Service-Dominant Logic & Business Models

Presentation for Business Models SIG
Finnish Service Alliance,
Helsinki, Finland
April 29, 2013

Stephen L. Vargo, PhD
Shidler Distinguished Professor & Professor of Marketing,
University of Hawai‘i at Manoa
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
FOUNDATIONS: GOODS-DOMINANT (ARM FLAPPING) LOGIC
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
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
- Relationship Marketing
- Theory of the firm
- Services Marketing
An Extended Pedigree for S-D Logic

Service-Dominant Logic

- Human Ecology
- Business Ecosystems
- Stakeholder Theory
- New Institutional Economics
- Service Science
- Social Network Theory
- 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”?“
Impact of S-D Logic

Marketing Theory
http://mtq.sagepub.com/

The nature and processes of market co-creation in triple leveraging insights from consumer culture theory and service marketing. Lisa Perkowitz and Jenny Mish
Marketing Theory 2011.11: 9 DOI: 10.1177/1470593110393710

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

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

Abstract
The service-dominant logic of market co-creation implies new kinds of collaborative relationships and professional identities. The aim of this paper is to develop a socialisation perspective

WMG Service Systems Research Group
Working Paper Series

Branding in B2B markets: insight service-dominant logic of marketing
David Ballantyne and Richard J. Varey (2008), issue on the Service-Dominant Logic of Market Co-Creation: An organisational socialisation perspective

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 little articulated in conventional management education. We provide an argument for what it means to learn a service-dominant logic for management education. It is organized into three parts. The first reviews the current state of management education's coverage of services, and offers some suggestions for future work to further firm understanding of the role of services in the knowledge economy. The second delves into the unique characteristics and challenges of managing services, and the third offers some suggestions for society.
Impact of S-D Logic

Marketing Theory
http://mtq.sagepub.com/

Tourism Marketing in an Era of Paradigm Shift
Xiang (Robert) Li and James F. Petrick

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 conceptualizations on tourism search, practices, and teaching are discussed, and it is concluded that the present tourism marketing could be improved 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,” critical gap could be a result of a lag between our real world practices. It may also be possible that previous marketing beliefs need to be reevaluated.

Concurrent with the growth of tourism marketing, the flourishing development of generational and political issues, marketing has analyzed traditional marketing premises and justification of marketing's existence. Montgomery (1999), and the future of...
Impact of S-D Logic

INNOVATION

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

By Edvardsson

CTF Center for Service Research, Karlstad University, Karlstad, Sweden, and

Björn Tronvoll

Halmah University College, Elektron, Norway and

CTF 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-systems foundation.

Design/methodology/approach: This conceptual paper offers a service-dominant logic lens and a service-systems approach emphasizing service perspectives on service innovation. It identifies the value of innovation activities in practice, the ability of innovation activities to create value in service systems, and their roles in the overall business value creation and the configuration of services as a service event in a service system. The paper argues that service innovation can be understood as a value-creating process that involves customers and service providers. The value-creating process is represented as a value-creation process, where customers and service providers create value for each other.

Findings: The paper shows how service innovation can be understood as a value-creating process that involves customers and service providers. The value-creating process is represented as a value-creation process, where customers and service providers create value for each other.

Research limitations/implications: There is a need to discuss service innovation in a service-systems perspective in order to understand the value-creation process and the value-creating role of service systems.

Originality/value: Service innovation is understood as a process that involves customers and service providers. The value-creating process is represented as a value-creation process, where customers and service providers create value for each other.

Keywords: Service innovation, Service-dominant logic, Service-systems, Value-creation

Paper type: Conceptual paper

Introduction

Service innovation 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. For example, innovation often stems from a novel or improved way to use existing resources to create value. Service-dominant logic is based on service-systems perspectives on service innovation, emphasizing the value-creating role of service systems and the configuration of services as a service event in a service system.
### The Axioms of Service-dominant Logic

<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP1</td>
<td><strong>Service</strong> is the fundamental basis of exchange.</td>
</tr>
<tr>
<td>FP6</td>
<td>The customer is always a co-creator of value</td>
</tr>
<tr>
<td>FP9</td>
<td>All economic and social actors are resource integrators</td>
</tr>
<tr>
<td>FP10</td>
<td><strong>Value</strong> is always uniquely and phenomenological determined by the beneficiary</td>
</tr>
</tbody>
</table>
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

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

- Economic Currency:
  - Market-facing Resource Integrators
  - Private Resource Integrators
  - Public Resource Integrators

- Service: Social Currency
  - Public Currency
  - New Resources

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

- Supplier
- Supply/Value Chain
- Producer
- Consumer

S-D Logic
Resource Integration & Service-for-Service Exchange within Service-Ecosystems

Institutions

Resource Integrators

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

S-D Logic

Resource Integration & Service Integration for Service Exchange within Service-Ecosystems
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.
Service Ecosystems: the Outcome and Context of Resource Integration & Service Exchange
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
Where was the Market...?

