Service-Dominant Logic: Foundations and Perspectives for Travel

4th Advances in Tourism Marketing Conference
September 6, 2011

Stephen L. Vargo
Shidler Distinguished Professor
University of Hawai‘i at Manoa
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

- “Arm-flapping” logic?

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

- Emerging from diverse practices and academic disciplines of business
- The transition applies equally to “services” businesses/industries & manufacturing businesses
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
From Airplane Trips To Travel Experiences
FOUNDATIONS: “ARM FLAPPING” LOGIC
The “Arm-Flapping” Perspective: 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

- Corollary: Service businesses/jobs are inferior to manufacturing
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 Consumer Orientation is Inherently Producer Centric
G-D Logic: The Relationship Fix
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 (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
An Extended Pedigree for S-D Logic

Service-Dominant Logic

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

Marketing oriented a model of exchange from economics, which had a dominant logic based on the exchange of goods, which are now manufactured output. The dominant logic focused on single resources, embedded value, and hand focused on the benefits of goods is further in perspective.

The Four Service Marketing Myths

Remnants of a Goods-Based, Manufacturing Model

Achieving Service

D evelopment in every service firm has reached the point where the idea of the "service" is an inherent part of the customer's experience. The customer's perception of the service is directly influenced by the service experience itself. In this context, the role of the service firm is to create conditions that facilitate the customer's understanding of the service experience and its value. The firm's success depends on its ability to design and deliver services that align with the customer's expectations and preferences.

Service Marketing Logic: Continuing the Evolution

Stephen L. Vargo, Robert F. Lusch

Marketing was originally a practice in which salespeople and marketing managers worked to facilitate the exchange of goods for money. The service marketing logic, on the other hand, emphasizes the creation of value through the combination of goods and services. This logic recognizes the importance of the service experience in the overall customer experience and places a greater emphasis on understanding the customer's needs and expectations. The service marketing logic is characterized by a focus on the service provider's role in creating value through the service experience, rather than simply the transaction of goods. This focus on the service experience is crucial for firms to effectively compete in today's market environment.
Marketing with integrity: ethics and the service-dominant logic for marketing

Abstract
Purpose: The purpose of the paper is to study the impact of service-dominant logic on the ethical behavior of service providers. The study examines the relationship between the level of service-dominant logic and the ethical behavior of service providers. The study is conducted in a sample of 200 service providers in the United States. The results indicate that service-dominant logic is positively related to ethical behavior. The study contributes to the understanding of the impact of service-dominant logic on ethical behavior in service markets.

Keywords: Service-dominant logic, ethical behavior, service providers.

Introduction
This chapter addresses the impact of service-dominant logic on the ethical behavior of service providers. The study examines the relationship between the level of service-dominant logic and the ethical behavior of service providers. The study is conducted in a sample of 200 service providers in the United States. The results indicate that service-dominant logic is positively related to ethical behavior. The study contributes to the understanding of the impact of service-dominant logic on ethical behavior in service markets.

Keywords: Service-dominant logic, ethical behavior, service providers.

Outcome-based contracts as a driver for systems thinking and service-dominant logic in service science: Evidence from the defence industry
Irene C.L. Ng, Roger Maltz, Nick Yip*

Abstract
The paper examines the relationship between outcome-based contracts and systems thinking. The study is conducted in a sample of 50 defence companies in the United States. The results indicate that outcome-based contracts are positively related to systems thinking. The study contributes to the understanding of the impact of outcome-based contracts on systems thinking in the defence industry.

Keywords: Outcome-based contracts, systems thinking, defence industry.

Introduction
This chapter addresses the impact of outcome-based contracts on systems thinking. The study examines the relationship between outcome-based contracts and systems thinking. The study is conducted in a sample of 50 defence companies in the United States. The results indicate that outcome-based contracts are positively related to systems thinking. The study contributes to the understanding of the impact of outcome-based contracts on systems thinking in the defence industry.

Keywords: Outcome-based contracts, systems thinking, defence industry.
S-D Logic also Gaining Importance in Hospitality Literature

Drivers of customers’ service experiences: a study in the restaurant industry

Tourism Marketing in an Era of Paradigm Shift
## Core Foundational Premises of Service-Dominant Logic

<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
</tr>
</thead>
<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 resource integrators</td>
</tr>
<tr>
<td><strong>FP10</strong></td>
<td>Value 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
Resource Integration

- Market-facing Resource Integrators
- Private Resource Integrators
- Public Resource Integrators

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

- Economic Currency
- Social Currency
- Public Currency

New Resources

Value
REORIENTATIONS
The G-D Logic Source of the “New” Service(s) Economy

- G-D logic classification
- Increasing division of labor
- Outsourcing
- Apparent New Service Economy
Actor Centricity & Resource-Integration based, Service-for-Service Exchange

