieve the aim of market penetration.

**Type 2: Market Development: high market newness, low product newness**

In market development, new target markets are sought for the firm’s products (Ansoff 1987, p.109). Institutions may use extant subjects and produce one or two ‘new’ subjects (via product line extensions) for their new degree program – low service product newness. Different numbers of subjects are grouped together and form different types of degree programs such as certificate, diploma, undergraduate and masters degree programs — market development and segmentation. Through the offer of one or a few new subjects or product line extensions, institutions achieve the aim of market development, with new missions for each ‘new’ service product. That
is, University A develops a few new subjects. Based on a combination of these new subjects with existing subjects they offer different types of degree programs for the aim of *market development*.

**Type 3: Product Development: low market newness, high product newness**

*Product development* creates new products to replace current ones (Ansoff 1987, p.109). Due to rapidly evolving technologies, it is necessary for a university to offer new educational degree programs in order to supersede those which are no longer popular or which have become outdated. Through the offer of new degree programs or *new product lines*, institutions achieve the aim of *product development*, replacing the outdated ones.

**Type 4: Diversification: high market newness, high product newness**

*Diversification* is distinctive because both products and missions are new to the firm (Ansoff 1987, p.109). Institutions may develop new degree programs — *new service products* for *new markets* – to achieve the aim of *diversification*.

Marketspace may be a so-called ‘new’ idea of market newness. The term ‘marketspace’ was first popularised by Rayport and Sviokla in a 1994 Harvard Business Review article (Kotler *et al.* 2001, p.727; Farhoomand and Lovelock 2001, p.4). Rayport and Sviokla (1994, p.142) distinguish marketspace from traditional marketplace by content, context and infrastructure. In the traditional marketplace, the content transactions are physical products; while in the marketspace, the content transaction is mainly information. The context in the traditional marketplace is physical interaction between customers and providers; whereas in the marketspace it is mostly on-line interaction. The infrastructures of traditional marketplace are trading malls and warehouses; whereas in the marketspace, the infrastructure is electronic communication networks.

In fact, the marketspace concept has been adapted by universities to offer degree programs. For example, at the University of Phoenix Online in the United States and HKCyberU in Hong Kong, degree programs are offered purely online. Physical

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37 University of Phoenix was founded in 1976. It is among the first accredited universities to provide college degree programs via the Internet, starting in 1989. *University of Phoenix Online* provides 100% curriculum that is completed via the Internet. [http://online.uophx.edu/default.asp](http://online.uophx.edu/default.asp)

38 HKCyberU is a learning institution on the Internet co-founded by the Hong Kong Polytechnic University (PolyU) and the Interactive Multimedia Services Company of Cable and Wireless (CWHKT). It designs and develops online interactive multimedia-enabled education programmes and
attendance of students at a physical campus is no longer required. This type of university is mainly ‘virtual’. They aim at a new type of market. Since the constraint of the physical existence of customers has been removed, it can enhance the scope of market. They can offer their programs to customers all over the world. Through the offer of new degree programs or new service product in the new market (marketspace), institutions achieve the aim of diversification.

Figure 5-4 summarises how distinct types of new service product development may serve each of four growth vectors.

<table>
<thead>
<tr>
<th>Educational Service Product Newness</th>
<th>Low</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Aim: Market Penetration</td>
<td>Via: offering new programs based on the minor improvement of extant ones.</td>
<td>Aim: Market Development</td>
</tr>
<tr>
<td>Via: offering different level of programs using mostly extant resources.</td>
<td>Aim: Product development</td>
<td>Aim: Diversification</td>
</tr>
<tr>
<td>Via: offering new programs to supersede the existing ones.</td>
<td>Via: new programs for new markets, e.g. online and eLearning programs and aim at borderless markets.</td>
<td></td>
</tr>
</tbody>
</table>

**Figure 5-4** Growth Vectors Served by New Service Product Development Variant

*Adapted from: Johne and Storey (1998, p.187)*

### 5.3 Service Offering Models

In a longitudinal study of EC and EB degree programs in the AP region, I discovered a common phenomenon: universities offer degree programs which are *ad hoc* and which lack a systematic model (to be discussed in greater detail in Section 8.2.1). However, the offering of new programs is a very common and essential activity (for whatever reasons) in universities. I therefore suggest a model for offering new degree programs presented as service products.

Several researchers have created models to clarify the structure of service products. In the business world, a broad distinction can be made between goods and core services, which define the type of business and the supplementary services. ‘Service products’, ‘service offers’ or ‘service offerings’ are sometimes interchangeable.

terms. They are normally described as a package consisting of a core service and extras, peripheral services or secondary-level services (Grönroos 1990; Gabbott and Hogg 1996; Storey and Easingwood 1998). This description of ‘service products’, ‘service offers’ or ‘service offerings’ is also valid in the university setting. In this section, I introduce Grönroos’ augmented service offering (1990; 2000), Storey and Easingwood’s augmented service offering (1998), Kotler and Fox’s educational offerings (1995) and Shostack’s molecular model and service blueprinting technique (1982).

As Daft (1985, p.198) in Webster and Watson (2002) states:

... criticizing is easy, and of little value; it is more important to explain how research builds upon previous findings rather than to claim previous research is inadequate and incompetent ...

Hence in Section 5.4, I suggest a model for the offer development of new educational service products which directly builds on the existing work on new service offerings of Grönroos (1990; 2000), Storey and Easingwood (1998), Kotler and Fox (1995) and Shostack (1982).

5.3.1 Augmented service offering model (Grönroos 1990; 2000)

From the business perspective, Grönroos argues service as a product. This means that a service is an object (like a product) that can be developed, produced, and delivered, marketed and consumed. He presents a conceptual model called the augmented service offering (see Figure 5-5 below) which describes the elements of a service geared to the characteristics of services. The service offering must be customer-oriented and has to recognize all the aspects of a service that customers perceive. Figure 5-5 shows Grönroos’ augmented service offering model.
Grönroos (1990; 2000) suggests four steps in managing the service offering:

- Developing the **service concept**
- Developing a **basic service package**
- Developing an **augmented service offering**
- Managing **image and communication**

The first step is to develop a *service concept*, the concept which determines the intentions of the organisation and upon which the offering can be developed. Schools, departments or faculties in tertiary institutions are education providers which, for example, would like to provide ‘good quality’ education to different types of students. This could be part of their service concept.

