Some Musings on Service-Dominant Logic and (Service) Innovation

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The Importance of the Right Logic

- Without changing our pattern of thought, we will not be able to solve the problems we created with our current pattern of thought
  - Albert Einstein

- The greatest danger in times of turbulence is not the turbulence: it is to act with yesterday’s logic.
  - Peter F. Drucker

- The main power base of paradigms may be in the fact that they are taken for granted and not explicitly questioned
  - Johan Arndt

- What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process creating utility.
  - Wroe Alderson
Goods-Dominant Logic Model: Goods, Value Production and Consumption

The Source: Smith’s Bifurcation (The Wealth of Nations)

- Model of Economic Exchange
  - Division of labor (specialized knowledge & skills)
- National Wealth Creation in Context or 1776
  - Export of knowledge/information embedded in people/things
  - “Productive” = “labor” contributing to surplus exportable, tangible goods
Wrong Thinking about Service(s): The G-D Logic Perspective

Value-enhancing add-ons for goods, or

A particular (somewhat inferior) type good, characterized by (IHIP):

- Intangibility
- Heterogeneity (non-standardization)
- Inseparability (of production and consumption)
- Perishability

Services Economy = Post Industrial = Less-than-desirable economic activity
Perspectives on Innovation

Goods Innovation
- Making better output (goods)
  - New technology
  - Efficient processes
    - Decreasing returns to scale
  - Purpose: increase market share

“Services” Innovation
- Making better output (“services”)
  - Apply goods innovation principles, adjusted for service deficiencies (“IHIP” characteristics)

Service Innovation
- Providing better input into customers’/actors’ value-creation processes
  - Link firm-available resources to peoples purposes
  - Increasing returns to scale
- Purpose: Designing/Defining/“Owning” the market
  - Deinstitutionalization and reinstitutionalization

**APPLIES TO ALL INNOVATION**
FOUNDATIONS: SERVICE-DOMNANT LOGIC
A Partial Pedigree For S-D Logic

Service-Dominant Logic

- Core Competency Theory
- Resource-Advantage Theory
- Network Theory
- Consumer Culture Theory
- Experience Marketing
- Services Marketing
- Relationship Marketing
- Theory of the firm
An Extended Pedigree for S-D Logic

Service-Dominant Logic

- Human Ecology
- Business Ecosystems
- Stakeholder Theory
- New Institutional Economics
- Social Network Theory
- Service Science
- Market Practices and Performances
Evolving to a New Dominant Logic for Marketing

Invited Commentaries on “Evolving to a New Dominant Logic for Marketing”

The Four Service Marketing Myths
Remnants of a Goods-Based, Manufacturing Model

Service-dominant logic: continuing the evolution

Why “Service”?

Service-dominant logic: reactions, reflections and refinements
Impact of S-D Logic

Marketing Theory

Towards a service-dominant professional identity
An organisational socialisation perspective
Maria Åkesson and Per Skålén
Service Research Center, Karlstad University, Karlstad, Sweden

Abstract

The nature and processes of market co-creation in triple
leveraging insights from consumer culture theory and ser
Lisa Petkalouza and Jenny Mith
Marketing Theory 2011:11:9
DOI: 10.1177/1470593110393710

The online version of this article can be found at
http://mtq.sagepub.com/content()

Branding in B2B markets: insight service-dominant logic of m

The service-dominant logic a marketing

A Service-Dominant Logic for Management Education: It's Time
ROBERT C. FORD
University of Central Florida
DAVID E. BOWEN
Thunderbird School of Global Management

Even though services dominate the U.S economy and figure prominently in other developed economies, principles for the effective provision of service experiences are
Irene Ng
Glenn Parry
Laura Smith
Roger Maug
Gerald Briscoe

Still shape the way in which businesses organize and market services. The second details serve key differences to managing services that are either considered in formal and practical contexts. The third offers some suggestions

Entrepreneurship: Service-Dominant Logic in
Green Design and Healthcare
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The service-dominant logic (SDL) provides a novel paradigm for understanding exchange and argues that value is created when providers and customers interact, in order to co-create value. Using the SDL in service-oriented entrepreneurship, where new business opportunities can be co-created, it is possible to develop new ventures that are sustainable over time. This paper provides insights into how entrepreneurs can leverage the SDL to create value, and highlights the importance of understanding the unique challenges and opportunities in managing services.
Impact of S-D Logic

Tourism Marketing in an Era of Paradigm Shift

Xiang (Robert) Li and James F. Patrik

The present article synthesizes the latest discussion on the future paradigm of marketing. Three alternative marketing perspectives are discussed: relationship marketing, the network approach, and the service-dominant logic. Additionally, their relevance to the field of tourism marketing is highlighted. It is revealed that tourism marketing researchers have started to echo the new marketing thoughts, although in-depth conceptual exploration is still lacking. Finally, the implications of these new marketing concepts on tourism research, practices, and teaching are discussed, and it is concluded that the present tourism marketing research could be broadened by putting more emphasis on strategy research and we prefer not to acknowledge, or which we ignore on a fairly regular basis, and part of the “reflect gaps in our theoretical understanding.”

