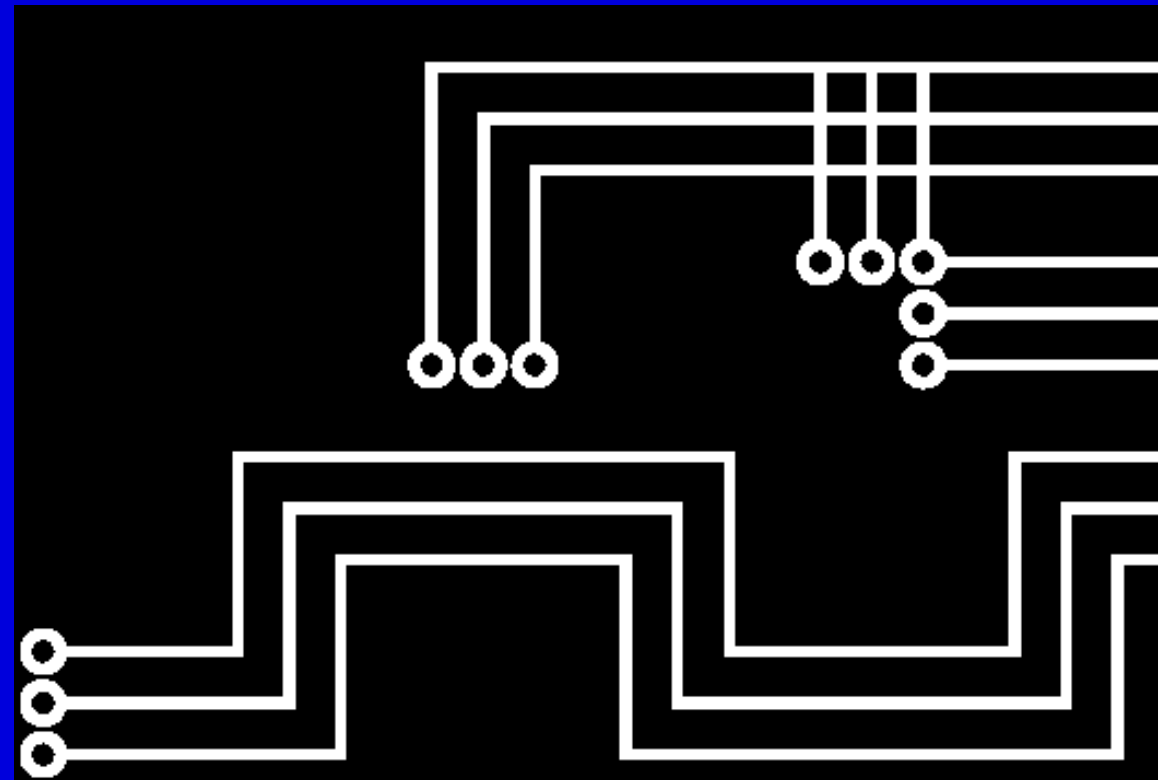


# Product and Service Dominant Logic

Introduction to Service Science

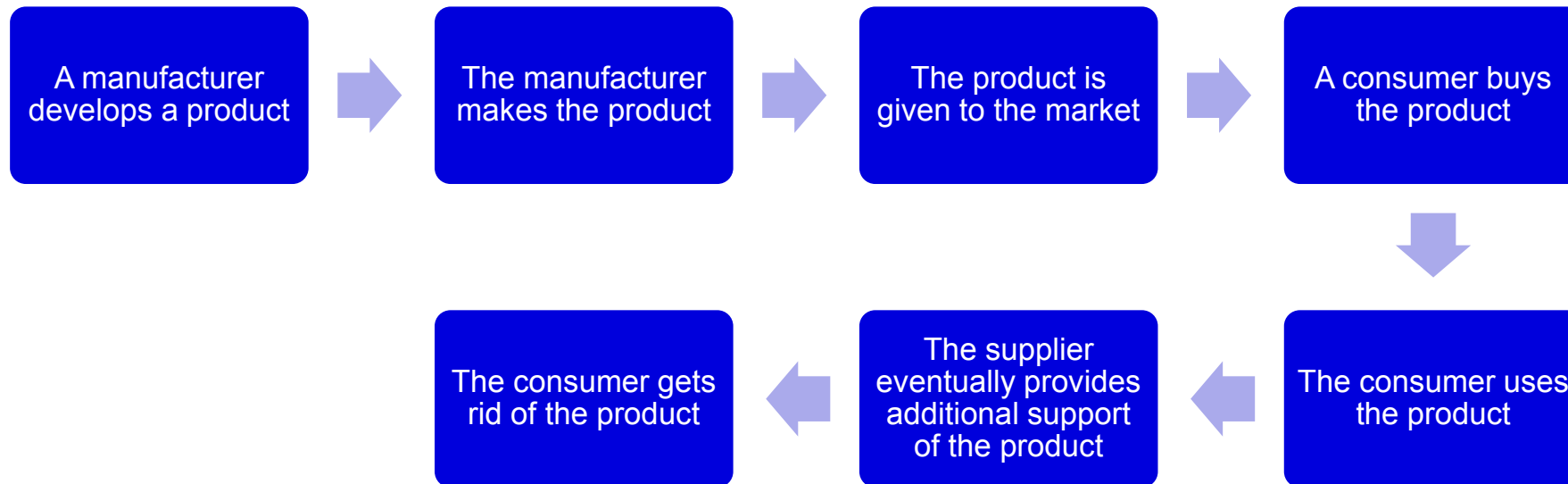
