



Product and Service Dominant Logic

Introduction to Service Science

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History of economics paradigms

Economics Offering	Commodity Goods	Packaged Goods	Commodity Services	Consumer Services	Business Services
Economy	Agrarian	Industrial	Service	Experience	Transformation
Economic Function	Extract	Make	Deliver	Stage	Co-create value growth
Nature of Offering	Fungible	Tangible	Intangible	Memorable	Effectual
Key Attribute	Natural	Standard	Custom	Personal	Value growth relationship
Method of Supply	Stored in Bulk	Inventory of product	Delivered on demand	Reveal over duration	Sustained over time
Settler	Trader	Manufacturer	Provider	Stager	Collaborator
Buyer	Market	Customer	Client	Guest	Collaborator
Factors of Demand	Characteristics	Features	Benefits	Sensations	Capabilities (Cultural values)

Product dominant logic paradigms

- A manufacturer develops a product
- The manufacturer makes the product
- The product is given to the market
- A consumer buys the product
- The consumer uses the product
- The supplier eventually provides additional support of the product
- The consumer gets rid of the product

Product dominant logic

- The process is considered as an ownership transfer
- The producer and buyer are not closely connected
 - They are in touch only in the moment of ownership transfer
- The product is tangible and it is easy to convert it to money
- The major task in production is an optimization of product quantity according to fixed and variable costs
- The main goal is to achieve maximum profit in short term
- Only difference for the services is immateriality

Service Economy

- Service is
 - Associated with the work that servants did for their masters
 - Set of the benefits delivered from accountable service provider, mostly in close co-action with his service suppliers, generated by the functions of technical systems and/or by distinct activities of individuals, commissioned according to the needs of his service customers (Spohrer)
 - Application of specialized competencies through deeds, processes and performances for benefit of another entity or entity itself (Vargo and Lush)
 - Application of competencies for the benefit of another, meaning that service is kind of action, performance or promise that is exchanged for value between provider and client (Spohrer)

Service dominant logic

- The emphasis is not on tangible product
 - Is on services the customer can get
- No matter if the service is realized through the product or someone else to perform the service
- Ownership is not important
- The customer obtain benefits by renting to:
 - use a physical object
 - hire the labour and expertise
 - pay for access to facilities and networks

Example

- Toothbrush
 - You buy toothbrush to clean your teeth
 - The service (problem to solve) = to clean dirty teeth to impress a girl / boy
 - The service can be enlarged by communication with the customer
 - For mouth wash
 - Specialized tooth paste - white teeth, mint breath
 - Electric teeth brush

Service dominant logic

- Customers do not buy goods or services
 - They buy offerings which render services that create value
- Traditional division between goods and services is outdated
 - Activities render services
 - Things render services
- The shift in focus to services leads to shift from producer perspective to customer perspective

Example

- Supermarket services
 - Home delivery
 - Additional services
 - Playground corner for customers children
 - Toilets
 - Self cash desk
- Return of the goods
- Helpdesks

Basic Service Economy Paradigms

- Service is the fundamental basis of exchange
- The customer is always a co-creator of the value
- All social and economics actors are the resource integrators
- Value is always uniquely and phenomenologically determined by the beneficiary

Service is the fundamental basis of exchange

- The application of operant resources
 - The seller uses his resources to provide the service
- The basis for all exchange
 - There is not possible to simply exchange the product without using services or this possibility is only marginal
- Service is exchanged for service
 - Services are used on both sides of the market to finish the transaction
- Example: Credit cards transactions

The customer is always a co-creator of the value

- The role of the customer is interactional
- The customer can not be ignored
- Without interaction with the customer the transaction can not be finished
- Value creation is interactional
- Example:
 - You can not provide the cloud service without communication with the customer and analysing of his/her needs

All social and economics actors are the resource integrators

- ❏ Value creation is network of networks
- ❏ The sellers needs to buy other services
 - ❏ They are customers for other providers
 - ❏ They also participate on value creation
- ❏ The integration of the resources is kind of the service
- ❏ Also final customers need to integrate resources
- ❏ Example
 - ❏ To provide IS as service you need to integrate cloud services, project management services etc.
 - ❏ To use your smart phone you need to integrate knowledge of IT security, advanced IT services etc.

Value is always uniquely and phenomenologically determined by the beneficiary

➤ Value is

➤ Idiosyncratic

➤ Designed for particular customer

➤ Experiential

➤ The knowledge and information are not static

➤ Contextual

➤ The combination of knowledge and information is unique in every particular case

➤ Meaning laden

➤ Client and provider should understand the meaning of the value (must see the value for both)

Advanced SDL Paradigms

- Indirect exchange masks the fundamental basis of exchange
- Goods are distribution mechanism for service provision
- Operant resources are the fundamental source of competitive advantage
- All economies are service economies
- The enterprise cannot deliver value, but only value proposition
- A service-centered view is inherently customer oriented and relational

Indirect exchange masks the fundamental basis of exchange

- The application of specialized skills and knowledge is the fundamental basis of exchange
- Service is provided through complex combinations of goods, money and institutions
- But still, the fundamental basis is about knowledge, skills and information
- Example:
 - BMW or Volvo cars comparing to Dacia
 - The basic usage is the same, difference is in the skills and knowledge of such a companies

Goods are distribution mechanism for service provision

- Goods deliver their value through use
- Using goods is the service
- We are not buying goods to own them but to use them
- Price difference is based on the difference of service the goods provide
- Example:
 - Two phones - cheap and expensive
 - Both provide the basic service
 - The more expensive one should provide more services including prestige (Vertu luxury phones)

Operant resources are the fundamental source of competitive advantage

- We speak about knowledge and information intensive services
- The services are provided by combination of specialized knowledge, ownership of information and combination of other resources (labour, capital)
- The comparative ability to cause desired change drives competition
 - Example:
 - Apple and iPhones comparing to other companies, where Apple was innovation leader

All economies are service economies

- Present economics systems can not exist without services
- Even developing countries are dependent on services
 - Example: Payments are done by mobile phones
- Services are now becoming more apparent with increased specialization and outsourcing
 - X as a Service, where X could be
 - Infrastructure
 - Software
 - Payment
 - Anything else

The enterprise cannot deliver value, but only value proposition

- Not only enterprise, generally every entity providing a service (provider)
 - School, university, state
- Provider can offer their applied resources for the value creation
- Collaborate on value creation following acceptance of value propositions
- Can not create and/or deliver value independently
- Example:
 - University and its study programs

A service-centered view is inherently customer oriented and relational

- Service is defined in terms of customer-determined benefit
- Service is co-created with the customer
- Only customer decide the final version of the service
- Co-creation is **inherently** customer oriented and relational
- Example
 - Development of the IT services
 - Always need to ask about the basic of the problem they are solving

Comparison:

Product Dominant Logic:

- Customer is value destroyer
- Customer has limited power to impact quality or features
- Customer is motivated to destroy goods to buy new one
- Seller is maximizing short time profit

Service Dominant Logic:

- Customer is value co-creator
- Customer communicate with seller about all features of the service
- Long time relationship is preferred
- Seller is maximizing the long time profit

Conclusion

- Product Dominant Logic
- Service Dominant logic
- The paradigms of PDL and SDL
- The examples of PDL and SDL