

An overview of service dominant logic marketing essay



It is thought that the service-dominant logic view of marketing provides a valuable contribution to the dialogue about necessary and evolving change to marketing. This assignment will be evaluating the impacts on the marketing activities undertaken by firms in both strategic and relationship marketing concepts.

From 18th to 19th century, there were major changes in agriculture, mining, transporting and manufacturing. Industrial revolution was the main reason for these changes which had emerged in the Western countries and then eventually influenced the world. It was led by the creation of division of labour which caused exchange, productivity and efficiency.

Industrial revolution was the beginning of a shift from agriculture to manufacturing. Therefore, massive material production took its place. As the production was based on standardised goods, the marketing focus became entirely on the output. Thus, the materialistic idea became dominant which is called ' Good-Dominant Logic' (G-D).

Nevertheless, there was another milestone which has been substantially experienced by high-income countries is moving from manufacturing to service sector. It is believed that this change also has resulted in major changes in marketing approaches. As the outcome in services is not tangible, the old approach cannot fully apply in services (Shostack, 1977). Moreover, there has been a change in the aspects of goods itself. The decider and creator roles of firm have been shifted to customer focus. The limited understanding of Goods-Dominant logic was dismissed which divide marketing into two main areas, namely goods marketing and services

marketing. Furthermore, there is no longer a need to separate services from goods or vice versa. The new evolving dominant logic for marketing which is called 'Service Dominant Logic' implies to the all the businesses and pays attention to what businesses need.

Service Dominant Logic is a new approach of looking everything as a process of serving. The name 'Service Dominant Logic' does not relate or is not meant to give more importance to service business. Also, it does not separate services from goods. What Vargo and Lush (2004) define is Service dominant logic implies that all businesses are service businesses and covers all the economic and also social activities. They also emphasise that the service is exchanged for service. It is mainly the process of using resources for the benefit of the other parties.

Service Dominant Logic differentiates itself from Goods Dominant Logic mainly by looking from perspective of customers. Companies do not sell products to customers but sell the service to satisfy their needs and wants. Thus, goods are the channel of distribution for services. Service Dominant Logic does not have to associate with service business in its traditional perspective. The value has not been created by the business, neither is it created only by customers. However, it has been a co-creative activity with the involvement of resource integrators who are suppliers, producers, competitors, customers, and customer's network of resources, other social and economic stakeholders.

Adopted from Vargo and Lusch (2010)

The shift of focus from output to exchange is a similar shift to efficiency to effectiveness. Since the businesses cannot survive by simple commodities which do not contribute to competitive advantage, the marketing department carries an important role. This role is to capture the need and satisfy the customers. Therefore, the need completely depends on customer.

Vargo and Lusch make a distinction between service and services. They define service as the application of “ specialised competences” through processes and performances for the benefit of another party. They also define services as its traditional sense which is intangible goods (Rathmell, 1966).

The service is ensured through the presence of operant resources which are invisible and intangible resources. They are the key competitive advantage as firm embeds tangible goods or products with knowledge and skills. On the other hand, there are also operand resources which are natural resources such as materials and other tangibles. Goods Dominant Logic perceives operand resources as primary due to standardised massive production which was thought to be the key competence. However, Service Dominant Logic views operand resources as a tool which needs to shape with knowledge and skill to satisfy the customers.

Vargo and Lusch had initially published eight foundational premises. (2004b). However, there were some modifications and additions in their 2008b article. Thus, the last version of Service-Dominant Logic is captured ten foundational

premises. The key points of Service Dominant can be seen in details in these premises.

FP1 : ‘ Service is the fundamental basis of exchange’

Vargo and Lusch describes that service is exchanged for service. The operant resources are the one part of the exchange and the other part is the service from beneficiaries. The idea is different from the goods logic. However, Service Dominant Logic does not ignore goods. It contains goods which are still carrying an important role as appliances. For instance, the exchange can be obtained by a direct or indirect service to customer and the payment for this product can be involved into the development of the coming product etc.

FP2 : ‘ Indirect exchange masks the fundamental basis of exchange’

When the service is indirect exchange, it is delivered with the combination of goods, money and institutions. Therefore, the exchange cannot easily be conceived as a service.

FP3: ‘ Goods are a distribution mechanism for service provision’

Goods are no longer the key terms to exchange. Rather goods are value propositions within service. Goods or products are ‘ appliances’ for service delivery. The value is driven by the usage

FP4: ‘ Operant resources are the fundamental source of competitive advantage’

Moving towards knowledge and technology embedded production, competitive advantage is derived from operant resources. Commodities or operand resources as tangible assets are no longer profitable tools without

operant resources. Thus, the competitive advantage is originally derived from operant resources.

FP5: ‘ All economies are service economies’

There is no division between goods and services. All businesses have to satisfy their customers to survive and obtain their competitive advantage. In order to create their competitive advantage enterprises try to increase specialization and outsourcing.