The second step is to develop a *basic service package*. The *basic service package* describes the bundle of services that are needed to fulfill the needs of customers or target markets. There are three groups of services: *core services, facilitating services (and goods)* and *supporting services (and goods)*. The *core service* is the reason for being on the market. For an airline, it is transportation and for a university (for the purposes of this project) it is providing academic programs (either by coursework or by research) to students. The distinction between *facilitating services* and *supporting services* is not always clear. *Facilitating services* are mandatory. If they are left out,
the service package collapses. The facilitating services should be designed so that they also become a means of competition and this helps to differentiate the service.

In tertiary institutions, services such as student enrolments, student records, library, examination and assignments are facilitating services. The supporting services can include information and communication technology (ICT), for example, email and online learning environments. These can also enhance their competitive power. Facilitating services in some circumstances become supporting services in other situations. For instance, well-equipped gymnasiums are a type of facilitating services for students who study sports courses. However, they are only supporting service for students who take EC/EB courses.

Grönroos emphasises that the perception of the service process cannot be separated from the perception of the elements of the basic package. The process has to be integrated into the service product. Otherwise, the product concept used by the management will not be equivalent to the one perceived by customers.

So the third step is to develop the augmented service offering which is mainly concerned with the service process. There are three elements in this offering: accessibility of the service, interaction with service organisation and consumer participation.

- **Accessibility of the service** can include the number and skills of the personnel; office hours, timetables; location of offices, workshops, service outlets; tools, equipment, documents and the number and knowledge of consumers simultaneously involved in the process.

- There are four categories in interaction with the service organisation: interactive communication between staff and students; interactions with various physical and technical resources of the organisation; interactions with systems and interactions with other students simultaneously involved in the process.

- Lastly, customer participation is a concept which means the customer has an impact on the service s/he perceives – just as university students are participants in the learning process.

Grönroos states clearly that developing the service offering is a highly integrated process. This is significant when developing a new academic program. A new
supporting service cannot be added without explicitly taking into account the accessibility, interaction and customer participation aspects of that service.

The last step is to manage *image* and *communication*. Grönroos argues that a favourable *image* enhances the customers’ experience; a bad one may destroy it. Market *communication* includes activities such as sales, advertising, sales promotion and communication over the Internet. Therefore, managing *image* and *communication* become an integral part of developing the service offerings.

In Grönroos’ NetOffer model, the author also suggests that, as EC has been popular recently, marketers who wish to use the Internet to offer their goods or services to customers should take care to design their offerings in the form of service offerings which customers perceive and evaluate as services. On the basis of his augmented service offering model (see Figure 5-5), Grönroos develops a model for service offering over the Internet, the NetOffer model (Grönroos *et al.* 2000) which I discuss in the next section.

5.3.1.1 NetOffer model (Grönroos *et al.* 2000)

Nowadays service offerings are not limited to the traditional marketplace but are also found in the online “marketspace”, which I discussed under Type 4 in Section 5.2.2. Grönroos *et al.* (2000) argue that no systematic model of offerings in the virtual marketspace of the Internet is available in the literature and hence they contribute one based on the Grönroos (1990) augmented service offering model, which I discussed in the previous section. In developing the model for the virtual marketspace, a user interface element was added to the service package.

![Figure 5-6 The NetOffer Model for the Virtual Marketspace](Reproduced from: Grönroos *et al.* (2000, p.250))
A user interface now replaces the traditional salesmen, who persuade customers to buy their products. User interfaces cover all aspects of the interaction, for example, is the site easy to navigate and are all the links clear and logical? Information is a critical element in an internet offering. Therefore, a new information layer has been included between the service package and the augmentation elements of the offering. In order to make the service package function as an Internet offering, customer participation and communication were found to be necessary augmentation elements in a virtual marketspace environment. Figure 5-5 shows the service offerings for the virtual marketspace.

In the next section, I discuss the way in which these two models relate to the offering of new academic programs.

5.3.1.2 Discussion of Grönroos’ two models

In Figure 5-5, we see Grönroos’ first model: the augmented service offering (ASO). The ASO must attempt to represent all aspects of a service that customers perceive. Grönroos discusses the process for the development of a (new) service product, starting with the service concept which determines the intentions of the organisation. If we apply this model to the development of new educational programs, the service concepts are well understood — that is, to offer an educational program to students. Universities have a clear understanding of their intention or service concept, and I believe that there is no need to include this in my model for developing educational programs.

The second step is to develop the three parts of the basic service package, i.e. the core service, facilitating and supporting services. Here, I would say the core service is the curriculum for the new degree program, such as a new EB degree program. The core service includes the objectives of the new program, together with the number of units and their contents and the prerequisites required of each unit.

The facilitating services depend totally on the core service. For instance, the facilitating services for offering a new physics educational program are completely different from offering a new EB program. Sometimes, a completely new facilitating service can be developed for that particular new educational program. In one example, the data that I gathered from the interviews at the University of Hong Kong for offering a new EC degree demonstrated that they had their own systems
(facilitating services) for student administration, enrolment and payment for the program. In this particular case, new facilitating services had to be planned ahead in detail when they decided to offer new programs.

Supporting services, such as library or computer facilities, may be supplied from the existing ones. This may not be a major issue of concern.

The core service is the major concern and it will take considerable time and expertise to develop.

The third step is to develop the augmented service offering which is related to how the service is being provided. Accessibility of the service may include issues such as whether the programs are offered in on-line mode, so that students such as busy workers, those living in remote areas and disabled students can access the program, in face-to-face mode, or via a combination of both access modes. The delivery mode of the program may be in the format of lectures, tutorials, workshop, discussions, students’ projects and industrial visits. Interactions concerns how students interact with staff members. This does not necessarily only restrict to the academic staff members but also with the administrative staff in enrolment and examination offices. For customer participation, students are expected to participate in all the learning activities during their enrolment in order to obtain the maximum benefit from their learning.

Amongst these three issues, only accessibility of the service is of great concern in the development of a new educational program. Interactions with the service organisation are already common practice or routine procedures within academic schools or faculties. When developing a new educational program, it is not necessary to take this issue into consideration during the planning stages. As we already expect students to participate throughout the period of their study, customer participation is, once again, not something new for an educational service product. Thus, I believe that only accessibility of the service is relevant and appropriate in developing a new educational program.

The last step is to manage image and communication. These two issues are significant for developing a new educational program, particularly in a highly competitive society. There is a need to contribute to the institution’s positive image, and to promote the new education program. These are inevitable aspects to be considered when an institution offers a new program. However, corporate image
cannot be established by the effort of program developers alone. This is a long-term effort, and it requires the assistance and support of a wide variety of other stakeholders (including the university’s senior management and prospective employers of students) to build up the institution’s corporate image. The complexity and multi-stakeholder nature of this issue make it inappropriate as a component of my NESPO model.