Concurrently with the growth of tourism marketing, the flourishing development of generative theories, such as marketing-oriented causal-loop modeling, has been analyzed. These theories need to be revalidated and further developed. In the future, we hope that tourism marketing practitioners and researchers will continue to explore the impact of S-D Logic further.
Impact of S-D Logic

Innovation, symbolic interaction and customer valuing: thoughts stemming from a service-dominant logic of marketing

Daniel J. Ahren
University of Tennessee, USA

Introduction

Value is created by customers within and related to participating in customers addressing a specific service-dominant logic of marketing.

Typeology of Service Innovation from S-D Logic Perspective

Kensuke Yasuda
Columbia University, New York, USA

Introduction

Today's service offerings are appealing to global customers. Service industries have been recognized as important to the economy.

S-D Logic Viewed Through a Service-Dominant Logic Lens: A Conceptual Framework

A new conceptualization of service innovation grounded in S-D logic and service systems

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Kjell Tronvoll
Holmberg University College, Eforsen, Norway and
SFS Center for Service Research, Karlstad University, Karlstad, Sweden

Abstract

Purpose - The aim of this paper is to conceptualize service innovation through a service-dominant logic (S-D Logic) lens and a service system foundation.

Design/methodology/approach - This conceptual paper offers a service-dominant logic lens and a service system foundation approach employing generic perspectives on service innovation. It builds on the value of innovation and its value in practice, the context for innovation and its value in practice.

Findings - The paper identifies a service system framework for understanding value in practice and the context for innovation. The framework highlights the value of innovation and its value in practice.

Research implications/limitations - The paper highlights the value of innovation and its value in practice. The framework provides a new conceptualization of service innovation, a new framework describing the innovation process for service, and a service system foundation for innovation.

Keywords: service innovation, S-D Logic, value creation, value in practice, service system, conceptualization

A new conceptualization of service innovation grounded in S-D logic and service systems

Introduction

Corruption aims to create superior value for the involved actors. To gain competitive advantages, firms can facilitate service innovation by enabling actors to improve their own value. Yet, in service innovation, firms often face a novel or improved way to re-define existing resources to create value, though it can come at the cost of a service system that is pre-existing. These service systems are characterized by the context and the service ecosystem. In this study, we focus on the role of the service system in service innovation, as it can help us understand how the context and the service ecosystem are managed in the context of service innovation.
## The Axioms of Service-dominant Logic

<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
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<tbody>
<tr>
<td><strong>FP1</strong></td>
<td>Service is the fundamental basis of exchange. The application of operant resources (knowledge and skills), “service,” is the basis for all exchange. Service is exchanged for service.</td>
</tr>
<tr>
<td><strong>FP6</strong></td>
<td>The customer is always a co-creator of value. Implies value creation is interactional.</td>
</tr>
<tr>
<td><strong>FP9</strong></td>
<td>All economic and social actors are resource integrators. Implies the context of value creation is networks of networks (resource-integrators).</td>
</tr>
<tr>
<td><strong>FP10</strong></td>
<td>Value is always uniquely and phenomenological determined by the beneficiary. Value is idiosyncratic, experiential, contextual, and meaning laden.</td>
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The essential shift: from *operand* to *operant* resources
(From stuff to activities and processes)
Clarifications: Service vs. Services

- **Services** = intangible products
- **Service** = The *process* of using one’s competences for the benefit of some party
  - The application of knowledge and skills
- **Service** *transcends* “goods and ‘services’”

There are No “Services” in Service-Dominant Logic
The S-D Logic Actor: Co-Creating through Resource Integration & Service Exchange

Market-facing Resource Integrators

Private Resource Integrators

Public Resource Integrators

Actor: Resource Integrator (individual, family, firm, etc.)

