Foundations and Extensions of Service-Dominant Logic

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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

Supplier → Supply/Value Chain → Producer → Consumer

Value Creation → Product/Value Delivery → Value Destruction

Goods/Money
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
S-D Logic

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
Producer transaction Consumer
Producer transaction Consumer

G-D Logic

Time
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
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
Core Foundational Premises of Service-Dominant Logic

<table>
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<th>Explanation/Justification</th>
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<td>Service 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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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)
Difficult Conceptual Transitions

<table>
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<tr>
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<td>Equilibrium systems</td>
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<td>Supply Chain</td>
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<td>Promotion</td>
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<td>Dialog</td>
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<td>Communications</td>
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</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
Value Co-creation through Resource Integration & Service Exchange

S-D Logic

Market-facing Resource Integrators

Private Resource Integrators

Public Resource Integrators

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

Economic Currency

Social Currency

Public Currency

Service

New Resources

Value
“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
Actor Centricity & Resource-Integration based, Service-for-Service Exchange

The Market

Actors = Resource Integrators
Micro Exchange Embedded in Complex (Eco)Systems of Exchange
Value as a Central Concept

Co-production is relatively optional. Value is always co-created.
The G-D Logic Source of the “New” Service(s) Economy

G-D logic classification
Increasing division of labor
Outsourcing
Apparent New Service Economy
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)
Resource Integration & Service-for-service Exchange within the Market System

Resource Integrators

Institutions
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)

**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.
Resource Integration & and the Structuration of Service Ecosystems

S-D Logic

Macro

Meso

Micro

Institutions

Resource Integrators
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.
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.”
S-D Logic

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)
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
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)
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

- S-D Logic
  - Resource Application (service)
  - Inter-subjective Agreement
  - Human Problem

Institutionalized Solution = A Market

Market performativity
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)
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 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)
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
"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 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)
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Practice Theory and Structuration

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

Roles/prescriptions

Practices

Rules/Resources
Resource Integration & and the Structuration of Service Ecosystems
Markets as Practices

- Markets do not (pre)exist; they are created from practices
- They are performed

Integrating

Normalizing

Representing
Chandler Vargo

S-D Logic

Articles

On marketing theory and service-dominant logic: Connecting some dots

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Abstract

This article serves as an introduction to a special section on "Extending Service-dominant Logic," which includes a series developed from manuscripts presented at the Symposium on Marketing and Innovation held in Sydney, Australia. This special section is, in part, a consolidated special section with related articles published in the Australian Marketing Journal, the European Journal of Marketing, and the Journal of Marketing. Together with the articles in these journals, the four articles presented here move S-D logic closer to a theory of the market and marketing by further connecting conceptual data and exploring the role of theory in relation to S-D logic and S-D logic in relation to theoretical orientations.

Keywords

Consumer culture theory, marketing theory, service-dominant logic, social construction, value-in-context

The first special issue on what has become known as "service-dominant (S-D) logic" (Vargo and Lusch, 2004a, 2004b) was published in Marketing Theory (Vargo and Lusch, 2004a, 2004b). It consisted of articles and commentaries by scholars who had participated in the S-D Forum at Stanford University, New Zealand in 2003. Much has happened in the relatively short period since then; a single issue, surface-level issues at least, a half-dozen S-D logic-based special issues or sections in journals, including the Journal of Consumer Research and Marketing Theory (JMR) and the special section of Marketing Theory, which is associated with that forum. Additionally, there have been countless S-D logic-inspired articles and presentations by an increasing number of scholars from increasingly diverse disciplines, not counting the dozens of articles and presentations in which Bob Lusch and I have participated.

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Contextualization and value-in-context: How context frames exchange

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Abstract

The purpose of this paper is to explore the role of context in service provision and, more broadly, in market co-creation. We start too far from an individual actor at the micro-level to market the macro-level to make the enablement of context emerge salient. This reveals the macro-level, which is nested between the micro and macro levels. We discuss how these market levels influence one another. We conceptualize markets as simultaneous, continuous exchanges that are bounded by each of these levels of context.

Keywords

Service-dominant logic, value-in-context, make-use, value networks

Most contemporary marketing scholars (e.g., Bogner, 1975; Sheth 1991; Vargo and Lusch, 2004a) consider the study of marketing and, by implication, markets to be concerned with exchange. The purpose of exchange is to access resources that have value potential but that provide benefit to actors from within their own particular contexts. However, marketing scholars disagree about where and how value is created through exchange and, thus, about the role of exchange in the value-caccumulating process itself.

One perspective views value creation as the joint integration of resources by the multiple actors associated with an exchange. Specifically, service-dominant logic (Vargo and Lusch, 2004a, 2004b) emphasizes value as co-created by multiple actors (Prandelli and Ramaswamy, 2004), rather than viewing value as created by a single actor. In this way, the simultaneous exchange processes that occur across actors during service provision—which Vargo and Lusch (2004a) call "resources in an exchange"—are viewed as the sum of the activities of multiple actors creating value. This perspective views value as a social construct created through exchange processes that are both complex and dynamic.
Effectuation Theory
A Market as an Institutionalized Solutions

S-D Logic

Resource Application (service)

Inter-subjective Agreement

Human Problem

Institutionalized Solution = A Market

Market performativity
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
MASSIVELY COLLABORATIVE VALUE CO-CREATION
From the Individual to Market-Based Co-Creation

Source: Ridley 2010
Cost of Light in Hours Worked
World Life Expectancy

Years of Life Expectancy

Date
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

- Electromechanical
- Relay
- Vacuum Tube
- Transistor
- Integrated Circuit

Calculations per Second per $1000

Year

1900  '10  '20  '30  '40  '50  '60  '70  '80  '90  2000  '08  '10
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
- Large-scale production

Specialization and exchange
Rules and Laws
Science and Language
The Multi-level Application of Practice Theory

Specialization and exchange
Rules and Laws
Science and Language

Integrating

Normalizing ↔ Representing

Adapted from Kjellberg and Helgesson 2007
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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