In summary, the issues taken from Grönroos’ augmented service offering model which may be selected for developing a new educational degree program are to develop the: core service, facilitating services, accessibility of the service, local image, word-of-mouth communication and marketing communication.

Next, besides the brick and mortar (face-to-face) mode of offering new education programs, many institutions are now beginning to offer new programs which are available purely via online delivery (click and mortar). The NetOffer model of Grönroos et al. (2000), (see Figure 5-6), is particularly appropriate to online educational programs.

Although Grönroos et al. (2000, p. 249) point out that the service concept is the foundation of the service package and for the augmentation of the package into an Internet offering, this issue can be omitted from the discussion which follows —and from the NESPO model, since the service concept is clearly understood when offering a new educational program.

According to Grönroos et al. (2000), an additional element termed “user interface” (UI) is included in the service package (see Figure 5-6). The UI is considered part of the service package, because it more or less has to sell the offering itself. It has to be visually appealing and technically functional. This new issue needs to be brought to the attention of the education service product developers. Traditionally, with a new degree program, developers are mostly interested in identifying whether sufficient expertise or teaching resources are available for the new program. When the new program is offered through the Internet, however, the developers should instead consider whether staff members have sufficient skills to handle both the web technology and subject matter.

According to Grönroos et al. (2000, p.249) customer participation in this case means that the skills, knowledge and interest of customers are sufficient to access and operate the UI: they can make a purchase, ask questions and make complaints,
receive responses. By facilitating user-oriented communication, the Internet marketer helps the customer to purchase and consume goods and services offered via the Internet.

The discussions about participation and communication are in fact quite similar to the discussions concerning the EC/EB academic program web sites, which I discuss in Section 7.2 in more detail. Hence, I think that it is not fundamental to include these two elements when developing a new educational program. In summary, in the NetOffer model of Grönroos et al. (2000), only the elements of core service, facilitating services, user interface and information should be considered for offering a new educational program online.

In the next section, I will discuss another augmented service offering which is developed by Storey and Easingwood (1998).

5.3.2 Augmented service offering model (Storey & Easingwood 1998)

Storey and Easingwood (1998, p. 335) argue that producing tangible products may require significant investments of time and effort. However, in some cases, competitors can easily duplicate the core elements of a firm’s new service. They therefore suggest that managers must understand the totality of the service offering from the customer’s perspective. They explain that the purchase of a service is influenced not only by the service itself, but also by such factors as the service firm’s reputation and the quality of the customer’s interaction with the firm’s systems and staff — in other words, by the augmented service offering. They formulate a conceptual model of augmented service offering (ASO) (see Figure 5-7), which builds on the work of Cooper and Kleinschmidt (1987; 1990), de Brentani (1989; 1991) and Cooper et al. (1994). The ASO Model comprises three major parts: service product, service augmentation and marketing support. Figure 5-7 shows the augmented service-offering model of Storey and Easingwood (1998).
Firstly, the service product in ASO consists of core offering and thus includes descriptions of the product itself and the product characteristics. The service product was described as the basic service package by Grönroos (1990; 2000) and is made up of five underlying product aspects: product quality, product adaptability, product distinctiveness, physical evidence and perceived risk.

- Factors present in product quality are the product’s reliability, accuracy and consistency.

- Product adaptability is the degree to which the specifications of a product can be updated to meet the changing needs of a customer, different services can be packaged together to meet the requirements of customers or the offering can be adapted to the needs of the individual.

- Product distinctiveness measures the uniqueness of the product and the relative advantages a product offers over the competition.

- There are two types of physical evidence – the tangible representations of the service and the physical environment. Examples of tangible representations are the ‘bank cards’ for the bank service, or in our present context, the good quality lecture notes. Examples of physical environment are the bank’s appearance and the user-friendliness of its facilities; in fact, these are part of

Figure 5-7 Components of the Augmented Service Offering
service augmentation too. In my case, it is a well-equipped lecture theatre or classroom.

- A product with high perceived risk is one for which the consequences of the product performing below expectations are of major significance to the consumer and where the expected performance is difficult for the consumer to predict.

Next is service augmentation which mainly relates to the service process and its impact. There are five main types: effective communication, distribution strength, reputation, customer experience and staff-customer interactions:

- One of the elements of effective communication, such as word-of-mouth, can have a direct effect on the service experience. Word-of-mouth communication at the time of consumption can change a customer’s perception of the service received.

- Distribution strength describes the accessibility achieved by the product in its target markets.

- Reputation measures the degree of confidence the customer has in the company and its products, how reliable the firm is, and its perceived expertise in its field.

- Customer experience means existing customers who are more likely to purchase a product they are familiar with and purchase if from a firm they perceive as meeting their needs.

- Staff-customer interaction measures the quality of the interactions between customers and staff in terms of friendliness, courteous, promptness and efficiency of the contact.

Finally, there is marketing support which includes those internal marketing and marketing-related management actions that the customers would not normally be aware of but which do affect the quality of the product and its augmentation. The marketing support given to a new service is characterised by five elements, i.e. market knowledge, investment in systems, staff training and skills, effective operations and launch strategy.

- Market knowledge measures the extent to which the firm understands the customers’ needs and wants.
• **Investment in systems** is the measure to which new operating systems and new equipment is developed for the new products, as well as the extent to which the new technology is employed in the operation in the new service.

• **Staff training and skills** refers to training of technical staff in a field of customer contact; their skills and knowledge of the product and their preparedness for a new product. A formal launch and gradual launch are two main types of **launch strategy**.

• **Effective operations** is a measure in which the operating and delivery systems can cope with the requirement of customers, the demand for the product, whether there was sufficient investment in these systems and the appropriateness of the technology inherent in them.

• A formal launch will give the product a high presence in the marketplace and increase sales, whereas a gradual launch, initially aimed at one or two customers, has the opposite effect.

I have briefly introduced the ASO model (Storey & Easingwood 1998) and in the next section, I discuss how this model may be adapted for the NESPO model.

### 5.3.2.1 Discussion of Storey and Easingwood’s (1998) ASO model

Storey and Easingwood (1998) emphasise that when offering services as a product, the developer should consider not only the ‘core product’ but also its ‘augmented service offering’. The authors provide a very comprehensive model which is mainly used for the finance sector, for example, in banking. The objective of the ASO model is to identify the constituents of offering a new service which will lead to the success of this service. This model is more complicated and ‘richer’ than Grönroos’ (1990; 2000), being made up of fifteen elements in three major circles (five elements in each circle). Amongst these fifteen elements, several elements are relevant for offering a new educational degree program.

