

The Changing Logic of the Market and Marketing

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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

FOUNDATIONS: GOODS-DOMINANT LOGIC

Goods-Dominant Logic Model: Goods, Value Production and Consumption

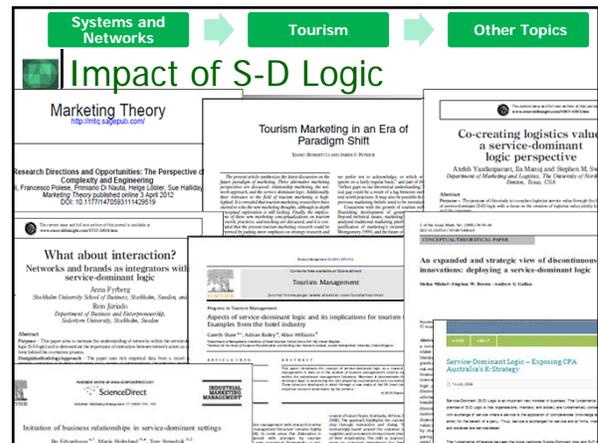
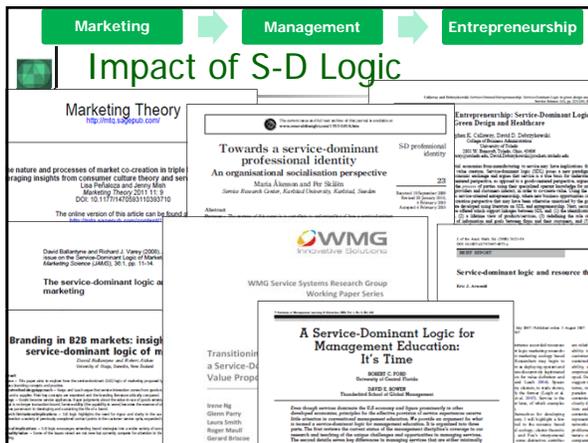
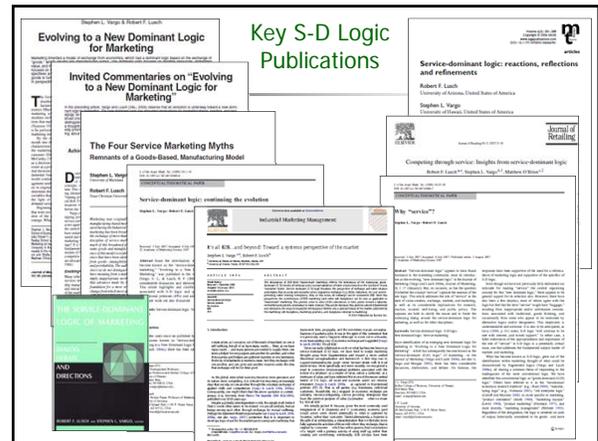
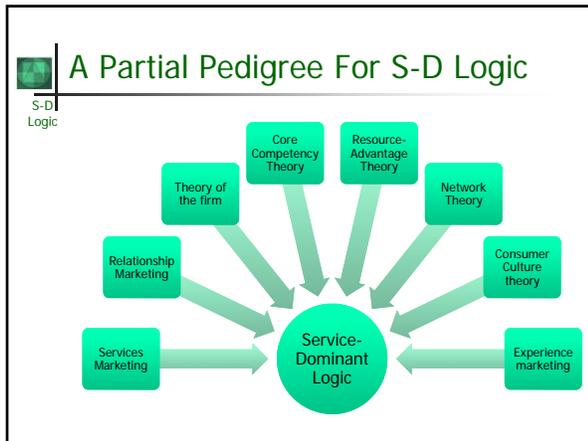
The Source: Smith's Bifurcation (*The Wealth of Nations*)

- Model of Economic Exchange
 - Division of labor (specialized knowledge & skills)
- National Wealth Creation in Context or 1776
 - Export of knowledge/information embedded in people/things
 - "Productive" = "labor" contributing to surplus exportable, tangible goods

Innovation = more-marketable products (goods)

