RESEARCH NOTE

Service dominant logic

Implications at the marketing/entrepreneurship interface

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Abstract

Purpose – This paper aims to explore the implications of service dominant logic (SDL) on the marketing/entrepreneurship interface.

Design/methodology/approach – This paper integrates research from co-creation and service dominant logic with entrepreneurship to explore the value of SDL for entrepreneurial marketing organizations.

Findings – This paper offers insights on: the implications of SDL for entrepreneurship; the value of co-creation in an entrepreneurial context; and an exploration of risk and co-creation, mass customization, and scale production in an entrepreneurial marketing context.

Originality/value – This paper contributes to the work of both academics and executives attempting to better understand the concepts of SDL and co-creation and how they might be leveraged to create advantage. In addition, a set of research implications is offered pertaining to co-creation and SDL in an entrepreneurial marketing context.

Keywords Service levels, Marketing strategy, Entrepreneurialism

Paper type Conceptual paper

> Traditional ways of gaining advantage will not go away. We still need to focus on cost, quality, and speed. But now they have become "table stakes." [. . .] What co-creation changes is the nature of innovation. Instead of assuming that their firm can innovate unilaterally, managers are learning to depend on the consumers to be involved. They shift from product innovations to experience innovations (C.K. Prahalad quoted by Leavy and Moitra (2006, p. 5)).

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Opportunity recognition is often considered to be the heart of the entrepreneurial process (Stevenson and Gumpert, 1985; Brown *et al.*, 2001). Ultimately, whether an entrepreneurial effort is a new venture or corporate innovation, the success of identifying, evaluating, and exploiting an opportunity rests with meeting the needs of customers in novel ways that create value (Shane and Venkataraman, 2000). Two recent streams of literature in marketing lend new insight into the creation of customer value: the proposed and well received shift to service dominant logic (SDL), augmenting the historic marketing perspective of a goods dominated perspective proposed by Vargo and Lusch (2004a); and a related stream of research on the co-creation of value by both the "producer" and "customer" (Prahalad and Ramaswamy, 2004a, b). While both streams of research have roots in an evolving perspective of marketing, they are each well-crafted articulations of new emerging perspective of value creation in a world of rapidly escalating technological capabilities that hold significant implications for opportunity recognition and entrepreneurship.

Opportunity recognition is at the nexus between marketing and entrepreneurship, and understanding how to recognize value-creating opportunities is a marketing capability essential for a sustained relationship with customers. As discussed in later sections, SDL is an extension of the buyer-seller exchange that considers tangible goods as need-satisfying appliances.

This paper suggests that SDL is fundamentally an entrepreneurial marketing (or interface) process as it proactively engages a firm to be intensively involved with its customers in the innovation and value co-creation processes, reducing risk to the marketer and leveraging the customer as a source of human capital in the exchange of services (see Morris *et al.*, 2002; Vargo and Lusch, 2004a; Miles and Darroch, 2006). The purpose of this paper is to identify the impact of SDL and co-creation on entrepreneurship strategy and suggest future research directions. This is accomplished by offering a series of selected research implications that may help build an understanding of SDL's potential contribution to both marketing and entrepreneurial theory development.

The shift to a service dominant logic proposed by Vargo and Lusch (see for example Vargo and Lusch (2004a, b); Lusch and Vargo (2006); Lusch *et al.* (2006)) moves the focus of value from tangible goods to an exchange of services, recognizing that competences that have true strategic significance are operant resources (such as core capabilities and organizational culture). This perspective has roots in Levitt's (1960) "Marketing Myopia" argument that business definition should be rooted in customer needs rather that the products that currently meet those needs. Levitt suggested that in buying gasoline (a good) the consumer is actually buying the ability to drive a car (a need satisfying service), which is consistent with the emerging concept of SDL. This parallels the Vargo and Lusch contention that products are appliances for the need satisfying elements of the firm's relationship with customers.