Economic Currency: Service

Social Currency: Service

Public Currency: Service

New Resources

Value
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

S-D Logic

Supply/Value Chain

Supplier

Producer

Consumer
Resource Integration & Service-for-Service Exchange within Service-Ecosystems

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Institutions

Resource Integrators
Service Ecosystems: the Outcome and Context of Resource Integration & Service Exchange

S-D Logic

Macro

Meso

Micro

Institutions

Resource Integrators
The Structure and Venue of Value Creation: Institutions & Service Ecosystems

Institution

• “any structure or mechanism of social order and cooperation governing the behavior of a set of individuals within a given human community.” (Stanford Encyclopedia of Social Institutions)
• Both a resource and a restriction

Service Ecosystem (S-D logic)

• relatively self-contained, self-adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange. (Vargo and Lusch)
The Service-Dominant Logic World in a Nutshell

- **Service** = the use of one’s resources for another’s benefit
  - Can be provided directly or through a good

- **Service ecosystems**
  - Generic actors
  - Service-for-service exchange
  - Resource integration (density creation)
  - Shared institutional structures

- **Value co-creation**
Rethinking. Reframing, and Reconciling from an S-D Logic Perspective

- Economic (and social) Actors
  - From Bs and Cs to generic A(ctor)s
- Markets
  - From a priori to imagined, created, institutionalized, and performed
- Market-ing
  - From functional area to essential function of the firm (actor)
  - From marketing mix to value co-creation
- Value
  - From a property of output to a co-created outcome
- Strategy
  - From prediction and control to effectuation
- Technology
  - From exogenous variable to service-provision mechanism
- Role of Information Technology
  - From tool to a transformation in value creation processes
- Innovation
  - From invention to designing systems for value co-creation
Implications for Understanding the Market

- There are no (a priori) markets
  - There are just micro-level, service exchanges
    - gifts, generalized reciprocity, service-for-service, sometimes monetized
- There is a market system:
  - transitory, contextual configurations of resources and exchanges, sometimes linked by institutions
- ...and hence markets can “exist”
  - They can:
    - Be envisioned -- images of service potential
    - become institutionalized -- Intersubjective realities
- Thus, markets become performed within the Market
  - They exist because we act like they do
  - “Markets are functions of marketing” (and other business practices)
Market as an Institutionalized Solutions

Resource Application (service)

Inter-subjective Agreement

Human Problem

De-institutionalization
Re-institutionalization

Institutionalized Solution = A Market

Market performativity

Quasi-predictability
Innovation Becomes...

Developing more effective value propositions for participating in beneficiaries’ resource-integrating, value-creating practices, through service

- Systemic, emergent,
- Co-created and co-evolutionary
- Function of (de)institutionalization of technology
SHIFTING PERSPECTIVES ON INNOVATION
The Predictive Logic of Traditional Innovation Models

- Idea generation
- Idea screening
- Development and Testing
- Marketing Strategy
- Business analysis
- Product Development
- Test marketing
- Commercialization

New Product
Managerial vs. Entrepreneurial Approaches to the Market

Managerial Thinking (Causal)
Distinguishing Characteristic
Selecting between given means to achieve a pre-determined goal

Entrepreneurial Thinking (Effectual)
Distinguishing Characteristic
Imagining a possible new end using a given set of means

CAUSAL vs. EFFECTUAL REASONING

Given Means
M1
M2
M3
M4
M5

Given Goal

Given Means
M1
M2
M3
M5
M4

Imagined Ends
Red and Blue Ocean Strategies
Based on Chan Kim and Mauborgne (2009)

Compete in existing market space
Beat the competition
Exploit existing demand
Make the value-cost trade-off
Align the whole system of a firm’s activities with its strategic choice of differentiation or low cost

"Defend Current Position" Perspective

Create uncontested market space
Make the competition irrelevant
Create and capture new demand
Break the value-cost trade off
Align the whole system of a firm’s activities with its strategic choice of differentiation and low cost

"Innovate & Pursue New Opportunities" Perspective
Sustaining and Disruptive Innovation

Incumbents nearly always win

Entrants nearly always win

Pace of Technological Progress

Performance that customers can utilize or absorb

Adapted from Christensen (various)
Marketing Process Inversion

S-D Logic

Classic Causation Model from Marketing Textbooks

Process of Effectuation Used by Expert Entrepreneurs

Definition of one many possible markets

Adding Segments/Partners

Segment Definition
Developing gut feeling through strategic partnership & selling

Understand Customers
Who am I? What I know? Whom do I know?

SINGLE CUSTOMER

Positioning

Targeting

Segmentation

Market Definition

- Definition
The Effectual Process of Innovation

S-D Logic

Expanding cycle of resources

Who We are
What We know
Whom We know

Actual Means

What can We do?