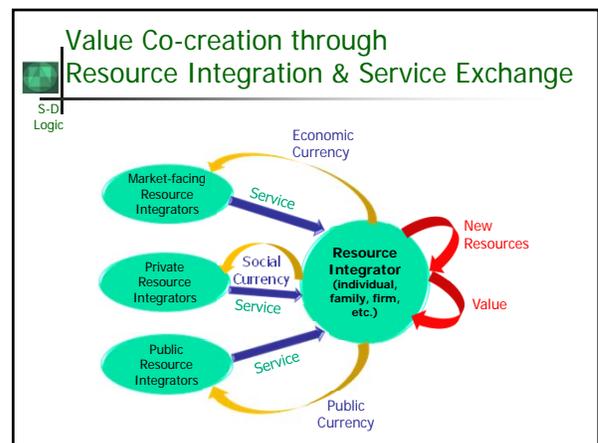
G-D Logic: A Logic of Separation

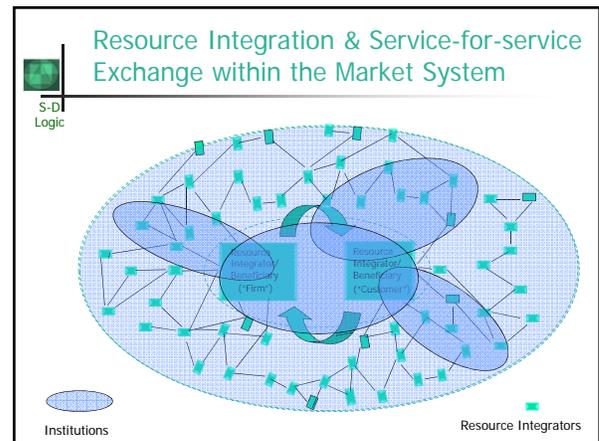
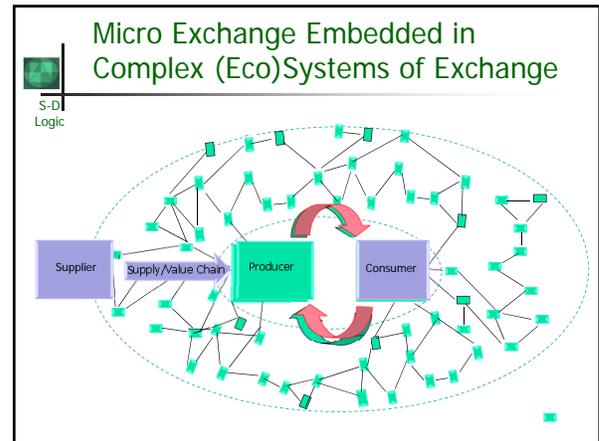
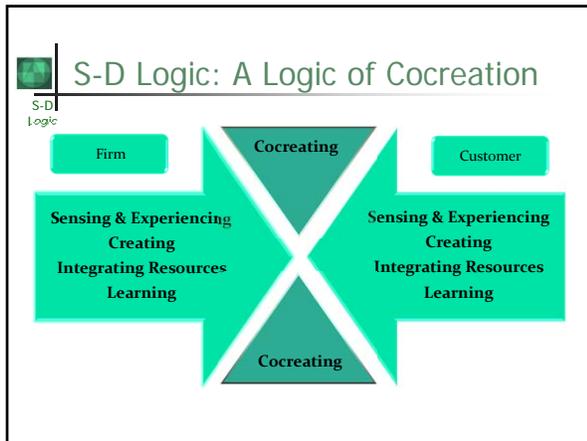
FOUNDATIONS: THE S-D LOGIC CORE



Core Foundational Premises of Service-Dominant Logic

Premise	Explanation/Justification
FP1 Service is the fundamental basis of exchange.	The application of operant resources (knowledge and skills), "service," is the basis for all exchange. "service" is exchanged for service.
FP6 The customer is always a co-creator of value	Implies value creation is interactional.
FP9 All economic and social actors are resource integrators	Implies the context of value creation is networks of networks (resource-integrators).
FP10 Value is always uniquely and phenomenological determined by the beneficiary	Value is idiosyncratic, experiential, contextual, and meaning laden.