SDL at the marketing/entrepreneurship interface

Porter (1985) suggested that a firm articulates its value chain of primary and support activities to identify the fundamental resources that it uses to create value. Vargo and Lusch (2004a) refine this perspective to distinguish between operand and operant resources. Operand resources, resources that are converted to products through firm action such as technology, are leveraged with operant resources (the organization's transformative skills) by the organization to produce a service-enriched value proposition. The distinction between operant and operand resources is critical since operant resources are fundamentally more difficult to develop or acquire. For example, it is much more difficult to transform organizational culture (an operant resource) than it is to upgrade the organization's information technology network. By converting operand resources to customer value, they become the foundation of competitive advantage (Vargo and Lusch 2004a, b). SDL, by focusing on "how" value is created rather than traditional marketing's product focus, shifts the foundation of the exchange to the services preformed by the organization rather than goods produced.

While SDL was developed to shift the perspective of marketing, it also has significant implications for entrepreneurship. SDL moves the focus of value creation to an exchange of services, which, in turn, has organizational implications for the development of competences. Framing a value proposition in terms of underlying resources rather than through more tangible goods means that opportunities are more clearly articulated in terms of a stable, need satisfying exchange of skills rather than through a product that satisfies a need at a point in time. This suggests that firms adopting SDL as a strategic perspective will enjoy closer and more positive relationships with customers, partners, and other stakeholders. In a recent article, Lusch *et al.* (2007, p. 5, italics in original) argue that:

> [...] *effective competing through service* has to do with the entire organization approaching itself and the market with *service-dominant (S-D) logic*.

Table I adapts Lusch *et al.* (2006) and articulates the key differences between goods dominant and service dominant marketing logic to identify implications for entrepreneurship.

A central element of SDL is co-creation – the process of involving the customer in value creation activities. Customer involvement can be due to collaboration in the product development process, and it can also occur after acquisition as the customer learns to use the product to create value for him/herself. SDL sees the customer and company engaging in a continuing dialog to sustain value creation. The Vargo and Lusch (2004a, b) articles were published at roughly the same time as Prahalad and Ramaswamy's (2004a, b, c) works that moved the focus of the firm from creating products in anticipation of consumer preference to involving the consumer in the creation of value. While both perspectives are path breaking, and represent a significant shift in strategic marketing thought, they both build on a perspective that has gradually shifted away from a goods-centered perspective.

The concept of co-creation has a rich history in the innovation literature and involving customers in value creation can be seen in the work of Von Hippel (1986), Normann and Ramirez (1993); Oliver *et al.* (1998); and Franke *et al.* (2006). For example, customer involvement in the creation of a customized value proposition is the foundation of the success of marketers from "Build a Bear" to Apple's I-Pod (Leavy and Moitra, 2006). The co-creation process has even been used for high tech, high cost consumer durables such as in the development of Volvo's XC90 SUV (Dahlsten, 2004).

However, customer involvement in marketing strategy has increased dramatically over the past ten years as technology has allowed levels of interaction that were previously unthinkable. During the early days of the internet, many predicted significant disruptions in existing business models (e.g., de Kare-Silver, 1999; Evans and Wurster, 2000). However, few businesses successfully leveraged the transformation of value creation. Recently, that has changed with the increasing

Goods dominant logic[a]	Service dominant logic[a]	Implications for the opportunity creation/discovery, assessment, and exploitation processes of entrepreneurship[b]
Goods	Services	During opportunity discovery/creation focus on customer benefit rather than product features and how this creates value for the customer and the firm
Tangible	Intangible	In formulating the business proposition focus on creating customer solution and meaning rather than physical good
Operand resources	Operant resources	Focus on dynamic knowledge resources (operant resources) that transform rather than static resources that require action to create value
Asymmetric information	Conversation	Use strategic conversations with customers and trading partners to create more valuable relationships that better exploit attractive entrepreneurial opportunities
Propaganda	Conversation	Bi-directional, open, honest communication is expanded to all relevant stakeholders and includes hearing the voice of the customer as well as disseminating information about the company
Value added	Value proposition	The customer is an integral part of opportunity discovery and assessment: co-creating value with the company. If a value proposition is accepted, value is co-created with the customer
Transactional	Relational	Firms and customers engage in a symbiotic and stable exchange relationship (one that is facilitated by co-creation)
Profit maximization	Financial feedback	Financial success is a signal that a customer is getting what it wants and needs

Sources: [a] Adapted from Lusch *et al.* (2006); [b] adapted from Shane and Venkataraman (2000)

Table I.
Implications of SDL for entrepreneurship

scale of the internet. Many more customers are connected, and an increased speed in technology development has resulted in significant value creation.

