Foundations and Prospects for a Service-Dominant Logic of The Market

RMIT Foundation,
International Visiting Fellow Presentation
RMIT University
February 9, 2012

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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
From Arm-Flapping to Airfoil Logic
The Message

We are apparently transitioning:

- From manufacturing economy to service economy
- From goods-oriented firms to services firms

The transitions are mythical

The apparent transitions reflect a flawed understanding (logic) of the market

The real transition is in our mental models (logic) of economic exchange and business

- Emerging from diverse practices and academic disciplines of business
FOUNDATIONS: GOODS-DOMINANT LOGIC
Goods-dominant (G-D) Logic

- Purpose of economic activity is to make and distribute units of output, preferably tangible (i.e., goods)
- Goods are embedded with utility (value) during manufacturing
- Goal is to maximize profit through the efficient production and distribution of goods
  - goods should be standardized, produced away from the market, and inventoried till demanded

Firms exist to make and sell value-laden goods
G-D Logic Model: Value Production and Consumption
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
Problems with Goods Logic

Goods are not why we buy goods
• Service (benefits) they render
• Intangibles (brand, self image, social connectedness, meaning)
• Inputs into experiences

Goods are not what we fundamentally “own” to exchange with others
• Applied knowledge and skills (our services)

Customer is secondary and seen as value receiver and destroyer
• “Consumer orientation” is an add-on--does not help

IHIP characteristics do not distinguish services vs. goods
• But they do characterize value and value creation
THE G-D LOGIC PROBLEMS “FIXES”
G-D Logic: The “Consumer Orientation” Fix

The Consumer Orientation is Inherently Producer Centric
G-D Logic: The Relationship Fix

Producer transaction Consumer
Producer transaction Consumer
Producer transaction Consumer
Producer transaction Consumer
Producer transaction Consumer
Sub-disciplinary Divergences and Convergences

Business-to-Business Marketing
- From differences:
  - Derived demand, professional buyers, fluctuating demand, etc
- To emerging new principles:
  - Interactivity, relationship, network theory, etc

Service(s) Marketing
- From differences:
  - Inseparability, heterogeneity, etc.
- To emerging new principles:
  - Relationship, perceived quality, customer equity, etc.

Other Sub-disciplines

Other Intra-marketing initiatives
- e.g., interpretive research, Consumer culture theory, etc.
- From deterministic models to emergent properties
- From products to experiences
- From embedded value to individual meanings and life projects
Smith’s Model of Economic Exchange
- Division of labor (specialized knowledge & skills)
- Value-in-use (real value)

Smith’s Focus on National Wealth Creation
- Value-in-exchange (nominal value)
- Productive = “labor” contributing to surplus exportable, tangible goods

Economic Science
- “Utility” as a property of goods (exchange value)
- Newtonian model of science = matter embedded with properties
- Producer-consumer distinction

Neoclassical economics
- The science of exchange of things (products), embedded with properties (“utiles”)
- Foundation for all business disciplines
FOUNDATIONS: THE S-D LOGIC CORE
A Partial Pedigree For S-D Logic

- Services and Relationship Marketing
  - e.g., Shostack (1977); Berry (1983); Gummesson (1994); Gronroos (1994); etc.

- Theory of the firm
  - Penrose (1959)

- Core Competency Theory
  - (Prahalad and Hamel (1990); Day 1994)

- Resource-Advantage Theory and Resource-Management Strategies

- Network Theory
  - (Hakansson and Snehota 1995)

- Interpretive research and Consumer Culture theory
  - (Arnould and Thompson 2005)

- Experience marketing
  - (Prahalad and Ramaswamy 2000)
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

Achieving Service Quality: A Customer-oriented Approach

Service-dominant logic: continuing the evolution

Service-dominant logic: reactions, reflections and refinements

Why “service”?
Quality, service-dominant logic and managing marketing

Abstract
Purpose: The purpose of this paper is to explore the implications of the service-dominant logic for marketing.