For the inner circle, **service product**, I consider that elements such as **product quality**, **product adaptability**, **product distinctiveness** and **physical evidence** are appropriate for developing a new educational degree program. **Perceived risk**, however, is less appropriate for the NESPO model because it is more reliant on customer perceptions, which do not have to be considered from the perspective of educational program developers.
Of the elements contained in the middle circle, service augmentation, staff-customer interactions, reputation and customer experience may not be appropriate for the NESPO model, because staff-customer interaction usually follow common practice within academic schools or faculties. The reputation of a firm, in my case the reputation of an institution or a university, is not established within a short span of time and the program developers will definitely in some ways contribute to it. However, this is not a major goal for the program developer when designing a new degree program. Customer experience needs not to be considered as students will not necessarily have experience of that particular university before they enrol in a new program at that university. The other two elements, distribution strength and effective communication, however, are appropriate for the NESPO model and are consequently included.

Finally, two elements in marketing support are appropriate when offering a new degree program: market knowledge, and staff training and skills. Market knowledge is the firm’s understanding of the customer’s needs and wants. In fact, it is not only the needs of students; it should include the needs of the society and the job market as well. Staff training and skills must be considered, for example, whether there is sufficient expertise to develop and deliver the new degree programs.

However, the elements such as launch strategy and investment of systems are dependent significantly on the situation of the universities. When a new degree program is being offered, the budget for program development is a crucial factor, as this will affect the development of program contents, facilitating services and goods. From the results of my interviews, however, not many institutions have invested a lot of financial resources to develop a new program. So in this situation, it is not recommended to include investment of systems and launch strategy as elements of marketing support. On the other hand, if institutions have invested heavily in the new systems for the new degree program to enhance their local image (which is mentioned in Grönroos’ model, Figure 5-5), I will suggest this element to be placed under the local image. Consequently, I will not include investments in systems in my model.

Effective operations are issues for consideration as to whether the existing system can cope with the new service products in terms of increasing the number of participants (students and staff members) in the system and, for instance, whether the computer server can cope with the necessary traffic when the number of staff
members and students increase when offering a new program. For a short course, it may affect the decision of potential students to choose the program. However, for a long-term program, this may not be a factor to influence students’ decisions.

As I have discussed above, there are many elements in the ASO model which can be ‘borrowed’ for the development of new educational programs. In the next section, I discuss another service-offering model – that of Kotler and Fox (1995) – which is particularly suitable for offering educational programs.

### 5.3.3 Educational offerings model (Kotler & Fox 1995)

In the educational context, Kotler and Fox (1995) also frequently refer to educational offerings as products and services. As I have discussed in Chapter 2, service offering involves special challenges because most services are intangible, inseparable, variable and perishable. Most services do not exist until the service provider performs the service, usually in the presence of the customer. Kotler and Fox (1995, p. 278) argue that most educational services combine both tangible and intangible elements — they are not ‘pure’ services. In fact, most services involve some physical elements. Kotler and Fox’s 1995 educational offering model includes three levels of service offerings — the core, tangible and augmented. The core offer refers to what customers are really seeking and what need the service is really satisfying. The tangible offer relates to those facilities that can enhance customers’ core service and benefits. The augmented offer is the additional services and benefits that the marketer can offer the target market that go beyond the core offer and the tangible offer. Figure 5-8 shows the educational offerings model.
At the most fundamental level stands the core offer, which relates to the core benefit or service of the core product – educational programs.

The middle level, tangible offer, can be described as having five characteristics: features, quality, packaging, brand name and styling. Features are individual elements of the offer that could be easily added or subtracted without changing the service’s style or quality. Each of them can be modified to make the offer more attractive to consumers. Quality represents the perceived level of performance of service. Packaging is the container or wrapper surrounding the specific product or service. Good packaging can add value beyond that perceived in the product itself. Kotler and Fox (1995) believe that the products and services of an educational institution can be branded – that is, given a name, term, sign or symbol that identifies them with the institution and differentiates them from competitors’ offerings. Kotler and Fox did not define styling in their book.
The outer level is the augmented offer. It includes accessibility, financing terms, guarantee and follow-up service. Kotler and Fox did not explain these terms clearly in their book.

In the next section, I discuss the steps in new program development as suggested by Kotler and Fox. Then I will come back to discuss how this educational offerings model can be applied to the NESPO model in Section 5.3.3.2.

5.3.3.1 Steps in new program development (Kotler & Fox 1995)
In addition to the educational offering model, Kotler and Fox (1995, pp.289-300) suggest steps in new program development. The authors state that some faculty planners ignored important considerations in planning for new program. They never considered what would be the best program ideas based on innovations in the field, career possibilities or student interests. They did not analyse past trends in graduate enrolment at the university and its competitors for clues about which programs would be most interesting to students and future employers. Finally, the recruiting plan used a shotgun approach of highly doubtful effectiveness. In order to improve this situation, Kotler and Fox adapt the concept of new product development process created by Urban and Hauser (1980, p.33) and suggest steps for new program development. Figure 5-9 shows the development process for new programs.

![New Program Development Process](image)

**Figure 5-9** New Program Development Process
*Reproduced from: Kotler and Fox (1995, p.290)*
The first step in developing a new program is opportunity identification. This involves selecting the best program areas, generating ideas, and screening test ideas to identify the best ones to turn into a new program. The second step is design. This includes several activities: such as measuring how consumers make their decisions about this type of program, what program features will attract them and what alternatives consumers know about. Concept development entails preparing descriptions of program alternatives. This step also includes designing the program and the marketing strategy to be used. Next step is testing. The marketers test the program in three areas: the market potential, its appeal to consumers and the proposed marketing strategy. The fourth step is introduction. After introduction is the final step - the new program must be managed to ensure that it will continue to be successful.

Kotler and Fox suggest a comprehensive way of developing a new program. However, in my project I interviewed the program developers in Australia, New Zealand, Singapore and Hong Kong and the results of my interviews made it very clear that few (if any) of the program developers made use of a specific development process model when offering their new programs.

In the next section, I discuss how Kotler and Fox’s (1995) educational offerings model (see Figure 5-8) can be applied to the NESPO model.

5.3.3.2 Discussion of Kotler and Fox’s (1995) educational offerings model

Compared to the previous two models I have discussed, Kotler and Fox’s (1995) model is simpler – and is specifically designed for offering educational programs. However, Kotler and Fox (1995) did not explain the characteristics of their terms: styling, accessibility, financing term, guarantee and follow-up service in their book, although most of these characteristics are significant for the NESPO model. The follow-up service, which is any service (such as student alumni, library facilities, career centres or sports facilities) which graduates can still enjoy even they have completed the service (graduated), is the only one not present in other models.