Essentially, a service dominant logic redefines marketing as a coordinating function that links value creating competence, upstream supply, and customer experience by explicitly integrating operations with marketing. While SDL has great potential for redirecting marketing and entrepreneurship thought, and great practical utility, it has not yet evolved into a theoretical construct. Vargo *et al.* (2007) noted that SDL is a system of logic designed to move the focus of marketing away from goods to services as the true foundations of value. The growing interest in SDL can be the foundations of a new theory at the marketing/entrepreneurship since novel ways of value creation are the Litmus test of innovation and entrepreneurial success. Arguably, one manifestation of this is the very familiar wheel of retailing (Hollander, 1960). As low cost entrants develop more service, opportunity arises for new competitors in the low cost space. The evolution of retailing bears this out as new retail stores (locally and nationally) find improved ways to generate customer experiences that have greater value than competition that are simply offering a tangible product.

A service dominant marketing logic redefines marketing as a coordinating function that integrates the value creating competencies of the firm with its supply chain and customer experience. It broadens the definition of marketing significantly because it explicitly links operations with the marketing function and requires a deeper analysis and understanding of customer benefits. For example, in the business-to-business context where an OEM automobile manufacturer is buying component parts, the core value that the customer is seeking is not simply a component part, but is also essentially outsourcing a portion of its engineering requirement to the supplier. Value is created for the OEM when the supplier works with them in the R&D and design work that result in an innovative solution to the original equipment manufacturer's (OEM's) requirements.

Research implications

In the following sections, four research implications are offered and discussed that link SDL to the marketing and entrepreneurship interface. While this is not intended to be an exhaustive list, these issues are research topics that will be interesting and relevant for academics and entrepreneurs. It is hoped that these discussions will generate subsequent research at the marketing/entrepreneurship interface as SDL's influence in marketing grows. Advocates of SDL view value creation very broadly and incorporate key elements of strategy (e.g., the definition and scope of competences). In addition, SDL has tremendous potential to expand the influence of marketing strategy literature *vis-à-vis* other disciplines. Since identifying opportunities and managing resources is at the center of entrepreneurship SDL can be the foundation for significant and high value research at the marketing/entrepreneurship interface.

Implication 1: the impact of co-creation in the online environment

The increasing connectivity of customers has resulted in a proliferation of digital products, a trend that will only increase as technology improves and broadband access becomes faster and more widespread. YouTube, iTunes, and social networking sites are just a few of the offerings that have resonated well with customers. As some critics of the historical perspective on services have argued, the focus on tangibility as a key differentiator of products and services is losing traction. Digital products may not have form, yet they are clearly tangible, as any music fan downloading files from iTunes will argue. Is the engagement between the customer and the firm different with digital media compared to physical products such as shirts or books? When the value of customer generated content is high and the value of community is high, transactions between customers are facilitated because sellers have a venue for exchange and the community "polices" its members through feedback. eBay represents an example of this type of site.

When the value of customer-generated content is low and community is unimportant, it is a commodity transaction site, one where purchases can be made with little feedback from other customers, such as an online grocery site where the customer is buying commodities or branded products with which he/she is familiar. When the customer contributes content that would be difficult to sell (e.g., dorm room or home party videos on YouTube), the site attracts viewers because of the community.

Co-creation is of particular importance in the online product/market space as firms attempt to interact with their customers in innovative ways to create superior value propositions. While the customization capabilities of websites such as Dell or Threadless are often cited as the benefits of online value, organizations through the internet can co-create value with their customers in various ways. For example, the online reviews in many web sites (such as Amazon) give customers access to the thinking of other buyers who have experience with the product. A recent article in *The Wall Street Journal* reported that online customer reviews can increase sales and loyalty to the site (Mangalindan, 2007). The contributions of many users to YouTube give providers of content access to large audiences while providing entertainment to users and (soon advertising) revenue to the site. The online world has many avenues to co-create, and the classification in Table II develops a typology of online co-creation categories.