Design/methodology/approach: The paper uses a qualitative research approach to explore the implications of the service-dominant logic for marketing.

Findings: The findings suggest that the service-dominant logic provides a new framework for understanding the role of marketing in organizations.

Research limitations/implications: The research limitations include the small sample size and the lack of diversity in the sample.

Practical implications: The findings have implications for practitioners in the field of marketing.

Originality/value: The paper makes a unique contribution to the field of marketing by exploring the implications of the service-dominant logic.

Keywords: Marketing, service-dominant logic, service-dominant activity, service-dominant outcomes

Introduction
This paper explores the implications of the service-dominant logic for marketing. The service-dominant logic is a new paradigm that is increasingly being recognized as a key driver of organizational success. The logic is based on the idea that the customer is the central focus of all organizational activities, and that the primary goal of any organization is to create value for the customer.

The paper begins by providing a brief overview of the service-dominant logic. It then goes on to discuss the implications of the logic for marketing. The paper concludes with a discussion of the implications of the findings for practitioners in the field of marketing.

Service-dominant logic and marketing
The service-dominant logic is a new paradigm that is increasingly being recognized as a key driver of organizational success. The logic is based on the idea that the customer is the central focus of all organizational activities, and that the primary goal of any organization is to create value for the customer.

The service-dominant logic has implications for marketing in several ways. First, it suggests that the primary role of marketing is to create value for the customer. This means that marketing activities should be focused on creating value for the customer, rather than simply promoting the organization's products or services.

Second, the service-dominant logic suggests that marketing activities should be focused on creating value for the customer, rather than simply promoting the organization's products or services. This means that marketing activities should be designed to create value for the customer, rather than simply promoting the organization's products or services.

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Conclusion
In conclusion, the service-dominant logic provides a new framework for understanding the role of marketing in organizations. The logic is based on the idea that the customer is the central focus of all organizational activities, and that the primary goal of any organization is to create value for the customer.

The implications of the service-dominant logic for marketing are significant. First, it suggests that marketing activities should be focused on creating value for the customer, rather than simply promoting the organization's products or services.

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# Core Foundational Premises of Service-Dominant Logic

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

**FP1: Service is the basis of exchange**

- Operant Resources (knowledge and skills) are the fundamental source of competitive advantage (FP4)
- All economies are service economies (FP5)

**FP6: The customer is always a co-creator of value**

- The firm cannot deliver value but only offer value propositions (FP7)
- Goods are distribution mechanisms for service provision (FP3)
FP9: All economic and social actors are resource integrators

- Indirect service masks the fundamental nature of exchange (FP2)

FP10: Value is always uniquely and phenomenologically determined by the beneficiary

- A service-centered view is inherently customer oriented and relational (FP8)
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
Value Co-creation through Resource Integration & Service Exchange
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

Resource Integrator/Beneficiary (“Firm”)

Resource Integrator/Beneficiary (“Customer”)
Value as a Central Concept

Co-production is relatively optional. Value is always co-created.
From the Individual to Market-Based

Source: Ridley 2010
The G-D Logic Source of the "New" Service(s) Economy

- G-D logic classification
- Increasing division of labor
- Outsourcing

Apparent New Service Economy
REORIENTATION
The Value (effective) vs. Production (efficient) Trade-Off

VALUE/Effectiveness
- Benefit (Intangible)
- Customization (Heterogeneity)
- Customer Involvement (Inseparability)
- Contextual contingency (Perishability)

PRODUCTION/Efficiency
- Tangibility
- Standardization
- Separate production
- Inventoriability
Rethinking Relationship

- Joint, interactive, collaborative, unfolding and reciprocal roles in value co-creation.
- Implies a complex web of value-creating relationships, rather than making relationship an managerial option.
- In particular contexts, optimal (for the firm), normative relationships might include repeat patronage (i.e. multiple, relatively discreet transactions) but they do not have to for relationships to exist.
- punctuated in FP8: “A service-centered view is inherently customer oriented and relational.”
Transactions as Instances of Relationships