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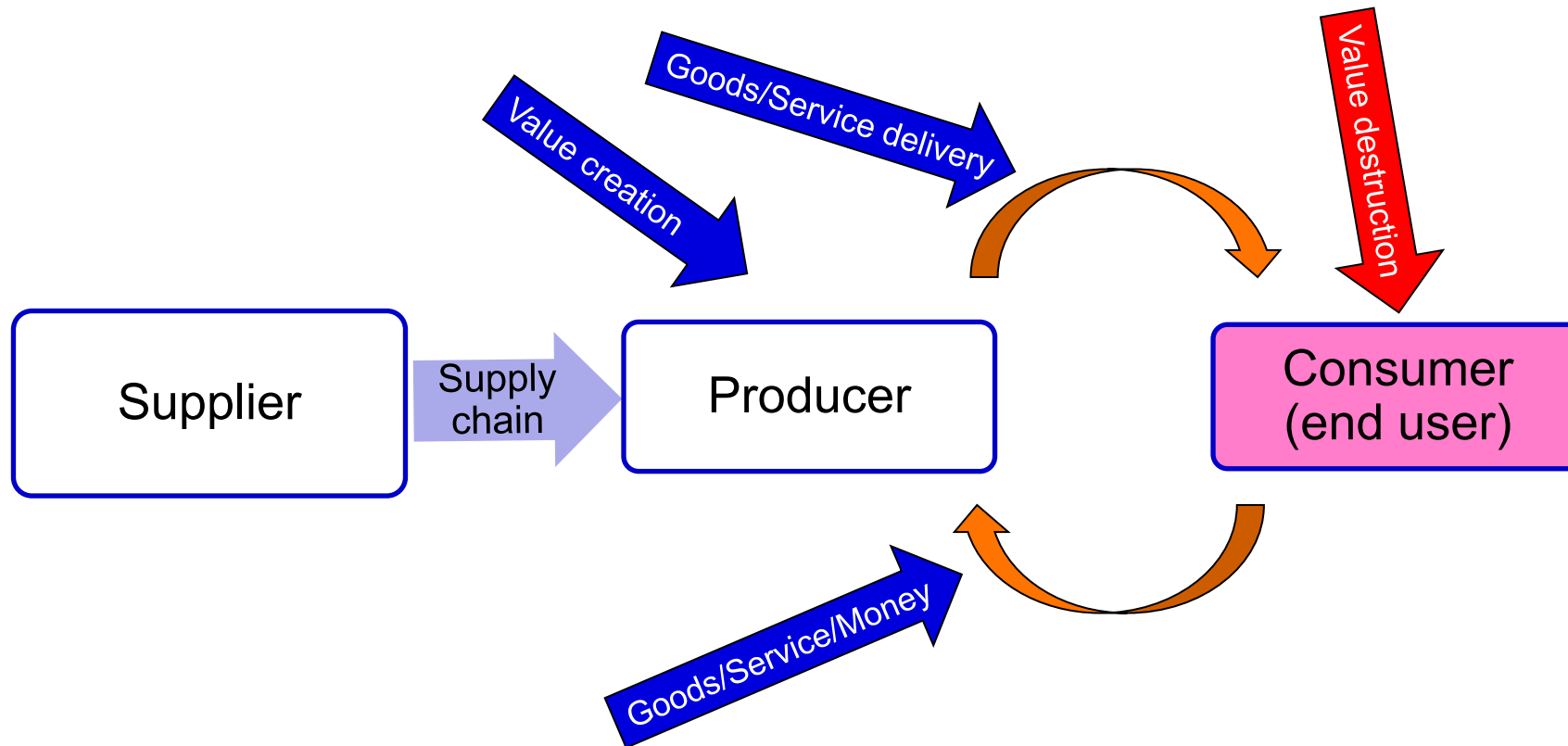
# History of economics paradigms