The matrix in Table II is based upon two variables:

(1) *The value of the contribution of users.* Some users bring content to the site that has significant exchange value (i.e., it can be sold) while others bring in interesting but less salable content.

(2) *The effect of community on the site.* Some sites such as eBay or job placement sites generate significant benefits from the interactive community of online users.

Sites such as YouTube and eBay rely heavily on customer-contributed content to provide value for customers. The sites are venues to share information or to sell. YouTube has a large variety of content from many sources ranging from personally silly escapades to clips from classic television shows and sports highlights. The value is facilitated by the technology that enables the sharing, but it is the willingness of customers to provide content that attracts users. This is true for YouTube (videos), Flickr (photos), eBay (auctions), and mySpace (social networking), as well as other sites.

From the earliest days of e-commerce, the development of community was seen as a novel means of creating value for customers (e.g., Seybold and Marshak, 1998). Virtual communities:

> [...] allow people with common interests to meet, communicate, and share idea and information with each other... [t]hrough these activities, participants develop bonds with other members of the community and with the community as a whole (Haylock and Muscarella, 1999, p. 37).

Value of user provided content	Value of community Low	High
Low	Online gambling	Auction sites like e-Bay
High	Commodity sites in the B2B markets; NPR.org and Craig's List	Social entrepreneurship sites like Kiva.org; entertainment sites like YouTube; sports community sites like Concept2.org

Table II.
A typology of online marketing co-creation strategies

Developing communities of users increased the loyalty to sites, such as eBay's infrastructure of buyer and seller ratings, or some component sites use of sharing nonproprietary technical information that add value for customers and help companies develop solutions to unexpected problems.

For example, sites such as Kiva.org (a global social entrepreneurship micro-lending site) create high value and community for both user groups. In Kiva.org's situation, potential micro-lenders can view an assortment of locally screened loan opportunities (often with a short biography of the entrepreneur and a very short business plan) in developing nations, then the lender can fund (very modestly) the entrepreneur along with other socially conscious lenders. Kiva.org suggests that no one person lend more the US$25.00 to anyone entrepreneur; and, by doing so, "forces" both the diversification of the lenders and the creation of a virtual community and support group for the entrepreneur.

Concept2's indoor rowing machine web site sells rowing machines, but offers much more in terms of training, motivation, and the creation of virtual (and physical) rowing clubs (one of the authors is on an alumni rowing club). Throughout the year Concept2 sponsors both physical and virtual rowing events linking rowers together to help motivate each other. This combination of community and co-creation of value has helped make Concept2 the dominant indoor rower globally.

Auction sites such as eBay require a high level of community interaction but a low level of content provided by any one user. eBay exists because the many users offer a wide variety of products that help create a virtual marketplace. Moreover, the rating systems of eBay create confidence in known sellers and also creates switching costs for sellers who lose their "brand equity" as honest, reliable sellers. However, the real value in eBay is that it creates a broader and deeper market than any physical marketplace could.

Sites such as NPR.org offer high value user provided content but are not really designed to create community. Where the levels of community are low, there is often little of no co-creation. The NPR web site as an extension of NPR's marketing activities is simply an outlet for publications and one-way flow of information. Online gambling illustrates the case in which there is both a low value of user provided content and a low value of community. Gamblers provide only money, and the site creates a limited a purpose specific community. This suggests that the impact of co-creation in the online environment is mediated by the value of user contribution to content and the value of community. Further research could focus on developing metrics to better understand the value of community and contribution.

Implication 2: the risks of co-creation

The concept of co-creation is one that is often initially quite appealing to both marketers and entrepreneurs. Marketers appreciate that co-creation helps build customer involvement and brand loyalty. The notion that the firm develops products with its customers to ensure satisfaction can be effective marketing, yet there is a larger question about whether all exchanges are sufficiently important and risky to both parties to justify the incremental monetary cost and often non-trivial additional efforts associated with co-creation to both customer and marketer. Firms have the option of engaging in co-creation, mass customization, or scale (mass) production. Each of these processes results in risks for the firm and the customer and these are summarized in Table III.