Transactions can be characterized in terms of objectified, bounded, tradable entities ("goods" and "services") that represent parts of a larger network of relationships among specialized actors. (Araujo and Spring 2006)

"mutually agreed-upon transfers with compensation located within the task network, [which] serve to divide one set of tasks from another" (Baldwin (2007))
"Its all B2B..." – A2A (Actor to Actor)

From a G-D logic, perspective
- (B2C, producer to consumer)
- Consumer centricity is inherently firm (producer) centric

From a S-D logic perspective
- All actors are, resource-integrating, service-providing enterprises (B2B or A2A)
- Resources & value creation must be understood, contextually, co-creatively, and (service-eco)systemically
Actor Centricity & Resource-Integration based, Service-for-Service Exchange

The Market

S-D Logic

Actors = Resource Integrators
Resource Integration & Service-for-service Exchange within the Market System

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Institutions

Resource Integrators
The Service Ecosystem

- Relatively self-contained, self adjusting systems of resource-integrating actors connected by shared institutional logics and mutual value creation through service exchange
Relational Layers

- **Relationship as shared Superordinate institutions**
  - religious
  - Cultural
  - etc.

- **Relationship as Shared Institutions**
  - Brands
  - Norms of exchange

- **Relationship as Value Co-creation**
  - Resource Integration
  - Context
  - Repeat patronage

- **Relationship as Exchange**
  - Service for service
(RE)THINKING ABOUT THE MARKET
Other disciplines have found it convenient to institutionalize the distinctions between applied and basic science... In marketing, the problem is rather one of spinning off a basic science from a problem solving discipline.

(Arndt 1985)

“Paradoxically, the term market is everywhere and nowhere in marketing.”

Venkatesh, Penaloza, and Firat (2006)

It is a peculiar fact that the literature on economics...contains so little discussion of the central institution that underlies neoclassical economics – the market

North (1977)
Markets: Shared or (Co)Created

The MP3-Player Market
Or
The customizable-entertainment-storage-organizer-and-personal-assistant-and-life-applications-with-a-WOW-factor-platform market

The mineral-oil market
Or
The baby-butt-rash-avoidance-mommy-guilt-reducing-body-massage-and-sexual-lubricant market

The sodium-bicarbonate market
Or
The occasional-baking-But-primarily-refrigerator-freshening-teeth-cleaning-clothes-brightening market
Issues for a Theory of 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 (Market System):
  - transitory, linked, contextual configurations of resources and exchanges
- ...and yet 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

Market performativity
MARKETS AS PROCESSES
AND OUTCOMES OF CLEVER
HUMAN TRICKS
An Extended Pedigree for S-D Logic

- Social Network Theory
  - e.g., Giddens (1984); Granovetter (1973)
- New Institutional Economics
  - North (2005); Menard (1995)
- Human Ecology
  - e.g., Hawley (1986);
- Business Ecosystems
  - Insiti and Levien (2004)
- Stakeholder Theory
  - Donaldson and Preston (1995)
- Service Science
  - e.g., Spohrer and Maglio (2008)
- Market Practices and Performances
  - Araujo (2008), Kjellberg and Helgesson (2008)
The world we live in is much more a man-made, or artificial one, than it is a natural one. The significant part consists mostly of artifacts, called symbols (p. 2).

‘Judgment’ is a heuristic search. The real-world economic actor is a satisficer, who accepts good enough, because (optimization) is not a choice. (p. 29)

Markets and organizations are social schemes that facilitate coordinated behavior, conserving the critical scarce resource of human ability to handle complexity (p. 49).
New Institutional Economics

- The division of labor implies a division of knowledge that requires coordination.
  - Implies institutional structure will play a critical role in how knowledge will be integrated to solve problems
- Institutions = “rules of the game.”
- Organizations = players
The Sociology of the Market

- The economy is a function of the “performation” of economics (Collon, p. 23).

- “Lock-in provides richness...It is only when certain options have been drastically reduced that the market is finally organized and the individual agents can be calculative.” (Callon, 48-9).

