Foundations and Futures in Service-Dominant Logic

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FOUNDATIONS: GOODS-DOMINANT (ARM FLAPPING) 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 (efficiently) make and sell value-laden goods
G-D Logic Model: Value Production and Consumption

Value Creation → Product/Value Delivery → Value Destruction
Supplier → Supply/Value Chain → Producer → Consumer
Goods/Money

S-D Logic
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
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
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The Inadvertent Route to G-D Logic

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

Market-facing Resource Integrators

Private Resource Integrators

Public Resource Integrators

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

Service

Economic Currency

Social Currency

Public Currency

New Resources

Value
From Product (Output) to Value (Outcome) & Experiences

Co-production is relatively optional. Value is always co-created.
Actor Centricity & Resource-Integration based, Service-for-Service Exchange

The Market

Firm

Customer

Actors = Resource Integrators
SERVICE ECOSYSTEMS & INSTITUTIONS
“It's 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
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")
Resource Integration & Service-for-service Exchange within the Market System
Systems of Systems

Service Eco-system (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.

“The battle of devices has now become a war of ecosystems... developers, applications, ecommerce, advertising, search, social applications, location-based services, [etc.].”

“Our competitors aren’t taking our market share with devices; they are taking our market share with an entire ecosystem.”

Nokia CEO Elop’s Burning Platform Memo
Resource Integration & and the Structuration of Service Ecosystems

S-D Logic

Macro

Meso

Micro

Institutions

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

Source: Ridley 2010
Cost of Light in Hours Worked: Increasing Returns to Scale

The Price of Light: Hours of Work per 1000 Lumen Hours

Years Before Present

Labor Price of Light
Exponential Growth of Computing for 110 Years

Moore's Law was the Fifth, not the First, Paradigm to Bring Exponential Growth in Computing

Logarithmic Plot
Growth in Prosperity
The Drivers of Increasing Returns to Scale

- Property rights
- Scientific rationalism
- Capital markets
- Fast/efficient communications
- Competition
- Consumer society
- Work ethic
- Health, medicine
- Large-scale production

Specialization and exchange

Rules and Laws

Science and Language
The Multi-level Application of Practice Theory

Integrating

S-D Logic

Specialization and exchange

Rules and Laws

Science and Language

Macro

Meso

Micro

On the nature of markets and their practices
Hans Kjellberg
Stockholm School of Economics, Sweden
Clear-Fredrik Helgesson
Stockholm Center for Organizational Research and Stockholm School of Economics, Sweden

Normalizing

Representing

Adapted from Kjellberg and Helgesson 2007
RELATIONSHIPS AND TRANSACTIONS
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 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)
## Relational Layers

<table>
<thead>
<tr>
<th>Layer</th>
<th>Examples</th>
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<tr>
<td>Relationship as shared Superordinate institutions</td>
<td>religious, cultural, etc.</td>
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<td>Relationship as Shared Institutions</td>
<td>Brands, norms of exchange</td>
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<td>Relationship as Value Co-creation</td>
<td>Resource Integration, context, repeat patronage</td>
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<tr>
<td>Relationship as Exchange</td>
<td>Service for service</td>
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MARKETS & INNOVATION
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

Institutionalized Solution = A Market

Human Problem

Market performativity
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

A knock on the door:

"Good morning. Professor. I was in your modèle class. I just got a job offer to run marketing for a startup. Though uncertain, it looks like an exciting opportunity. I hope you can introduce me to some best managing practitioners in this setting because I haven't done anything like this before."

There is some theoretical foundation for a normative articulation of how marketing strategy decisions should be made in situations of uncertainty. Uncertainty is not only about entrepreneurial logic but also about every environment in which marketing is effective. Divisions of this mind toward market volatility include market segmentation, complete and new customer case (e.g., various kinds...)

Actual courses of action possible

- What is the environment like?
- What are the opportunities?
- What are the threats?

Actual means

- Who am I?
- What I know
- Whom I know

What can I do?

- Interactions with other people
- Effective stakeholder commitment

Converging cycle of constraints

Expanding cycle of resources

New means

New ends
"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
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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