In the next section, I discuss Shostack’s molecular model (Shostack 1982) of service offering.

5.3.4 Molecular model (Shostack 1982)

Shostack (1982) developed a molecular model which uses a chemical analogy to help marketers visualise and manage what she has termed a ‘total market entity’.
Shostack’s model can be applied to either products or services. Shostack argues that, as in chemical formulations, a change in one element may completely change the nature of the entity. At the centre is the core benefit, addressing the basic customer’s need, linked to a series of other service characteristics.

_Service elements_ are often accompanied by physical objects which cannot be categorised as true product elements. These objects, or pieces of ‘evidence’, play the critical role of verifying either the existence or the completion of a service. There are two kinds of _service evidence_. The first is _peripheral evidence_, which is possessed as part of purchase and has little or no independent value, for example an airline ticket or, as in my case, a student card; it serves only to confirm the service. The second is _essential evidence_ which cannot be possessed by the consumers. Essential evidence may be so dominant in its impact on service purchase and use that it must be considered virtually an element in its own right. An example of an essential element provided by Shostack was the sudden loss of enthusiasm for DC-10 aircraft by US passengers after a couple of crashes involving these planes during the 1970s. Despite the fact that all the DC-10s in service were thoroughly checked, US passengers remained extremely unwilling to fly in these planes – and all US airlines eventually stopped using them. _Service elements_ and _service evidences_ are linked by _bonds_, which are used to signify clusters of elements having a high correlation in purchase decisions, or elements influencing usage of other elements or any other relationship deemed important by the marketers.

After all product and service elements have been identified, the _peripheral_ and _essential evidence_ associated with each service element are established by _bonds_. Then the remaining marketing elements should be added to the model.

Firstly, the marketer must consider the entity’s _distribution systems_. Secondly, the marketer should consider _entity’s cost_ and set a _proper price_. Finally, the marketer must consider the _promotion_ and _advertisement_ strategy of the entity. Figure 5-10 shows Shostack’s molecular model of products and services.
After the product and service elements of a complex entity are modelled, the marketer must thoroughly examine the structure of each element. This model does not show the way(s) in which the service functions. Hence, Shostack introduces a technique called service blueprinting and I discuss Shostack’s service blueprinting technique in the next section.

5.3.4.1 Service blueprinting

As a service is basically a process, service blueprinting rests, as it must be, on systems that have been developed to deal with processes, acts and flows. If we treat a degree program as a service product, what we offer to students is like a service product. Hence, applying Shostack’s service blueprinting technique, Figure 5-11 shows a simplified example of a blueprint for a student who studies an educational program.
This technique gives a general idea to the program developers of how the service will be processed. I now discuss how Shostack’s molecular model can be applied in developing a new educational service product.

5.3.4.2 Discussion of Shostack’s (1982) molecular model

Shostack’s molecular model is one of the earliest models that discussed on the product and service offering and provides a very clear method of distinguishing between products and services which are the basic elements of an entity. The model provides a guideline for offering a service but it does not describe how the services proceed. Hence Shostack suggests the service blueprinting technique for describing the service process and emphasises that when one element in the molecule changes, it will affect the whole molecule. This reflects the real situation when developing a new degree program. For example, when essential evidence changes — as in the case when prospective students for a new, high-status degree expect very high-quality facilities, this will affect the offer of the whole program in term of budget and development time and may delay the offer of the new program.

All four of these models have contributed, in one way or another, to the development of the NESPO model of new educational service product development. I have taken elements from all of these models and combined them in what seemed like the most effective and logical way, so as to create a model which would truly reflect the realities of designing and implementing a new, market-oriented degree program.

In the next section of this Chapter, I compare each of these four models and explain how I adapted those elements relevant to developing a new educational program.

5.3.5 Comparison of four service offerings models

Figures 5-5, 5-7, 5-8 and 5-10 show core product/benefit as essential for service offering. They both use a three-tiered model: a central core with supplementary areas. There are differences in the items of these areas reflecting the nature of the products in each case and Table 5-2 shows the comparison of these four models.
<table>
<thead>
<tr>
<th>Name</th>
<th>Augmented service offering model</th>
<th>Augmented service offering model</th>
<th>Service offerings model</th>
<th>Molecular model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Diagram</td>
<td><img src="image" alt="Figure 5-5" /></td>
<td><img src="image" alt="Figure 5-7" /></td>
<td>Figure 5-8</td>
<td>Figure 5-10</td>
</tr>
<tr>
<td>Proposers</td>
<td>Christian Grönroos</td>
<td>Chris Storey and Christopher J. Easingwood</td>
<td>Philip Kotler and Karen F. A. Fox</td>
<td>G. Lynn Shostack</td>
</tr>
<tr>
<td>Purposes</td>
<td>He provides a good model of services as objects, to be produced, and consumed for the purpose of service management.</td>
<td>They identify the components of the model, and they examine the relative contributions of these components to the success of new services. This model is mainly for financial sectors.</td>
<td>They analyse a service on three levels: core, tangible and augmented. By understanding three levels, the marketer can fine-tune the service to be most attractive to consumers. This model is mainly for institutions to offer their academic programs.</td>
<td>She provides this model and the service blueprinting technique to the marketers that can lead to the kind of experimentations and management so necessary to service innovation and development.</td>
</tr>
</tbody>
</table>
| What customers receive | Service package:  
- core service  
- facilitating services  
- supporting services | Service product:  
- product quality  
- product adaptability  
- product distinctiveness  
- physical evidence  
- perceived risk | Core product:  
- Core benefit or core service | Entity:  
- service element  
- product element  
- service evidence |
| The service process   | Augmented service offering:  
- accessibility of the service  
- customer participation  
- interactions | Service augmentation:  
- distribution strength  
- effective communication  
- staff/customer interactions  
- customer experience  
- reputation | Part of augmented product:  
- accessibility  
- follow-up service | Distribution system:  
- distribution strategy;  
- Service blueprinting technique |
| Marketing strategies  | Image and communication:  
- corporate image  
- local image  
- word-of-mouth communication  
- marketing communication | Marketing support:  
- staff training and skills  
- effective operation  
- launch strategy  
- market knowledge  
- investment in systems | Tangible product:  
- features  
- styling  
- quality  
- brand name  
- packaging; and Part of augmented product:  
- financing terms  
- guarantee | Cost and price of entity:  
- pricing strategy  
- Image of entity:  
- advertising/promotion strategy (including evidence strategy for service elements) |
5.3.5.1 Common elements in four models

The service offerings models (Grönroos 1990; 2000; Storey & Easingwood 1998; Kotler & Fox 1995; Shostack 1982) are presented in the form of three concentric circles. In general, in all cases, the inner circle is what the customers receive - the core service/product, regardless of the different terms that different proposers used. This is the major issue to be considered when the organisation offers/develops a new service: what service(s) (together with accompanying goods) will be provided to the customers. The middle circle, in general, is a brief description of the elements required for service process. The outer circle is more focused on marketing strategies.

