Service-Dominant Logic Foundations

The Business of Innovating on Value:
The New Service-Dominant Logic

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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 mental models (logic) of economic exchange and business

- Emerging from diverse practices and academic disciplines of business
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: “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
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 Inadventent 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

Service-Dominant Logic

- Core Competency Theory
- Resource-Advantage Theory
- Network Theory
- Consumer Culture Theory
- Experience marketing
- Services Marketing
- Relationship Marketing
- Theory of the firm
Invited Commentaries on “Evolving to a New Dominant Logic for Marketing”

The Four Service Marketing Myths
Remnants of a Goods-Based, Manufacturing Model

Stephen L. Vargo
University of Maryland
Robert F. Lusch
Texas Christian University

Service-dominant logic: continuing the evolution

Robert F. Lusch
University of Arizona, United States of America
Stephen L. Vargo
University of Hawaii, United States of America

Why “service”?"
# Core Foundational Premises of Service-Dominant Logic

<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
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<tr>
<td><strong>FP1</strong></td>
<td><strong>Service</strong> is the fundamental basis of exchange.</td>
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<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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<td><strong>FP6</strong></td>
<td>The customer is always a co-creator of value</td>
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<td>Implies value creation is interactional.</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>Implies the context of value creation is networks of networks (resource-integrators).</td>
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<td><strong>FP10</strong></td>
<td><strong>Value</strong> is always uniquely and phenomenological determined by the beneficiary</td>
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<td>Value is idiosyncratic, experiential, contextual, and meaning laden.</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 transceeds** "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
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")
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
The Messages of S-D Logic

There are no services (intangible goods)
- There is only service (a process)

There is no new service economy
- All economies (and businesses) are service based

Firms do not create value
- Value is always co-created
There are no producers and consumers

- All parties (co-) creating value through resource-integration and service-for-service exchange

Goods are not “goods.”

- “Goods” are value propositions for service provision

Markets do not exist (a priori)

- They are imagined and created by linking resources with peoples lives
  - And yet they do – we act as if they do (“perform” them).
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)*
- Primarily Service Providers
  - Consider outsourcing non-core functions (including manufacturing)
  - 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) Contracting/Pricing

• Based on value-in-use/value-in-context

Value-Network/Ecosystems approaches to value creation

• Experience-“platform” creation
• Co-creation of value, brands, and markets
Co-production

- Submit an idea for a chance at fame, friends & TWENTY-FIVE HUNDRED DOLLARS!

- Start earning StreetTeam points! Each point earned is worth $1.50 in Threadless store credit!

- You can start earning points right away. One of the best ways to earn StreetTeam points is to link Threadless from other websites or through email using your unique StreetTeam URL. If your referral results in a sale, you will receive 2 StreetTeam points ($3.00)!

Use the send to friend tool on the product page to automatically send an email with your StreetTeam link to a friend.
Co-creation Through Social Connectivity: Facilitation of Resource Integration
Outcome-Based Pricing/Performance Contracting: Service for Sale

BAE SYSTEMS

John Deere

ROLLS
ROYCE
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
Ecosystems Architecture
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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