Interactions with other people

Effectual stakeholder commitments

Actual courses of Action possible

Converging cycle of constraints

New means

New goals

NEW MARKETS AND NEW FIRMS
Design vs. Invention
The Innovation Inversion: The General and Special Case

**General Case**
- Managerial
- Predictive
- Sustainable/Incremental
- Institutionalized

**Special Case**
- Entrepreneurial
- Effectual
- Disruptive/Radical
- Abductive

“"It ain’t what you know don’t know that gets you into trouble. It’s what you know for sure that just ain’t so.””

-Mark Twain-
Some Venues for Innovation

S-D Logic

Meso/Macro Ecosystem

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Co-Production/Service Encounter Space

Actor Space

Actor Ecosystem

Actor Ecosystem

Resource Integrators

Actor Space
Strategic Business Model Considerations

**Market-Level Context:**
Market-, industry-, and brand-related structures that need to be (de)institutionalized

**Societal Context:**
Societal structures that need to be (de)institutionalized

**Provider-centered Processes:**
Service provision practices
- Resource acquisition
- Resource integration
- Culture

**Value Propositions:**
Expected improvement in actors’ **viability** through other actor’s service?
- Service to be offered
- Co-production
- Value to be effected
  - JTBD
  - Experience desired
- Monetization
- Other provider benefits (brand development, WOM, etc.)

**Value realization:**
What is actor trying to achieve
- Jobs to be done
- Overall experience desired

**Beneficiary-centered Ecosystem:**
What personal/public/private **resources** must be available for service to be realized
## S-D Logic-compatible Innovation Approaches

<table>
<thead>
<tr>
<th>S-D Logic</th>
<th>Market (re)creation</th>
<th>Ecosystem development/enhancement</th>
<th>Reframing firm role/objective</th>
<th>Reframing beneficiary desires/value</th>
<th>Value creation/realization (for firm)</th>
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<tbody>
<tr>
<td></td>
<td>Disruption</td>
<td>Provider</td>
<td>Service-flow provision (vs product selling)</td>
<td>“Jobs to be done” (vs, product need)</td>
<td>Co-production/Open-source innovation/crowdsourcing</td>
</tr>
<tr>
<td></td>
<td>Effectuation</td>
<td>Beneficiary</td>
<td>Value-based/performance-based pricing (vs unit based)</td>
<td>Experiences (vs. product evaluation)</td>
<td>Self service</td>
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<tr>
<td></td>
<td>(Re)Institutionalization</td>
<td>Solution centered</td>
<td></td>
<td>Co-creator</td>
<td></td>
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</tbody>
</table>
EXAMPLES
Ecosystem Development: Facilitation of Resource Integration
Ecosystem Development/Architecture
Selling the Service: Outcome-Based Pricing/Performance Contracting:

S-D Logic

BAE SYSTEMS

Panera Bread

A Loaf of Bread in Every Arm.
Take what you need, leave your fair share.

Rolls Royce

Power By The Hour
Reframing Firm Purpose: “Fabless” (Contract Manufacturing) Firms

**TOP 10 FABLESS SEMICONDUCTOR FIRMS: $27.3 (2008)**

- Qualcomm (QCT Division): $1.8B
- Broadcom: $1.2B
- NVIDIA: $892.7M
- Marvell Technology Group: $842.6M
- SanDisk: $816.0M
- LSI: $692.1M
- MediaTek: $543.6M
- Xilinx: $488.2M
- Avago Technologies: $439.0M
- Altera: $359.9M

**Logos:**
- Qualcomm
- Broadcom
- Nike
- Ford
The iEcosystem—an Effectual Development

Who We are?
What We know?
Whom We know?

What can I/we do? (Affordable Loss)

Expanding cycle of resources

Effectual stakeholder commitments
Interactions with other people

Computer Company
Electronic Suppliers
Recording Industry
Phone Companies
Application Developers

2010 iPad

2001 iPod
2003 iTune
2007 iPhone
2008 App Store
2010 iPad
Disruptive Innovation vs. Sustaining Innovations

S-D Logic

Disruptive Innovation

Sustaining Innovations

Disruptive Innovation
Possibilities:
Some Current Research Issues

- The role of institutions in value creation:
  - structuration
- Value co-creation in multi-stakeholder systems
  - service ecosystems
- Market-theory development:
  - grand theory: ‘theory of the market’
- Bridging S-D logic and practice:
  - midrange theory
- Entrepreneurship and S-D logic:
  - market making
Thank You!

For More Information on S-D Logic visit:

sdlogic.net

We encourage your comments and input. Will also post:

• Working papers
• Teaching material
• Related Links

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