The inner circle (in Table 5-2: what customers receive) is the core service/product. Grönroos (1990; 2000) emphasises the facilitating and supporting services which contribute to the core service. Shostack (1982) gives more emphasis to the distinctions between products and services which will be offered to the customers. She also suggests that service evidence which bonds to the physical objects should be considered at this stage. Kotler and Fox’s model (1995) is the simplest: they just mention the core service or core benefit. Storey and Easingwood (1998) put more emphasis on the fundamental nature of the service product which is offered to customers. Despite the different terms used in the different models, the main common point of these four models is the consideration of the core service/product that the organisation will offer to their customers.

The middle circle (in Table 5-2: the service process) is more focused on how the core service is being processed and the elements which relate to the service process. The common elements in this circle, in general, are distribution strategy/strength; accessibility and interactions. Kotler and Fox (1995) is the only model which mentions follow-up service. The characteristics of this circle are mainly the elements/factors which relate to the service process which the services offer. The step-by-step service process is not included in the above models. This marks the major difference between the characteristics of this circle with the new service development process. The new service development process models put more emphasis on the steps of how the new service is being developed (refer to Section 5.3.3.1 and Figure 5-9).

The outer circle (in Table 5-2: marketing strategies) of three of the models (Grönroos 1990; 2000; Storey & Easingwood 1998; Shostack 1982) is more focused on
marketing strategies, whereas Kotler and Fox (1995) consider these as the elements of tangible offer, which is the middle circle in their model. Common elements found in these models, in general, are image and communications.

In contrast with Kotler and Fox (1995), the other three models clearly mention that the procedure for the service offer development is from the inner circle, then the next – middle circle and the final circle – outer circle. This provides a guideline of how to develop a new service offering even though the steps are not specifically detailed.

Both Grönnroos (1990; 2000) and Shostack (1982) stress that when there are minor changes of one element, it will affect the development of the whole model.

In the next section, I discuss what elements I selected from these four models for my own model of new educational service product.

5.3.5.2 Elements selected from the four models

I have clearly discussed the reasons for selection of all those elements from each of the four models in previous sections. In this section, I summarise the elements that I have ‘borrowed’ from these four models which will be adapted for the NESPO model of new educational service product offering.

I made my selection on the basis of certain criteria. As argued earlier, there are certain features that are already contained in the policies and procedures of institutions, for example, processing student enrolments and library facilities, the way(s) in which staff and students interact. Program developers are not in a position to make such decisions when they plan to develop new programs. Consequently, elements such as supporting service and staff-customer interaction will not be included in the model. There are other features such as reputation and corporate image which cannot be established within a short period of time. Hence, I do not include them in my model.

The other major difference between my model and the four mentioned service offerings models are customers (students) who are already encouraged by the institutions to take very active roles in the process of service. Hence, customer participation and customer experience are not included in my model.

The criteria for acceptance of the following elements relate to the direction of this research project where I ensure that experience or theories from business for developing service products is relevant to institutions developing ‘service products’.

The most essential part of offering a service is the core service, which is the inner
circle. I have selected the elements: core service and facilitating services from Grönroos (1990; 2000); product quality, product adaptability, product distinctiveness and physical evidence from Storey and Easingwood (1998); core service from Kotler and Fox (1995) and service element, product element and service evidence from Shostack (1982). Among the four different terms used to represent this circle: service package, service product, core product and entity, I chose service product as being the most appropriate for the new model.

The next step is to consider the elements related to the service process, which is the middle circle. I have selected the elements: accessibility of the service from Grönroos (1990; 2000); distribution strength and effective communication from Storey and Easingwood (1998); accessibility and follow-up service from Kotler and Fox (1995) and distribution strategy from Shostack (1982). I believe that the terms/concepts: augmented service offering, service augmentation, augmented product and distribution system do not totally reflect the situation. I suggest the term/concept service distribution to describe most elements of this circle.

The final step is to consider the marketing issues, which are the outer circle. I have selected local image, word-of-mouth communication and marketing communication from Grönroos (1990; 2000); staff training and skills and marketing knowledge from Storey and Easingwood (1998); pricing strategy, advertising/promotion strategy from Shostack (1982); marketing support from Storey and Easingwood (1998); features, styling, quality, brand name, packaging, financing terms and guarantee from Kotler and Fox (1995) as well as styling and quality for inclusion in the core service. Among the four different terms used to represent this circle image and communication, marketing support, tangible product and image, cost and price of entity, I chose marketing support as being the most appropriate for the new model.

Having analysed the four models on which I based the NESPO model, and explained how I went about selecting the components for my own model from these widely-accepted and very well-known marketing models, I now proceed to develop an initial model for new educational service product offerings.

5.4 Model for New Educational Service Product Offering (NESPO)
I have, for some time, been investigating the explosive development of tertiary EC/EB programs in universities within the AP region. During the early days of this research project I focused on the issues of curriculum development associated with
this rapid program development process — but it became apparent over time that these programs were being developed in a manner which was more akin to the concept of ‘service products’, as I have explained in Section 2.3, than to traditional pedagogic curriculum development.

In my interviews, I specifically asked program developers if they had followed any development process models. Every response was negative and often included surprise at the mere possibility of such an approach. However, I have summarised three models of new EC/EB program development which I discuss in Section 8.2.2.

Using the existing marketing literature, I found that the current new service development process models were not a very appropriate tool for program developers to develop new degree programs nowadays. Firstly, Schneider and Bowen’s (1984) original focus was on the new service development process, and they regarded design as the first step in the process of bringing new services to market, rather than the development process. Secondly, Menor et al. (2000, p.136) stated that the generally accepted principle behind new service development is that ‘new services happen’ rather than occurring through a formal development processes. Thirdly, Kotler and Fox (1995, pp. 289-300) suggested steps in developing a new program which I have mentioned in Section 5.3.3.1 – but in interviewing program developers, I found that they did not follow any steps for the development of their new programs, but rather “played it by ear”.