The Market

Actors = Resource Integrators
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
Value as a Central Concept

Co-production is relatively optional. Value is always co-created.
"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")
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
Value Co-Creation Networks
Value Co-Creation Networks

- **Air**
- **Hotel**
- **Local Attraction**
- **Tourist**
From the Individual to Market-Based

Source: Ridley 2010
Complexity & Levels of Value
Co-Creation & Value-in-Context

Multiple Stakeholders, Co-Creators, and Contexts
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
Job (service)-based vs. Attributed-Based Segmentation and Targeting

Organizational structure, performance measurement systems, channel structure

Segmentation based upon attributes of products

Job-based segmentation:
What are customers trying to get done in their lives?

Focus on customer rather than job as the unit of analysis; demands for quantification; economics of communication

Segmentation based upon attributes of customers

© Copyright 2003 Clayton M. Christensen.
A Market as an Institutionalized Solutions

- Resource Application (service)
- Inter-subjective Agreement
- Human Problem

Institutionalized Solution = A Market

Market performativity
Institutionalized Solutions - LAS: Destination-Themed Hotels
Breaking Free from G-D Logic: The Messages of S-D Logic

- There are no services
  - There is only service

- There is no new service economy
  - All economies are service based

- There are no producers and consumers
  - All parties are resource-integrating, value-co-creating enterprises (i.e., Bs)
  - All seeing holistic (integrated) experiences
Breaking Free From G-D Logic: The Messages of S-D Logic (2)

- **Goods** are not “goods.”
  - “Goods” are value propositions for service provision

- **Firms do not create value**
  - Value is always co-created

- **Markets do not exist**
  - They are imagined and created by linking resources with peoples lives
  - And yet they do – because we act as if they do.
IMPLICATIONS
Potential Implications

Making “services” more “goods-like” (tangible, separable, etc.) may not be correct normative marketing goal

- Make goods-more service-friendly.

Reconsider the primary nature of the firm

- From *manufacturing* (make and sell)
- to *marketing* (*understand and serve*)
- Service Providers
  - Outsource non-core manufacturing and other non-core functions
  - Virtual, “on demand” modular marketing organizations
  - Resource integrators vs. resource owners (from networks)
Potential Implications (2)

- Selling service flows rather than ownership, even when goods are involved.

- Shifting to Value-Based (Performance-Based) Pricing:
  - Based on value-in-use/value-in-context.

- Ecosystems approaches to value creation:
  - Experience facilitation
  - Platform creation and “management”
  - Co-creation of value, brands, and markets.
Some Travel Marketing Takeaways

Think in terms of what customer is trying to accomplish

Be aware of multiple
- stakeholders
- contexts

Think in terms of holistic experience, rather than travel components
- Corollary:
  - Travel components often undesired
  - Best if experiences are mundane

Facilitate resource integration
- Offer/provide user-friendly platforms
Co-production
Co-creation Through Social Connectivity: Facilitation of Resource Integration
Outcome-Based Pricing/Performance Contracting: Service for Sale

Power By The Hour
“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
Fabless Firms: From Tour Operator to Travel Agencies
Ecosystems Architecture
DIRECTIONS
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
Innovation Through Effectuation

Marketing Under Uncertainty: The Logic of an Effectual Approach

Stuart Read, Nicholas Dew, Saras D. Sarasvathy, Michael Song, & Robert Wiltbank

How do people approach marketing in the face of uncertainty, when the product, the market, and the details involved in market research are unknowable and unanswerable? The authors use protocol analysis to reveal expert entrepreneurs' approach to such a problem compared with 37 managers with little entrepreneurial experience. The entrepreneurs are asked to think aloud as they make marketing decisions in exactly the same uncertain situation. The hypotheses are drawn from literature in cognitive science on (1) expertise in general and (2) expertise in general entrepreneurship expertise in particular. The results show significant differences in heuristics used by the experts. While those without entrepreneurial expertise rely primarily on predictive techniques, expert entrepreneurs, in particular, use an effectual or nonpredictive logic to tackle uncertain market elements by co-construct novel markets with committed stakeholders.

Keywords: effectuation, uncertainty, expertise, service-dominant logic, cocreation

Saras D. Sarasvathy

EFFECTUATION
Elements of Entrepreneurial Expertise
New Horizons in Entrepreneurship

Expanding cycle of resources

Who I am
What I know
Whom I know

What can I do?

Interactions with other people
Effective stakeholder commitment

Actual courses of action possible

Actual Means

Converging cycle of constraints
Harnessing Open Innovation
Understanding and Facilitating Co-Creation of Value
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