

## Chapter 57

# Service–Dominant Logic: Toward Reframing Business for Enhanced E–Novation

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### ABSTRACT

*Organizations and people within organizations cling to traditions, industry practices, and managerial frameworks well beyond their usefulness. Perhaps this is just another way of stating the obvious that habits die slowly. One habit or tradition that is experiencing a slow death is the traditional marketing paradigm, referred to as the goods-dominant (G-D) logic paradigm. Essentially, traditional marketing practice is focused on the creation of units of output and their distribution to customers. Applying this framework, the firm attempts to study these exogenous customers and then uses its resources to shape a market offering, conceptualized as product, price, place, and promotion (what is known as the marketing mix or four Ps) in order to effectively position the offering for a targeted segment, thus capturing the customer to create a sale (economic exchange). Although this paradigm has been under assault for decades, it continues to survive and has changed only modestly over the last fifty years. Importantly, it is a paradigm (and practice) that continues to be presented in the leading marketing and marketing management textbooks used on college campuses and in executive education throughout the world.*

## **INTRODUCTION**

The weaknesses in the dominant practice and teaching of marketing began to be noted as scholars, especially in Northern Europe, began to identify relationship and services as central elements of a new marketing paradigm (e.g., Gronroos 1994; Gummesson 1995). Marketing slowly began to be viewed as less and less in terms of the transactions involving goods and more in terms of the exchange relationships and service(s). Subsequently, organizations began to be viewed less in terms of the products they produce and more in terms of the competences and capabilities they develop (e.g., Prahalad and Hamel 1990; Day 1994). The customer began to be viewed as a potential collaborator and co-creator of value (Lusch, Brown and Brunswick 1992; Prahalad and Ramaswamy 2000), rather than just a receiver of value. Vargo and Lusch (2004), developed what became known as the service-dominant (S-D) logic of marketing to capture and extend these and other converging trends, as well as the often-heard mantra for both firms and countries to develop better competitive strategies for a global economy that was increasingly being characterized in terms of service provision rather than goods production. In this chapter we show that S-D logic can be translated into a new framework for marketing management and, importantly, as a source of insight for developing E-Novative market offerings.

In what follows we will: (1) review S-D Logic basics, (2) discuss the role of the market as it relates to marketing and e-nnovation, (3) discuss the role of the firm as it relates to marketing and e-nnovation, (4) illustrate how to reframe traditional business and marketing functions, and (5) discuss marketing as integration and a source of E-Novation. Importantly, in all of these discussions we illustrate the central importance of E-Novation and especially how it is fostered with an S-D logic lens.

## **S-D LOGIC BASICS**

A new lexicon is an important part of S-D logic. There are four concepts or sets of concepts that have a specialized meaning and these include: (1) service, (2) operant resources, (3) customers, suppliers and environments as endogenous, and (4) collaboration, co-production, and co-creation of value.

### **Service**

The singular “service” has a connotation quite different from the more often used plural “services.” *Service* is the act of using one’s resources and competences for the benefit of another (or for oneself via self-service). The recipient of the service is the beneficiary. This service can either be provided directly to another actor through personal service or it can be provided to the beneficiary indirectly through tangible goods, which function as appliances for service delivery. Predictably, often both are used; that is, physical resources are mixed with human resources to provide service.

By contrast, the plural, *services* derives its meaning from a goods-dominant logic. That meaning suggests the firm is producing and delivering intangible “units of output” as, for example, in a “service-factory” conceptualization (Chase and Garvin 1989). In a service factory there is a high division of labor as workers specialize in performing standardized activities that comprise a service and then pass their work product along to other service workers in the service factory; similar to an assembly line in a production factory.

The services output provided to the customer or client may be such things as audits completed by an accounting firm, rooms booked in a hotel, meals served in a restaurant, surgical procedures completed in a hospital, or airplane seats filled on an airplane. Because of the focus on an output rather than the process of serving, the firm tries to engineer cost efficiency into the system. How to *efficiently* complete audits, book hotel rooms,

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