In this section I am therefore not so much concerned with how the educational service product is being developed, but rather I concentrate on the service offerings of the new educational service products — educational academic programs. Johne and Storey (1998, p.185) have a specific term for service offering, namely offer development. They define offer development as the development, by the supplier, of core product (or service) attributes plus the development of the process by which the product is evaluated, purchased and consumed. Despite the different terms but with the same meaning: service offerings, service offer or offer development, I would like to develop an initial model for new educational service product offering based on Grönroos (1990; 2000), Storey and Easingwood (1998), Kotler and Fox (1995) and Shostack (1982). I will pick up the elements from their models which are relevant for developing a new educational service product, which I discussed in Section 5.3.5.2. I will also address the deficiency in all these elements and make suggestions for the new model.
5.4.1 Purpose, audience and scope of the model

Offering new educational service products is beneficial to institutions in order to increase their competitive and survival power. It is also essential because of the inevitable life cycle phenomenon.

5.4.1.1 Competition and survival

With increasing globalisation of the economy and intense high-speed competition, firms will increasingly find it difficult to survive just on their past successes. They will need to be continually innovative, and to strive for the creation of new ideas and new products (Kelly and Storey 2000; Verma et al. 2002). Marginson (2000) argues that ‘higher education’ is a quasi-market with expanding zones of commercial activity since the Australian Commonwealth Government reforms of 1987-89 restructured the higher education system. Newly marketed services such as education usually exhibit some market characteristics, but not all. Quasi-market describes this intermediate zone. Marginson (1997, p.38) claims that positional goods in education provide students with a relative advantage in the competition for jobs, income, social standing and prestige. Offering a new service product with high ‘positional’ value, particularly self-funding places, may help universities compete with other similar institutions and help students to compete for jobs.

The export of higher education (Gatfield 1995) and franchised courses in higher education (Goodall 1994) increases the revenue of the institutions and hence increases the competition and survival power.

The market these days must respond to the demand for life long learning, which is a feature of modern society (Commonwealth of Australia 1998, p.10).

Australian education services have grown since 1985 to become the country’s 8th largest export income earner, with the potential to grow substantially further (ABS 5302.0 Balance of Payments and International Investment Position, Australia), and AVCC (2002) suggests that higher education will join ‘resources’ and ‘services’ in the top three value-adding Australian exports by 2020. It also suggests that there will

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39 In a quasi-market in higher education, for example, there might be competition between institutions, corporate-style management and some commercial activity, but then number of student places may be affected by factors other than supply and demand (for example, public funding of tuition costs and the planning of student load) and degrees and academic standards may remain regulated by universities, public authorities or by custom and decree (Marginson 2000, p.51).

40 Limited number of places for a particular course, for example medicine and law.

41 The rational for franchising was that it was a way to broaden the range of courses on offer, improve the status of the college and widen the target market (Goodall 1994, p.27).
be a shift from a rigid target for student places to a flexible target, funded at appropriate per student rates. Due to this educational policy, offering new degree programs is essential in universities.

5.4.1.2 Product life cycle theory

I have argued that degree programs are service products in previous sections. Van de Ven and Poole’s (1995) process theory states that there are four stages in a product life cycle: start-up, grow, harvest and terminate. Each product grows through the stages of birth and death, which is same for educational service products. It is considered a very common practice for universities offering new programs to follow such cycle. Figure 5-12 shows the life cycle process.

**Figure 5-12 Life Cycle Process Theory**

*Based on: Van de Ven and Poole (1995, p. 520)*

Kotler and Fox (1995, p.283) state that programs and services as passing through a life cycle of introduction, growth, maturity and decline. Few programs and services remain optimal forever.

5.4.1.3 Types of audiences

My model is aimed at university academics and program developers. They may not be aware that in offering new educational academic degree programs, just as in offering new service products, they should consider various marketing elements.

5.4.1.4 Scope of the model

This model is aimed at offering degree programs at university levels – particularly ‘new’ programs. The term ‘new’ that I define in this model as used by Lovelock’s new service classification ranged from major service innovations to supplementary service innovations (refer to Table 5-1) to Johne and Storey’s new service
development and market classification including market development, product
development and diversification (refer to Figure 5-4).

5.4.2 Structure of the model
Urban and Hauser (1993, p.166) suggest that the design process is based on an
understanding of consumer behaviour which recognises that consumers (customers)
make decisions about products based on their own perceptions of those products and
on the priorities they implicitly assign to product benefits. Rust et al. (1995) find that
the traditional four Ps of product marketing (product, price, place and promotion) are
inadequate to describe the key tasks of a service marketer’s job. Three more Ps are
added to describe service. These 7 Ps of services are: product, price, place and time,
promotion, process, physical evidence and participant. For an educational program,
the educational marketer is typically offering a service and has a marketing mix of
seven marketing tools, the 7 Ps: program, price, place (delivery system), promotion,
processes, physical facilities, and people (Kotler and Fox 1995, p.276). All these will
be considered when I develop the model for offering a new educational service
product.

5.4.2.1 Major entities which shape the model
I found that there are three major entities which set the scene for program developers
when they are planning to offer new service products, namely educational provider,
students and government and society. All of the four models (Grönroos 1990; 2000;
Storey & Easingwood 1998; Kotler & Fox 1995; Shostack 1982) emphasise the
characteristics of the service product which is being offered, but none of these
entities are mentioned in their models. Under each entity, there are several factors
which will directly shape the development of new service product.

Educational provider is the universities which plan to offer the new service product.
Before the development of the new service product starts, factors relating to the
educational provider must be considered, including: development time, and
resources which in turn include budget, expertise, information and technology.
Development time is an essential factor; say for example, the new program will be
put to the market in two weeks time. This may not be possible. In the present case,
there is no need to consider further. Budget is how much the provider will invest in
the new program. It will certainly influence the quality of the new product. Other
resources such as expertise, information and technology obviously are crucial.
The second entity is *student*. This concerns the student’s *benefit* and *expectation and learning style*. *Benefit* from students’ perspectives is different from the program developers’. This will influence the development of a new program. For example, students may think that one benefit of taking that particular program is getting to know their classmates in order to form a network to further establish their career, while the program developers may have quite different concepts of ‘*benefit*’. To the students, whether the program adds value, i.e. *value-added*, is also one of the benefits they will consider.

*Expectation and learning style* may differ from student to student and from country to country. These influence the development of the course, particularly in distance learning or online learning.

The third entity is *government and society*. The relevant factors include *government policy*, *social acceptance* and *social economy*. *Government policy* on education, for example, will be in the form of financial supports for students, research and development support for institutions, and they have strong bearing on how school will develop which programs. Social acceptance is whether the society is ready to accept the new directions. In my interview with one of the program developers in Hong Kong, he told me that they offered the first EC subject in Hong Kong in 1995. At that time, not many people knew what it was and consequently only five students enrolled in this subject. *Social economy* including the unemployment rate will certainly influence the development of new program. These issues are summarised in Figure 5-13.