FP6: ‘ The customer is always a co-creator of value’

Customers or consumers who are the resource integrators are no longer the destroyer of the value. Rather, they are the co-creator of the value. Service is only the input on creating value without the collaboration of customer.

FP7:‘ The enterprise cannot deliver value, but only offer value propositions’

As noted earlier, the enterprise is not the creator of the value neither is the determiner. However, the enterprise offers the value proposition and customer perceives the value through the co-production (Gronroos 2000; Vargo and Lusch 2004a)

FP8:‘ A service centered view is inherently customer oriented and relational’

In the Goods Dominant Logic, value creation was obtained by producers and therefore the consumers were the destroyers as they consume the goods. The orientation was on producers. However, Service Dominant Logic suggests that customer is a part of value creation. At that reason, customers cannot be separated and should be thought in a relational context with firms.

FP9: ‘ All social and economic actors are resource integrators’

There is no Business to customer perspective. However, economic interactions are regarded as Business to Business since all of the resource integrators involve in co-creation.

FP10: ‘ Value is always uniquely and phenomenologically determined by the beneficiary’

Vargo and Lusch (2008) describes value as “ idiosyncratic, experiential, contextual, and meaning laden.

The impacts on Marketing Strategy

Due to the importance of manufacturing goods, marketing was focused on the distribution of the goods. Before the industrial revolution, marketing had had a link with customers focusing on customization. However, the importance of customers was ignored whilst industrialization. As the production moved to massive standardization, the customization was no longer valid. The importance was on output, therefore, the distribution replaced it. Goods-Dominant Logic was well obtained in this period.

Nevertheless, the importance of services has been gained-the aforesaid services are the intangible outcome, it is not the idea of process in service dominant logic. The key point was no longer production or producer itself. There has been a need to understand the customer’s wants and needs. Therefore, the focus on outcome is no longer valid. The relationship has gained its importance.

It is suggested value perceptions of suppliers have changed. Firms need to understand customers’ needs and wants, their satisfaction with ability of

marketers to deliver value, and change in value perceptions. (Flint, Woodruff and Gardial, 1997)

BENCHMARKING (AS THE COMPETITORS ARE ONE OF THE INTEGRATORS)

Marketing mix 4PS 4CS

The impacts on Relationship Marketing

The past of marketing is directly related to Economics. Thus, Economics had a big impact on the implementations of marketing. What economics assumed was the markets are efficient, buyers and sellers are rational to make choice between goods given the quality and price. The quality and price were the adequate information to make a rational decision (Easton and Araujo, 1994). However, there is no doubt that quality and price are not the sole criterion in consumers decision making for the last 50 years, but also are the branding, marketing communication and relationships important parts (Baker and Hart, 2008).

On the other hand, the Goods-dominant logic was mainly about selling tangible products to customers. As a result, this old approach which mainly focused on mass production does not give effective results in services where the outcome is intangible and also when the buyer is a business rather than individual customer.

On the other hand, service dominant logic covers all these areas and gives a better understanding to marketing, paying attention to relationships, intangible goods and creation of value. Services marketing is far more advanced than goods marketing in terms of relationship management since

they have been directly integrated to customers. However, Service dominant logic covers both services and goods by giving attention to relationship between resource integrators.

The aim of relationship marketing is no longer only about the creation of relationships. It is also about developing and maintaining long lasting successful relationships by practising through all marketing activities (Morgan and Hunt 1994). Consequently, the parties will benefit from the relationship, achieving their objectives. Service-dominant logic re-emphasised the changing marketing implications which have shifted through business-centric to customer-centric (Vargo and Lusch, 2004). The relationship management became a vital part of competitive advantage, giving the importance to marketing activities taking by firms (Ganesan 1994). The six market Model (Christopher, Payne and Ballantyne (1991) below shows a better understanding of relationship marketing strategy. It identifies the central markets to relationship marketing.

The six markets – Christopher et al. (1991)

Maintaining a good relationship with each alliance, the firm will create its own competitive advantage. For instance, a good relationship with supplier will undoubtedly provide benefit to firms as well as to customers by reducing the cost and/or increasing the quality.

CUSTOMER RELATIONSHIP MANAGEMENT

The increase of direct and database marketing revealed a great tool for the marketers. They realised that customer retention is far less costly and considerably more profitable than attracting new customers (Rosenberg and

Czepiel, 1984; Reicheld and Sasser, 1990). As a result, Customer Relationship Marketing (CRM) became very important in the latter part of 1990s. It has been pointed that the marketing concept has been changed from transactional marketing to relationship marketing (Webster, 1992).

Moreover, It is also said that relationship management should be facilitated or encouraged by information technology. This involvement has shifted relationship management to Customer relationship management which is defined as ' information-enabled relationship marketing'. It, briefly, preserves the data and information of customers and gives a better understanding of customers (Peppers and Rogers, 1995; Ryals and Knox, 2001).

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