Table III.
Customer and firm specific risks of co-creation, mass customization, and scale production

	Customer	Firm
Risks pertaining to co-creation	1. Product-related performance risks 2. Monetary risks 3. Risk of increasing time and effort in the purchasing decision 4. Risk of not having critical skill and knowledge required to "create optimal product" 5. Risk of lower "re-sale" or "trade-in" value as product is too customized 6. Risk of the additional training required to be able to effectively use the product	1. Product-related performance risks 2. Increased product liability risks due to inability to adequately test product 3. Economic performance risk 4. Risk of increased costs due to additional time and effort occurred in transactions
Risks pertaining to mass customization	1. Product-related performance risks 2. Monetary risks 3. Risk of increasing time and effort in the purchasing decision 4. Risk of not having critical skill and knowledge required to "create optimal product" 5. Risk of lower "re-sale" or "trade-in" value as product is too customized 6. Risk of the additional training required to be able to effectively use the product	1. Incremental costs of customization 2. Loss of incremental revenues due to potentially lower sales volume
Risks pertaining to scale production	1. Economic loss due to inaccurate sales forecasting 2. Inventory losses due to rapid technological changes	1. Social risks of not having "customized product"

For example, under conditions of risk symmetry when both the firm and the customer face high product related performance and economic risks, SDL's notion of value co-creation may be most suitable, such as when the US Air Force is developing a new attack fighter. With both the contractors and the Air Force facing high performance and economic risks, it is very important for both to create a valuable and need satisfying long-term business solution that includes the tangible superior fighters and the intangibles like services and the ability to fly and defend our airspace in a strategic and successful manner. Likewise, when neither the firm nor the customer face high product performance or economic risks scale, production processes may be most effective. For example, when Procter and Gamble (PandG) offers enhanced features for its Crest toothpaste such as adding whitening agents, performance and economic risks accruing to both PandG and to the prospective toothpaste customer are trivial.

Under conditions of risk asymmetry, mass customization may offer a more effective alternative to either co-creation or scale production. For example, if risks to the firm are high, but the risks facing the customer are low, mass-customization may be most effective in creating a high value business proposition (Dell dramatically reduced the economic risks of holding rapidly depreciating product inventory by offering PCs to customers that faced low performance and economic risks.) Table IV illustrates the relationship between customer and firm risks and appropriate production processes.

Table IV offers a conceptual framework to better explore how risk to both the firm and the customer can effect production processes. The firm invests in operand resources to create value, while customers, in varying degrees of intensity, are engaged in partnerships with the selling firm. When these investments are high, the opportunity costs for either party to leave the relationship can be significant. Ultimately, an important question is whether the implications of SDL vary by different levels of commitment in firm-customer relationships. For example, when one or both parties encounter risk in the relationship, does that affect the optimal SDL strategy? Future work could extend this framework to consider the implications of outsourcing and vertical integration on firm-specific risks. In addition, the impact of degree of customization and re-sale value would be useful.

Implication 3: the interaction of SDL and entrepreneurship is more apparent in organizational markets than in consumer markets

Vargo and Lusch (2004b) suggest that modern marketing theory is not well served by an artificial distinction between service and goods marketing. Marketing, however, has a research tradition that identifies many differences in the marketing problems in organizational vs consumer markets (e.g., Vitale and Giglierano, 2002). One might argue that the service elements of the relationship become critical in organizational markets as complex buys often require significant engineering or technical support (e.g., training and maintenance of IT systems, part design) and even routine buys can require high service levels in terms of delivery scheduling.

Recent events in the automotive industry suggest continuing trends to reduce costs and increase service in its supply base (e.g., Stein, 2006; Graham, 2006; Johnson *et al.*, 2007). This leads to significant challenges for traditional part producers who face increasing internal R&D costs as they attempt to effectively outsource engineering. As Christine Dittrich of the Robert Bosch corporation noted, "65% of value creation comes from their (suppliers') end," including R&D and product design (Graham, 2006). Moreover, automotive suppliers are the largest employer in the USA (Clapper, 2007). With significant global growth expected, this sector will be a significant worldwide employer. For example, Visteon expects its Asian operations to grow into the largest component of its business by 2009 (Pope, 2007).