![Figure 5-13 Three Major Entities which Influence the Development of New Educational Service Product](image)

5.4.2.2 *Proposed model*

In this section, I propose a model for offering a new educational service product based on four service offerings models (Grönroos 1990; 2000; Storey & Easingwood
1998; Kotler & Fox 1995; Shostack 1982). In Section 5.3.5.2, I discussed the elements of their models which I found to be useful in developing my model for the offering of new educational service product.

Having thoroughly considered all relevant aspects of these models, I can now construct my new model. Firstly, I rearrange elements from the four models and add a new one. All these elements have already been discussed in previous sections. But *follow-up service and financial terms* from Kotler and Fox’s model (1995) were not defined or discussed by these authors, leaving me to explain these two elements here. In my model, *follow-up service* is one of the elements to be considered. When students are studying a program at the university, they build up a relation with that university. They belong to the university and they can enjoy the service that the university provides to them. The question here is how to continue such relationship after the service has been provided. For example, a university graduate still has a tie with his/her university, but not as strong as that of current students – and yet the effective management of alumni relationships is a major reason why US universities are so much wealthier than their antipodeans equivalents.

Market research and modelling will need to be in place to arrive at the optimum price which can be charged. Universities are, understandably, anxious to maximise income from fashionable new degree programs — but a trade-off must be made between the price the market will bear and the quality of facilities and staff expected in return for a high-priced, premium product. Since program fees are not cheap, payment schemes such as paying by HECS 42, employer sponsorship or scholarships should be promoted. Payment options such as cash, cheque, or credit card at the university’s administration offices or at a bank are available to students. Paying fees online is an alternative and modern option. *Financial terms* such as payment schemes and payment methods through market research and modelling techniques will need to be in place to arrive at the optimum price which can be charged.

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42 The Higher Education Contribution Scheme (HECS) was introduced in by the Australian federal government in 1988 as a “fair and equitable” way of ensuring students contributed to the cost of their higher education. It was considered reasonable that students who directly benefit from higher education should pay part of the cost, while the Commonwealth pays the major part of the costs involved. The interest free deferred payment arrangements means that students are not prevented from participating in higher education if they are unable to pay the contribution up front (although deferred payment attracts interest charges). Like most such schemes, the amount involved has increased steadily over the years since HECS was introduced, rising from A$250 pa in 1988 to well over A$6,000 pa in 2003.
In my model, I add a new element, *newness*, to the inner circle. Level of newness (refer to Section 5.2) will affect the development process significantly. If it is a completely ‘new’ program, then it will take more time and resources to develop.

My model, like most of those on which it is based, consists of three concentric circles, namely *service product*, *service distribution* and *marketing support*.

---

**Educational Provider**
- development time
- resources

**Students**
- benefit
- expectation and learning style

**Government & Society**
- educational policy
- social acceptance

**Service product**
- core service
- newness
- product quality
- product adaptability
- product distinctiveness
- facilitating services
- service evidence

**Service distribution**
- distribution strength/strategy
- effective communications
- staff training and skills
- follow-up service

**Marketing support**
- market knowledge
- local image
- advertising/promotion
- financial terms

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**Figure 5-14** A Proposed Initial Model for the New Educational Service Product Offerings (NESPO)

The inner circle is the *service product* which contains core service that the educational providers will offer. The middle circle is the *service distribution* where the major concern is how the service is being distributed. The outer circle is *marketing support*. Students may not be aware of the marketing support elements, but these elements provide the context for the service and clearly would be considered to affect the success of the service product. Figure 5-14 shows the proposed model for offering a new educational service product.
In my model, the *entities* on the left side shape the developmental work of the new program. The actual detail for the developer is demonstrated in the concentric circles. Changes to any element will affect other aspects of the model. For developers in education, we can predict that change will happen, and will happen more frequently, particularly in the field of technology. Therefore, allowance for change must be built into the model. Table 5-3 provides reference to each element in the model so that, in later discussions, the reader may use this Table to locate relevant explanation for such element.

### Table 5-3 References for Elements of New Educational Service Product Offerings

<table>
<thead>
<tr>
<th>Model</th>
<th>Service Product</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>core service</td>
<td>Grönroos means the basic reason for being in business. In this research it refers to the objectives of the new program together with the number of units and their contents and the prerequisites of each unit, i.e. curriculum of a program.</td>
</tr>
<tr>
<td></td>
<td>newness</td>
<td>refers to market and product newness in high and low levels.</td>
</tr>
<tr>
<td></td>
<td>product quality</td>
<td>is an attitude formed by a long-term, overall evaluation of a performance.</td>
</tr>
<tr>
<td></td>
<td>product distinctiveness</td>
<td>is the uniqueness of the product and the relative advantages a product over the competition.</td>
</tr>
<tr>
<td></td>
<td>product adaptability</td>
<td>is the degree to which the specifications of a product can be updated to meet the changing needs of a customers.</td>
</tr>
<tr>
<td></td>
<td>facilitating services</td>
<td>refers to mandatory service, without it the service product will collapse.</td>
</tr>
<tr>
<td></td>
<td>service evidence</td>
<td>refers to pieces of ‘evidence’ play the critical role of verifying either the existence of the completion of a service.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Service Distribution</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>distribution strength/strategy</td>
<td>refers to the accessibility achieved by the product in its target markets.</td>
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<tr>
<td></td>
<td>effective communications</td>
<td>represents many ingredients of the communication mix, including the branding and positioning of the product, the consistency of the strategy, which provide customers reassurance when they decide to purchase the product.</td>
</tr>
<tr>
<td></td>
<td>staff training and skills</td>
<td>training of staff in a field of customer contact; their skills and knowledge of the product and their preparedness for a new product.</td>
</tr>
<tr>
<td></td>
<td>follow-up service</td>
<td>is a service or facility in which the customers can still enjoy them even the customers have completed the service.</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Model</th>
<th>Marketing Support</th>
<th>Descriptions</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>market knowledge</td>
<td>is the organisation’s understanding of the customers’ needs and wants.</td>
</tr>
<tr>
<td></td>
<td>local image</td>
<td>refers to common consensus of quality assurance and positive branding impressions amongst customers in the market.</td>
</tr>
<tr>
<td></td>
<td>advertising/promotion</td>
<td>advertising can be defined as all paid-for, non-personal communication in measured media. This includes television, radio, print, outdoor media, online media, and cinema. Promotion is a specific activity, defined as the making of a featured offer to defined customers within a specific time limit.</td>
</tr>
<tr>
<td></td>
<td>financial terms</td>
<td>refers to price, payment scheme and payment methods.</td>
</tr>
</tbody>
</table>

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