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



# Product dominant logic



# Product dominant logic

The process is considered as an ownership transfer

The producer and buyer are not closely connected

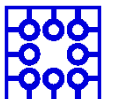
- They are in touch only in the moment of ownership transfer

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



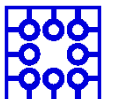
# Service is

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 focus is not on tangible product

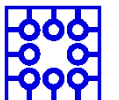
Is on services the customer can get

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 labor and expertise
- pay for access to facilities and networks



# Example – Hello world

## Toothbrush

- You buy toothbrush to clean your teeth
- The service (problem to solve) = to clean dirty teeth

## The service can be enlarged by communication with the customer

- For mouth wash
- Specialized toothpaste – 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

## Service dominant logic

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



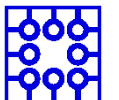
# Basic Service Economy Paradigms

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 buyer is using his resources to get the value
- 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:

- Buying a phone, you really buying the services related with the phone, not the phone itself.

# The customer is always a co-creator of the value

The role of the customer is interactional

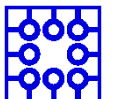
The customer can not be ignored

Without interaction with the customer the transaction can not be finished

Value creation is interactional

Example:

- Google services or Microsoft services – they offer a lot of options, but final configuration depends on customer/user



## 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

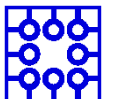
### They also participate on value creation chain

### The integration of the resources is kind of the service

### Also final customers need to integrate resources

### Example

- Sure for providing Software as a service you need to integrate cloud services, project management services and the others
- But primarily you need to integrate the skills, knowledge and information – the real resources



# 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

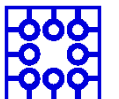
Goods are distribution mechanism for service provision

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

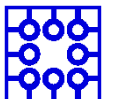
The application of specialized skills and knowledge is the fundamental basis of exchange

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

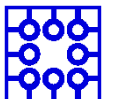
Using goods is the service

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:

- The goods the customers are buying on amazon.com
- This goods can be bought anywhere else – the reason why the customers are buying it there are services
- The goods are just „channel“ for the services



## 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 (labor, capital)

The comparative ability to cause desired change drives competition

- Example:
  - Success of innovative companies – like kiwi.com
  - Their only advantage was their knowledge, information and unusual way of their usage

# 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

Example:

- The services innovation in Estonia took the country to the position of innovation leader

## 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 are just value proposition, the students will not be successful without their own activity

A service-centered view is inherently customer oriented and relational

Service is defined in terms of customer-determined benefit

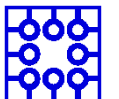
Service is co-created with the customer

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 core of an issue they are solving and find a real source of problems



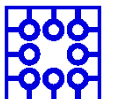
# Comparison:

## Service Dominant Logic:

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

## 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





## Conclusion

Product Dominant Logic

Service Dominant logic

The paradigms of PDL and SDL

The examples of PDL and SDL

