Service-Dominant Logic: Foundations and Extensions

ANZMAC Workshop
Extending Service-Dominant Logic in Marketing
March 11-12, 2011

Stephen L. Vargo, University of Hawai‘i at Manoa
Robert F. Lusch, University of Arizona
Evolving to a New Dominant Logic for Marketing

Marketing entered a model of exchange that economic, which had a dominant logic based on the exchange of goods, which are measured and produced. The dominant logic is focused on a single exchange model of goods that is funneled through an exchange model.

Invited Commentaries on “Evolving to a New Dominant Logic for Marketing”

The Four Service Marketing Myths

Remnants of a Goods-Based, Manufacturing Model

Achieving the Service-Dominant Logic

Robert F. Lusch

Service-dominant logic: continuing the evolution

Concepts/Theory/Practical

Why “service”?

Robert F. Lusch & Stephen L. Vargo

Laboratory Notes, University of Arizona

S-D Logic

Logic

Key S-D Logic Publications
Marketing with integrity: ethics and the service-dominant logic for marketing

Quality, service-dominant logic and managing marketing

Service, services and products: rethinking operations strategy

Outcome-based contracts as a driver for systems thinking and service-dominant logic in service science: Evidence from the defence industry

Other S-D Logic-Focused Activity
## S-D Logic: Penetration and Scope

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<td>Significant S-D Logic Emphasis</td>
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### Journals – ISI (2004 JM)

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<td>INDUSTRIAL MARKETING MANAGEMENT</td>
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<td>JOURNAL OF THE ACADEMY OF MARKETING SCIENCE</td>
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<td>JOURNAL OF BUSINESS &amp; INDUSTRIAL MARKETING</td>
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<td>MARKETING THEORY</td>
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Country of Origin = US
### S-D Logic: Penetration and Scope

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### Leading S-D Logic Cited Topics

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<td>value, co-creation &amp; co-production</td>
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<td>relationship marketing</td>
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<td>service marketing</td>
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<td>innovation and service design</td>
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<td>service science and systems</td>
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<td>CSR, ethics, sustainability</td>
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FOUNDATIONS AND
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

Value Creation

Product/Value Delivery

Value Destruction

Goods/Money

Consumer
Reflections of the G-D Logic

Marketing is:

- The “creation of utilities” (Weld)
- Time, place, and possession
- “production function”
- Concerned with value distribution

Orientations

- Production and Product
  - distribution vs. value-added
- Consumer Orientation
  - Evidence of problem vs. correction
  - Marketing management and Consumer Behavior

Disconnect between marketing theory and marketing practice

Sub-disciplinary divisions
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
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 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
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)
# Core Foundational Premises

<table>
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<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
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<td><strong>FP1</strong></td>
<td><strong>Service is the fundamental basis of exchange.</strong>&lt;br&gt;The application of operant resources (knowledge and skills), “service,” is the basis for all exchange. <em>Service is exchanged for service.</em></td>
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<td><strong>FP6</strong></td>
<td><strong>The customer is always a co-creator of value</strong>&lt;br&gt;Implies value creation is interactional.</td>
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<td><strong>FP9</strong></td>
<td><strong>All economic and social actors are resource integrators</strong>&lt;br&gt;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 is always uniquely and phenomenological determined by the beneficiary</strong>&lt;br&gt;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** *transcends* “goods and ‘services’”

There are No “Services” in Service-Dominant Logic
Clarifications: Cocreation vs. Coproduction

Co-production is relatively optional. Value is always cocreated.
Resource Integration

Economic Currency

Market-facing Resource Integrators

Private Resource Integrators

Public Resource Integrators

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

Social Currency

New Resources

Value

Public Currency
The G-D Logic Source of the "New" Service(s) Economy

- G-D logic classification
- Increasing division of labor
- Outsourcing
- Apparent New Service Economy
“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
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.”
From the Individual to Market-Based

Source: Ridley 2010
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)
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")
RETHINKING 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)
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)
Markets as Practices

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

Markets do not (pre)exist; they are created from practices. They are performed.
MARKETS AS PROCESSES AND OUTCOMES OF CLEVER HUMAN TRICKS
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
Practice Theory and Structuration

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

Roles/prescriptions

Practices

Rules/Resources
Activity Theory

the human mind as an organ that makes interactions in social contexts more successful -- improves the individual’s chances for survival.

Perspectives on Activity Theory

Edited by
YRJÖ ENGESTRÖM
REIJO MIETTINEN
RAIJA-LEENA PUNAMÄKI

Vygotsky
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)
Effectuation Theory

Marketing Under Uncertainty: The Logic of an Effectual Approach

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

How do people approach marketing in the face of uncertainty, when the product, the market, and the decision environment are unknown and ambiguous? The authors use protocol analysis to reveal the expert entrepreneurs' approach to such problems. Compared with 37 managers with little entrepreneurial experience, 64 participants are asked to think about how they make marketing decisions in exactly the same situation. The entrepreneurs make fewer marketing decisions, and they are more likely to base these decisions on the market environment. While both entrepreneurs rely primarily on predictive techniques, entrepreneurs (in particular) use an effectual or nonpredictive logic to take uncertain market elements and create new markets and committed stakeholders.

Key concepts: effectuation, uncertainty, expertise, service-dominant logic, cocreation

Effectuation is a decision-making process that emphasizes the role of the entrepreneur in creating the market. It is about making sense of the market and acting on it, rather than trying to predict what the market will do. This approach is particularly relevant in situations of ambiguity, where traditional market research may not be effective.

The diagram illustrates the process of effectuation used by expert entrepreneurs. It highlights the key components involved in making effective decisions in uncertain environments.
Effectual Logic

Turns predictive rationality upside down to discover the rationality when:

- 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

In a nutshell, effectual logic is:

- Relational
- Network oriented
- Equity driven
- Cocreational
- Human centered and operant resource based
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)
Systems Thinking

**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.
Resource Integration & Service-for-service Exchange within the Market/Service Eco-System
Reproduction and Evolution of Market Systems
Oscillating Perspectives

S-D Logic

Dyad (Micro)
- Transactional relationships

Triad (Meso)
- Transvectional relationships

Service Ecosystem (Macro)
- Complex, Co-creational relationships
- Resource Integration
- Institutional context

Abstract
The purpose of this paper is to explore the role of context in service provision and, more broadly, in market transactions. We utilize both an individual and the macro level to make the relative influence of context more salient. This reveals the micro 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:
contextualization, value-in-context, how context frames exchange

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

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A Market as an Institutionalized Solutions

Resource Application (service)

Inter-subjective Agreement

Institutionalized Solution = A Market

Market performativity
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
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
The Value Proposition

- **Marketing** can be more effectively based on a performed from a basis of an understanding of a **system of resource-integration and service-for-service exchange**
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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