

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 coaction 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
 - ❏ 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 labor and expertise
 - pay for access to facilities and networks

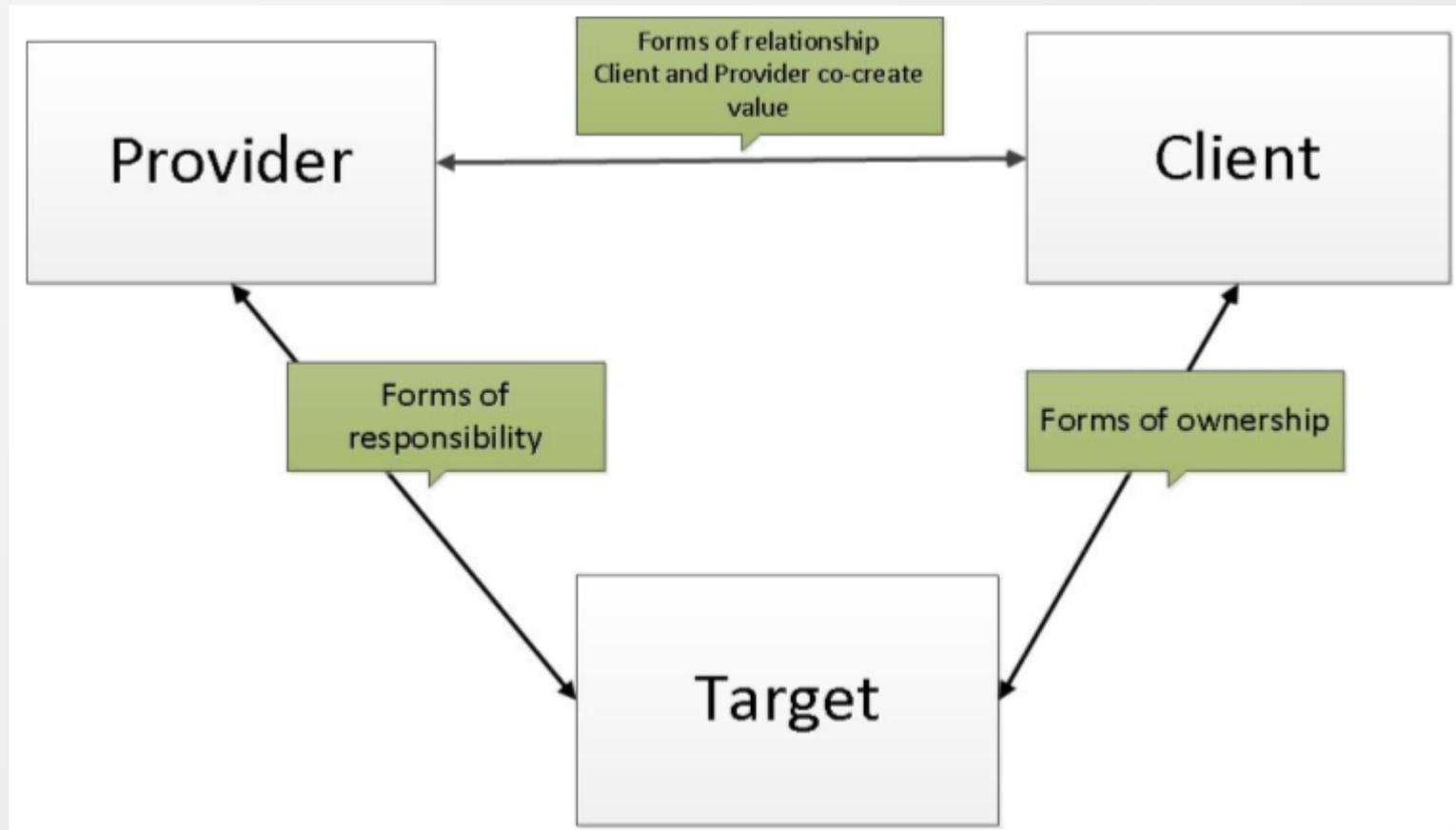
Service dominant logic

- 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

Service system

- ▣ Provider
 - ▣ Individual
 - ▣ Organization
 - ▣ Technology that provider is responsible for
- ▣ Client
 - ▣ Individual
 - ▣ Organization
 - ▣ Portion of reality owned by Client
- ▣ Target
 - ▣ The reality to be transformed or operated on by Provider for sake of Client
 - ▣ People, dimensions of business
 - ▣ Dimensions of products, technology artefacts & environment
 - ▣ Information, codified knowledge

Service system



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 must be used on both sides of the market to finish the transaction

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

All social and economics actors are the resource integrators

- Value creation is network of networks
- The sellers needs to buy other services
- The integration of the resources is kind of the service

Value is always uniquely and phenomenologically determined by the beneficiary

- Value is
 - Idiosyncratic
 - Experiential
 - Contextual
 - Meaning laden
- The provider is not able to set the value alone

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

Comparision

- 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