Innovation Becomes... the (Re)creation of Markets

S-D Logic

Identifying & developing effective ways to participate in beneficiaries' value-creating activities

- Through:
 - Direct service provision
 - Resource access -- connectivity
 - Facilitation of resource integration
 - Organization of ecosystems
 - Institutionalization of markets and meanings

Co-creation Through Social Connectivity: Facilitation of Resource Integration

facebook LinkedIn Flixster Pinterest

Outcome-Based Pricing/Performance Contracting: Service for Sale

S-D Logic

BAE SYSTEMS

Panera BREAD
A Leaf of Bread is Every Day
Take what you need, leave your fair share.

zipcar

ROLLS ROYCE
Power By The Hour

"Fables" (Contract Manufacturing) Firms

S-D Logic

QUALCOMM

BROADCOM

NIKE

Ford

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

S-D Logic

787 DREAMLINER

amazon.com
Shop Always Save

eBay

Rethinking, Reframing, and Reconciling from an S-D Logic Perspective

- S-D Logic
- Economic (and social) Actors
 - From Bs and Cs to **generic A(ctor)s**
 - Markets
 - From a priori to **imagined, created, institutionalized, and performed**
 - Market-ing
 - From functional area to **essential function of the firm (actor)**
 - From **marketing mix** to **value co-creation**
 - Value
 - From a property of output to a **co-created outcome**
 - Strategy
 - From prediction and control to **effectuation**
 - Technology
 - From exogenous variable to **service-provision mechanism**
 - Role of Information Technology
 - From tool to a **transformation in value creation processes**
 - Innovation
 - From invention to **designing systems for value co-creation**

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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IMPLICATIONS AND APPLICATIONS

Potential Implications

S-D Logic

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 *market-ing* (*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)

S-D Logic

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

Value-Network/Ecosystems approaches to value creation

- Experience-"platform" creation
- Co-creation of value, brands, and markets

Blue Ocean Strategy

W. Chan Kim and Renée Mauborgne (2009) Harvard Business Review

S-D Logic

The imperatives for red ocean and blue ocean strategies are starkly different.

Red ocean strategy	Blue ocean strategy
Compete in existing market space.	Create uncontested market space.
Beat the competition.	Make the competition irrelevant.
Exploit existing demand.	Create and capture new demand.
Make the value/cost trade-off.	Break the value/cost trade-off.
Align the whole system of a company's activities with its strategic choice of differentiation or low cost.	Align the whole system of a company's activities in pursuit of differentiation and low cost.

In blue oceans, demand is created rather than fought over. There is ample opportunity for growth that is both profitable and rapid.

Example for a Blue Ocean Strategy

S-D Logic

While the competitors are now fighting in a Red Ocean

Apple's development of the iPad was a Blue Ocean Strategy

RED oceans	BLUE oceans
Known market space	Unknown market space
Many competitors	Few competitors
Fight for market share	Create market share

Stop Trying to Delight Your Customers

Matthew Dixon, Karen Freeman, and Nicholas Toman (2010) Harvard Business Review

S-D Logic

What customers really want (but rarely get) is just a satisfactory solution to their service issue.

The Bad-Service Ripple Effect

Service failures not only drive existing customers to defect—they also can repel prospective ones.

Our research shows:

- 25% of customers are likely to say something positive about their customer service experience
- 65% are likely to speak negatively
- 23% of customers who had a positive service interaction told so or more people about it
- 18% of customers who had negative experiences told so or more others

Lean Consumption

James P. Womack and Daniel T. Jones (2004) Harvard Business Review

S-D Logic

The Principles of Lean Consumption:

1. Solve the customer's problem completely by insuring that all the goods and services work, and work together.
2. Don't waste the customer's time.
3. Provide exactly what the customer wants.
4. Provide what's wanted exactly where it's wanted.
5. Provide what's wanted where it's wanted exactly when it's wanted.
6. Continually aggregate solutions to reduce the customer's time and hassle.

Example: Lean Consumption

S-D Logic



Mobile auto glass repair at customer's work or home



Aggregate solutions to reduce the customer's time and hassle

travelocity

Finding the Right Job for Your Product

Clayton M. Christensen, Scott D. Anthony, Gerald Berstell, and Denise Nitterhouse, (2007) MIT Sloan Management Review

S-D Logic



When the once-unique features of an augmented product become commonly expected, companies are saddled with the costs of providing these features but cannot sustain premium pricing.