Two areas of research could be especially relevant in this arena. First, are there differences between consumer and industrial markets in the perceived applicability of

Table IV.
Risk and suitable production process

	Risk to customer	
Risk to firm	High	Low
High	Co-creation	Mass customization
Low	Mass customization	Scale production

SDL and what are the implications for entrepreneurial activity? Second, how can marketers in mid-supply chain faced with the conflicting pressures of increasing service expectations and pressure for price reductions balance these demands, while articulating their value proposition to customers, and develop the sustainable business models that their customers need for their own viability?

Implication 4: SDL is more appropriate in markets that require a high degree of product customization

While it is clear that in some cases buying a car or a personal computer can involve co-creation of value specific to the needs of a customer, the competences (service) of converting inputs into a product offering may result in a product that is not customized, but effectively meets the needs of many customers in a segment in a highly cost efficient manner. Co-creation may, in fact, reduce customer value by greatly increasing costs and purchasing involvement. In many cases, some consumer segments might be more satisfied with a mass-produced product than with a co-created one, due to increased cost, time and effort to purchase, and product reliability concerns.

For example, there is a proliferation of stock keeping units (SKUs) in carbonated soft drinks. However, there is no customization of the product for individual customers. Typically at most McDonald's coffee is coffee, and it is served hot, fast, and cheap. On the other hand, if one orders coffee in a Starbucks, one may choose soya milk, sundry flavors, and many other options. The permutations of beverages available are well over 100, but the customer pays a premium for the co-created incremental value in terms of time and monetary costs. For many low involvement customers, McDonald's offers a superior value proposition for serving coffee to Starbucks. This suggests the question, "What are the implications of co-creation for products, even those with a strong brand, that are at their core a commodity?"

Conclusion

Vargo and Lusch's (2004a) concept of SDL is an emerging logic in marketing that suggests that the value proposition of the tangible product is dominated (or driven) by the value accruing to the consumer of intangible services generated through the acquisition, consumption and disposition of the tangible product. Because of this new way of understanding the value creation process SDL has significant implications for entrepreneurship practice and theory construction in terms of opportunity recognition and exploitation. SDL is fundamentally an entrepreneurial marketing process informed and driven by co-creation. Co-creation proactively forces a firm to be intensively involved with its customers in the innovation and value creation processes, leveraging the customer as a source of human capital and knowledge (see Morris *et al.*, 2002; Miles and Darroch, 2006). As Table IV illustrates SDL and co-creation are not always suitable for conditions in which risk to either the marketer or consumer is low, when there is asymmetric economic and performance risk, or when the customer is not highly involved with the product. The logic of SDL is compelling and focuses new products and new ventures on customer need and organizational competence and inimitable resources. However, we raise the question of whether the implementation of SDL is the same in all types of customer relationships. Is it desirable and feasible to consider SLD from a contingency perspective? This has significant implications for future research.

Entrepreneurs might find the logic of SDL useful in creating new opportunities that focus not on a tangible product, but on the services and experiences that may be generated from that product. Future research may fruitfully explore and extend the suggested research implications to determine SDL's value in future marketing and entrepreneurship practice and subsequent theory construction. For example, one area that might be more fully explored is how SDL impacts the entrepreneurial process of opportunity creation/discovery, assessment, and exploitation. If opportunity identification is followed by organizing resources to exploit new opportunities, SDL may have a significant impact on the identification and development of appropriate competences to exploit opportunities, and aid entrepreneurs in decisions about organizational formation and the appropriate networks to develop in light of the operant resources that they bring to the new market, and the complementary resources that they may require to successfully execute these strategies. It is becoming increasing clear that SDL is an emerging marketing school of thought that will impact future research at the marketing/entrepreneurship interface.

SDL represents a new and exciting perspective on marketing, and significantly redefines value and customer satisfaction. One of the most significant interactions of marketing and entrepreneurship is opportunity identification and the consequent organizational development to exploit these opportunities. Understanding value from the SDL perspective will increase our ability to effectively generate successful new ventures and corporate entrepreneurship initiatives.

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