- Markets (are) a vehicle for achieving a society of peaceful cooperation (Slater & Tonkiss, p. 20).

- “At the micro level of analysis, we must grasp that economic and cultural categories are interdependent” (Slater 2001, p. 59).
Practice Theory and Structuration

- **Structure:**
  - recursively organized sets of rules and resources
  - the medium and the outcome of organization

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**Roles/prescriptions**

**Rules/Resources**

**Practices**

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**Abstract:**
The article works within the research traditions of Taylor and Foucault, and is a contribution to the field of practice theory. It is intended to enrich the discussion on how social theory can help explain social phenomena. The author argues that social theory should not be seen as a set of abstract concepts, but as a framework that can be applied to real-world situations. The author also discusses the role of structuralism and post-structuralism in the development of social theory.

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In the complex landscape of the 1970s, social theory struggled to keep up with the changing times. To address this, the author proposes a new approach to social theory that focuses on the interplay between structure and agency. The author argues that social theory should be seen as a dynamic process, rather than a static entity. The author also discusses the role of cultural theory in the development of social theory.
Markets as Practices

- Markets do not (pre)exist; they are created from practices
- They are performed
Resource Integration & and the Structuration of Service Ecosystems

S-D Logic

Macro

Meso

Micro

Institutions

Resource Integrators
From the Individual to Market-Based Co-Creation

Source: Ridley 2010
The Emerging Picture of Market System

- Human Species, Characterized by:
  - Independent inadequacy
  - Insufficient calculative ability
  - But exceeding cleverness

- Heuristically driven
  - Specialization and exchange – reciprocal resource integration and application (service-for-service)
  - Institutions – governance mechanisms
  - Language, concepts, symbolism – parsimony of thought and communication

- Creating increasingly complex capabilities through
  - Reproduction
  - Creative contextualization
  - Cooperation and co-creation
RETHINKING INNOVATION & MARKET STRATEGY
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 “IHIP” deficiencies

Service Innovation
- Providing input into customers’/actors’ value-creation processes
- Link firm-available resources to peoples purposes
- Effective solutions
- Increasing returns to scale
- Purpose: “Owning” the market -- market shaping
Innovation Meets Marketing

Business has two basic functions:

Innovation & Marketing

In S-D logic, these become intertwined, if not indistinguishable

True innovation is not the making of novel units of output but the designing and creating of new markets through service provision

Peter Drucker
Effectuation Theory

Marketing Under Uncertainty: The Logic of an Effectual Approach

Consider the following scenario: A knock on the door...

New Horizons in Entrepreneurship

Expanding cycle of resources

Converging cycle of constraints
Effectual Logic

- The environment does not independently influence outcomes or even rules of the game
- The future is truly unpredictable
- The decision maker is unsure of his/her own preferences

Turns predictive rationality upside down to discover the rationality when:
- Relational
- Network oriented
- Equity driven
- Cocreational
- Human centered and operant resource based

In a nutshell, effectual logic is:
Innovation as Design Thinking

“Design thinking is an approach that uses the designer’s sensibility and methods for problem solving to meet people’s needs in a technologically feasible and commercially viable way. In other words, design thinking is human-centered innovation.” —Tim Brown
Designing for service is designing dynamic systems and experiences in which one service is exchanged for another in an ongoing process, the value of which is constituted in practice.

Three consequences
• Designing for incompleteness
• Service co-created through practices of stakeholders
• Underpins symbols, things, actions thoughts
  • Thus, fundamental to all design activity, rather than a subfield
  • Kimball (2009)
Service Ecosystem: A spontaneously sensing and responding spatial and temporal structure of largely loosely coupled, value-proposing social and economic actors, interacting through institutions, technology, and language to

- (1) co-produce service offerings,
- (2) engage in mutual service provision, and
- (3) co-create value.
The Value Proposition

- Markets, and thus Marketing, can be more effectively based on and performed from an understanding of a value co-creating system of resource-integration and service-for-service exchange than one of goods-for-goods (or money)
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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