The jobs that customers are trying to get done cannot be deciphered from purchased databases, but rather from watching, participating, writing and thinking.

The problem with focusing on customer needs is that a customer needs different things at different times. The job is a more stable focus because it exists independently from the customer.

Co-evolution is as much an innovation process as it is a research method. It creates its own data. Interviews, observation and empathic participation all can be used to figure out the job.

A purpose brand links customers' realization that they need to do a job with a product that was designed to do it. It clarifies which features and functions are relevant to the job and which are not.

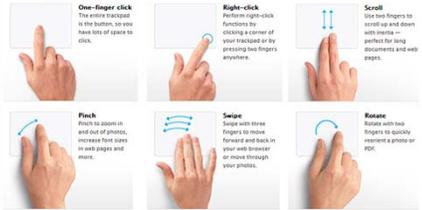
Example: Right Job for Your Product

S-D Logic



Apple Multi Touch Gestures: Empathy leads to Intuitiveness

The jobs that customers are trying to get done cannot be deciphered from purchased databases, but rather from watching, participating, writing and thinking.



One-finger click
The entire trackpad is the button, so you have lots of space to click.

Right-click
Perform right-click functions by clicking a corner of your trackpad or by pressing two fingers anywhere.

Scroll
Use two fingers to scroll up and down with inertia — perfect for long documents and web pages.

Pinch
Pinch to zoom in and out of photos, increase font size in web pages and more.

Swipe
Swipe with three fingers to move forward and back in your web browser or move through your photos.

Rotate
Rotate with two fingers to quickly reorient a photo or PDF.

The Customer-Centered Innovation Map

Lance A. Bettencourt and Anthony W. Ulwick (2008) Harvard Business Review

S-D Logic

To find ways to innovate, deconstruct the job a customer is trying to get done. With a job map in hand, you can begin to look systematically for opportunities to create value.

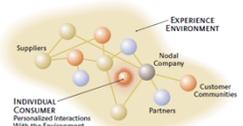
During this step...	Customers...	Companies can innovate by...	5: Execute	Carry out the job.	Preventing problems or delays.
1: Define	Determine their goals and plan resources.	Simplifying planning.			
2: Locate	Gather items and information needed to do the job.	Making required inputs easier to gather and ensuring they're available when and where needed.	6: Monitor	Assess whether the job is being successfully executed.	Linking monitoring with improved execution.
3: Prepare	Set up the environment to do the job.	Making set-up less difficult and creating guides to ensure proper set-up of the work area.	7: Modify	Make alterations to improve execution.	Reducing the need to make alterations and the number of alterations needed.
4: Confirm	Verify that they're ready to perform the job.	Giving customers information they need to confirm readiness.	8: Conclude	Finish the job or prepare to repeat it.	Designing products that simplify the process of concluding the job.

The New Frontier of Experience Innovation

C.K. Prahalad and Venkatram Ramaswamy, (2003) MIT Sloan Management Review

S-D Logic

The experience space is conceptually distinct from that of the product space, which is the conventional focus of innovation.

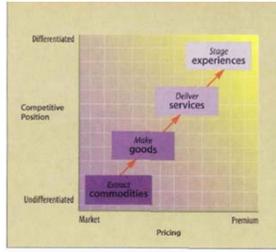
Conceptually different from company-centric supply chains, experience networks comprise nonlinear, nonsequential interactions among companies, institutions and customer communities.

WELCOME TO THE EXPERIENCE ECONOMY

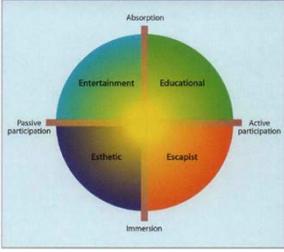
B. JOSEPH PINE II AND JAMES H. GILMORE (1998) Harvard Business Review

S-D Logic

The Progression of Economic Value



The Four Realms of an Experience



From user-centred design to designing for service

Lucy Kimbell
Design Management Conference, London (2010)

S-D Logic

The questions for a design manager needs to shift from designing a better toaster to designing a toaster project in which the toaster give meaning to our lives.