“Why would anyone want...”

<table>
<thead>
<tr>
<th>Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>A horseless carriage (Model T)</td>
</tr>
<tr>
<td>Talking movies</td>
</tr>
<tr>
<td>A Television</td>
</tr>
<tr>
<td>A Personal computer</td>
</tr>
<tr>
<td>A Microwave oven</td>
</tr>
<tr>
<td>The Internet</td>
</tr>
<tr>
<td>An iPod</td>
</tr>
</tbody>
</table>
Implications for Understanding the Market

- There are no (a priori) markets
  - There are just micro-level, service exchanges
    - gifts, generalized reciprocity, service-for-service

- 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)
A Market as an Institutionalized Solutions

Resource Application (service)

Inter-subjective Agreement

Human Problem

Institutionalized Solution

= A Market

De-institutionalization
Re-institutionalization

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
Adapting the Business Model Canvas to S-D Logic
Adapting the Business Model Canvas to S-D Logic

**Strategy**

**Understanding customer value and context and influencing market logic**
- What are the elements of customer value (social, functional, emotional...)?
- What kind of a service experience do our customers expect and in which context?
- How valuable are we to our customers?
- How can our customers be segmented?
- What is the market logic in the value network like?

**Co-production practices**
- What are the customers’ roles in co-production? When and how do our processes meet?
- How do our partners participate in co-production?
- How do we interact with our customers?
- How do we support our customers’ co-production?

**Co-creation practices**
- What is our customers’ process of value creation like?
- How do our customers create value and how is the service experienced?
- How can we facilitate our customers’ value creation?

**Value proposition in practice**
- What are the elements of our value proposition?
- What are the customers’ problems we are helping to solve?
- What kind of a service experience do we promise to our customers?
- How is our value proposition better or more compelling than those of our competitors?

**Mobilizing and innovating resources and partners**
- What are the [internal] activities needed in the development and implementation of the value proposition?
- How do we utilize the resources?
- How do we create and maintain a customer-centric organizational culture?

**Key resources**
- What are the resources needed in the value co-creation and co-production practices?
- What are the core competences?

**Key partners**
- Who are the value creation partners in our value network?
- What is our “value proposition in practice” to our key partners?

**Cost Structure**
- What are the costs inherent in our business model?
- What are our other sacrifices?

**Revenue Streams**
- How is our positive financial feedback generated?
- For what value are customers really willing to pay?
- What else do we get than money?
# S-D Logic

## Value Co-Creation Canvas

### Wim Rampen

<table>
<thead>
<tr>
<th><strong>VALUE PROPOSITION</strong></th>
<th><strong>KEY RESOURCES</strong></th>
<th><strong>CUSTOMER’S EXPERIENCE</strong></th>
<th><strong>CUSTOMER’S DESIRED OUTCOMES</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>The Customer’s perception of the company’s promise of Customer value (in-use) to be created...</td>
<td>All (network and/or eco-system) resources (including e.g. partner-resources) required by the company to support Customers effectively in meeting their desired outcomes</td>
<td>When both “total Customer engagement value” and “Customer value-in-use” are created - by Companies WITH Customers</td>
<td>The best proxy for Customer needs is the functional, social and/or emotional outcomes she desires. These goals highly depend on the context in which they exist or surface</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>KEY CAPABILITIES</strong></th>
<th><strong>CUSTOMER’S JOURNEY</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding the Customer’s desired outcome, her resources leveraged on her journey and how to leverage this understanding to develop her own key resources to improve the Customer’s experience</td>
<td>Sequence of events (over a lifetime of using the product and/or service) driven by the Customer and/or externally as part of the Customer’s attempt to meet her desired outcome</td>
</tr>
</tbody>
</table>

### TOTAL CUSTOMER ENGAGEMENT VALUE

The sum of Customer’s Lifetime Value, Network Value, Referral Value and other intangible forms of value, such as Customer Feedback, Knowledge and Expertise... (as defined by VKumar et al)

### CUSTOMER VALUE (IN-USE) CREATED

The Customer’s perception of the realized outcome in comparison to the desired and expected outcome. Based on an emotional evaluation of her journey and the effort required to get to the perceived state
Strategic Business Model Considerations

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

**Provider-centered Ecosystem:**
- Owned/accessible resources that can be applied to benefit some actor(s)?

**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

**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
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

Steve Vargo: svargo@sdlogic.net  Bob Lusch: rlusch@sdlogic.net