A Service-Dominant Logic Reorientation to (Service) Innovation

Seminar on Service Innovation, hosted by
- Center for Service Innovation, Norwegian School of Economics,
- CTF Service Research Center, Karlstad University, and
- BI Norwegian Business School

Oslo, Norway
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Stephen L. Vargo, PhD
Shidler Distinguished Professor & Professor of Marketing,
University of Hawai‘i at Manoa
Visiting Professor, Karlstad University
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
From Arm-Flapping to Airfoil Logic
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
### Transitioning 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**

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**The Central Message**
FOUNDATIONS: SERVICE-DOMNANT LOGIC
An Extended Pedigree for S-D Logic

Service-Dominant Logic

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

Key S-D Logic Publications

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

Competing through service: Insights from service-dominant logic

Evolving to a New Dominant Logic for Marketing

Invited Commentaries on “Evolving to a New Dominant Logic for Marketing”
Impact of S-D Logic

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

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

SD professional identity

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An organisational socialisation perspective
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Abstract

The nature and processes of market co-creation in triple leveraged insights from consumer culture theory and service marketing.
Lisette Pherlazoa and Jenny Mihl
Marketing Theory 2011.11: 9
DOI: 10.1177/1470593110393710

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

The service-dominant logic a marketing

Branding in B2B markets: insights from service-dominant logic

WGM Innovative Solutions
WMG Service Systems Research Group Working Paper Series

A Service-Dominant Logic for Management Education: It’s Time
BOYD 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 not well established. Services differ from goods in that the service provider and customer are present in the same place at the same time. This creates a new set of challenges for management education. Services are intangible, and their quality is often difficult to measure. In addition, services are often provided in a fast-paced, high-stakes environment. As a result, traditional management education methods may not be effective for teaching services.

The authors propose a service-dominant logic for management education. This logic emphasizes the importance of understanding the customer's perspective and the role of the service provider in creating value. The authors argue that this logic is more effective for teaching services than traditional management education methods. They suggest that this logic can be applied to a variety of industries, including healthcare, education, and hospitality.

In conclusion, the authors argue that a service-dominant logic for management education is necessary to prepare students for the challenges of the modern service economy.
Impact of S-D Logic

Marketing Theory

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

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 perceptual exploration is still lacking. Finally, implications of these new marketing conceptualizations on tourism research, practices, and teaching are discussed, and it is concluded that the present tourism marketing research could be guided 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 gap in our theoretical understanding." Actual 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 revaluated.

Concurrent with the growth of tourism marketing, the flourishing development of general beyond technical issues, marketing researchers analyzed traditional marketing premie justification of marketing’s existence, Montgomery (1999), and the future of...
Impact of S-D Logic

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

Daniel J. Amit
University of Tennessee, USA

Towards a reconciliation of resource advantage (R-A) and service-dominant logic (SDL) theories: A study of service innovation in social marketing context

Stefan Michel, Stephen W. Brown, Andrew S. Gillan

Service Innovation Viewed Through a Service-Dominant Logic Lens: A Conceptual Framework and Typology of Service Innovation from SDL Perspective

Kichun Yoon, Gargi Banerjee, Seung Soo Jeon, Seung Beom Lee

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

Bo Edvardsson
CTF Center for Service Research, Karlstad University, Karlstad, Sweden, and Börj Arnvall
Halmaher University College, Eschborn, Germany, 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 (SDL) lens and a service system foundation.

Design/methodology/approach - This conceptual paper offers a service-dominant logic lens and a service system foundation upon which the conceptualization of service innovation is facilitated by taking into account the interrelated nature of service and innovation.

Findings - The paper outlines a service innovation framework for service systems and provides a comprehensive approach to understanding service innovation.

Research limitations/implications - The paper's research limitations include the need for further empirical evidence to support the proposed framework.

Originality/value - This paper introduces a new perspective on service innovation, offering a comprehensive framework for future research.

Keywords Service innovation, Service system, Innovative service, SDL

1 Introduction

Service innovation is a critical aspect of business success. This paper aims to provide a conceptual framework for understanding service innovation through a lens of service-dominant logic (SDL). The framework is developed by integrating service innovation with service systems, offering a comprehensive approach to understanding how service innovation is facilitated.

The paper's main contribution is the proposal of a service innovation framework, which serves as a catalyst for further research and application in the field of service innovation.

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The paper's main contribution is the proposal of a service innovation framework, which serves as a catalyst for further research and application in the field of service innovation.