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

Customer-Centered Brand Management

Roland Rust, Valarie A. Zeithaml, and Katherine N. Lemon (2004)
Harvard Business Review

S-D Logic

Companies must focus on customer equity rather than brand equity

Example for Bad Service Ripple Effect

UNITED Breaks Guitars

Musician Dave Carroll said his guitar was broken while in United's custody. He alleged that he and fellow passengers on board a flight plane saw baggage-handling crew throwing guitars on the tarmac.

Carroll says that his fruitless negotiations with the airline for compensation lasted nine months. Then, Carroll wrote a song and created a music video about his experience and posted it on YouTube.

The video was posted on July 6 2009 and was viewed 150,000 times on the first day, 5 million times by mid-August 2009, and 10 million times by February 2011.

Co-opting Customer Competence

Prahalad, C.K.; Ramaswamy, Venkatram(2000)
Harvard Business Review

	The company	Family/network of companies	Enhanced network
Unit of analysis	The company	The extended enterprise—the company, its suppliers, and its partners	The whole system—the company, the suppliers, its partners, and its customers
Resources	What is available within the company	Access to other companies' competencies and investments	Access to other companies' competencies and investments, as well as customers' competencies and investments of time and effort
Basis for access to competence	Internal company-specific processes	Privileged access to companies within the network	Infrastructure for active ongoing dialogue with diverse customers
Value added of managers	Nurture and build competencies	Manage collaborative partnerships	Harness customer competence, manage personalized experiences, and shape customer expectations
Value creation	Autonomous	Collaborate with partner companies	Collaborate with partner companies and with active customers
Source of managerial tension	Business-unit autonomy versus leveraging core competencies	Partner is both collaborator and competitor for value	Customer is both collaborator and competitor for value

The Core Competence of the Corporation

C.K Prahalad and Gary Hamel (1990)
Harvard Business Review

S-D Logic

Competencies: The Roots of Competitiveness

The corporation, like a tree, grows from its roots. Core products are nourished by competencies and engender business units, whose fruit are end products.

Reinventing Your Business Model

Mark W. Johnson, Clayton M. Christensen, and Henning Kagermann (2008)
Harvard Business Review

S-D Logic

IDEA IN BRIEF

- Breakthrough, game-changing products rarely emerge from established businesses.
- That's because a radically new product usually needs a new business model.
- It's possible to transcend the problem if you can:
 - Understand your existing model at a granular level, so that you are in position to reinvent it.
 - Come up with a great way to help people get an important job done.

What Rules, Norms, and Metrics Can Stand in the Way?

Financial <ul style="list-style-type: none"> Gross margins Opportunity size Unit pricing Unit margin Time to breakeven Net present value calculations Fixed cost investment Credit terms 	Operational <ul style="list-style-type: none"> End-product quality Supplier quality Owned versus outsourced manufacturing Customer service Channels Lead times Throughput
Other <ul style="list-style-type: none"> Pricing Performance demands Product-development life cycles Basis for individuals' rewards and incentives Brand parameters 	

Open Innovation

S-D Logic

Co-Creation

Effectuation Theory

S-D Logic

Expanding cycle of resources

Converging cycle of constraints

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

S-D Logic

The Market

Actors = Resource Integrators

Clarifications: Service vs. Services

S-D Logic

- 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'"**

G-D Logic

- Products**
 - Goods
 - Services

S-D Logic

- Service**
 - Direct
 - Goods
 - Indirect
 - Money

There are No "Services" in Service-Dominant Logic



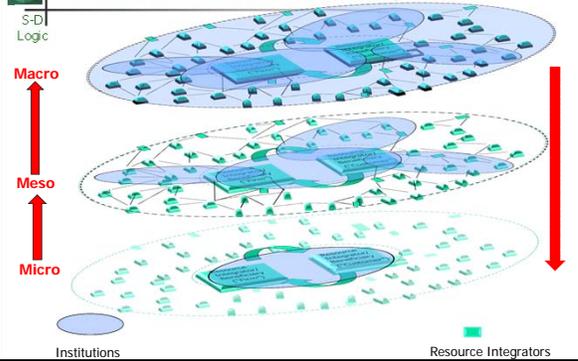
Goods-dominant (G-D) Logic

- 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 (efficiently)
make and sell value-laden goods**



Resource Integration & and the Structuration of Service Ecosystems



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