Conclusion

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### The Axioms of Service-dominant Logic

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

Market-facing Resource Integrators
Private Resource Integrators
Public Resource Integrators

Economic Currency:

Service

New Resources
Value

Social Currency

Public Currency
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

S-D Logic

Supplier

Supply/Value Chain

Producer

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

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

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.
Service Ecosystems: the Outcome and Context of Resource Integration & Service Exchange
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
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>
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</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>
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</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

S-D Logic
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

M1
M2
M3
M4
M5

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

**“Defend Current Position” Perspective**
- 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 it’s strategic choice of differentiation or low cost

**“Innovate & Pursue New Opportunities” 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 it’s strategic choice of differentiation and low cost
Marketing Process Inversion

S-D Logic

Market Definition
Segmentation
Targeting
Positioning

Classic Causation Model from Marketing Textbooks

Process of Effectuation Used by Expert Entrepreneurs

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

Segment Definition
Developing gut feeling through strategic partnership & selling

Adding Segments/Partners
Definition of one many possible markets

SINGLE CUSTOMER
The Effectual Process of Innovation

- **S-D Logic**
  - Expanding cycle of resources

- **Actual courses of Action possible**
  - Who We are
  - What We know
  - Whom We know
  - What can We do?

- **Interactions with other people**

- **Effectual stakeholder commitments**

- **Converging cycle of constraints**

- **New means**

- **New goals**

- **NEW MARKETS AND NEW FIRMS**

- **Actual Means**
Sustaining and Disruptive Innovation

- Incumbents nearly always win
- Entrants nearly always win

Pace of Technological Progress
Pace of Performance that customers can utilize, absorb

(Different measures of) Performance
Time

Adapted from Christensen (various)
The Disruptive Innovation Cycle

S-D Logic

Disruptive Innovation

Sustaining Innovations

Disruptive Innovation

Disruptive Innovation
Invention vs. Design (thinking): (Product vs. Experience)
Internal vs User-Led Innovation
Crowdsourcing & New Jobs to be Done
The Innovation Inversion: The General and Special Case

**General Case**
- Managerial
- Predictive
- Sustainable/Incremental
- Institutionalized
- R&D

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

“It ain’t what you 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

Actor Ecosystem

Co-Production/Service Encounter Space

Actor Space

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Actor Ecosystem

Resource Integrators
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

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**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)?

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**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.)

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**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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<td></td>
<td>(Re)Institutionalization</td>
<td>Solution centered</td>
<td></td>
<td>Co-creator</td>
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</table>
EXAMPLES
Ecosystem Development: Facilitation of Resource Integration
Ecosystem Development/Architecture
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
Open Innovation

Transiting from Do-It-All-Yourself" Innovation to "Open" collaborative Innovation

The Ambassador program gives voice to Adult Fans of Lego (AFOL)

The Hobbit games—a collaboration of Lego and AFOLs
Disruptive Innovation

High Efficiency General Imaging Ultrasound Systems

might get disruptive by

USB based systems the works with any Windows based computer...

...as they reach the performance that medical professional can absorb
The iEcosystem—an Effectual Development

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

Expanding cycle of resources

Effectual stakeholder commitments
Interactions with other people

What can I/we do?
(Affordable Loss

Computer Company
Electronic Suppliers
Recording Industry
Phone Companies
Application Developers

2010 iPad
Innovation-Solutions for Jobs to be Done

This new resource integration platform drastically changed video consumption practices.

Job to be Done

- Provide exactly what the customer wants...
- ...where it's wanted (TV, Smartphone, Tablet)...
- ...and when it's wanted.

By allowing viewers to create their own television channels based on favorite themes.

By allowing viewers to watch what they want when they want without being bound by network schedules.

By allowing viewers to skip through commercial and pause live TV.
SUPPORTING LITERATURES
(Eco)Systems Books

Highlighting the Open, Complex, and Adaptive Nature of (Eco)systems
Christenson, disruptive books

Exposing the Paradox Behind the Innovation Failures of many Industry Leaders
Effectuation Theory

Delineating Managerial vs. Entrepreneurial or Predictive vs. Effectual Thinking
Non Consumers: Base of the Pyramid

Outlining Strategies and Tactics to Succeed in the Developing World
Open Innovation

Highlighting Transition from "Do-It-All-Yourself" Innovation to "Open" collaborative Innovation
Co-Creation

Highlighting the Collaborative Nature of Value Creation and Innovation
Jobs to be done

S-D Logic

Harvard Business Review

Finding the Right Job For Your Product

The Customer-Centered Innovation Map

Most companies segment their markets by customer demographics or product characteristics and differentiate their offerings by adding features and functions. But the market consumer has a different view of the marketplace. He simply has a job to be done and is seeking to “hire” the best product or service to do it. Marketers must adopt that perspective.

Clayton M. Christensen, Scott D. Anthony, Pauline Weck, and Denise Nitterhouse

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Innovation

The Customer-Centered Innovation Map

By thoroughly mapping the job a customer is trying to get done, a company can discover opportunities for breakthrough products and services.

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Design Thinking

Reframing Design Activities from a Human-Centered and Dynamic Systems Perspective
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