

The Shifting Boundaries of Marketing and Operations under Service Dominant Logic

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ABSTRACT

Since the beginning of industrial exchange, commerce has often treated the notion of value as exchange value. We consider this to be goods-dominant (G-D) logic, in which value is understood to be created when an offering produced and exchangeable in the market, usually for money. This logic implies that the manufacturer's responsibility for value creation ends upon transfer of ownership, since the 'exchangeable' unit produced is purchased through a transaction with the customer. The utilization of the product, usually less visible to and often in a location away from the firm that manufactured it, is often ignored. The manufacturer frequently sees the product as inherently valuable, independent of its use. G-D logic, when extended to "services," often results in the reduction of service offerings into exchangeable units such as man-hours, information, activities, processes and other exchangeable artifacts. The offering is designed as a combinational package for exchange and delivered according to specification. Again this is based on the implicit assumption that value is embedded within the provisioning, rather than its consumption or use. Recently, academic literature has re-introduced the concept of value as co-created, in-use (Vargo and Lusch 2004; 2008). That is, the customer and the firm (and others) are seen to be jointly involved in value creation within a service system (Vargo, Maglio and Akaka, 2008; Payne et al. 2008). This understanding of the primacy of value-in-use rather than value-in-exchange, has become to known as service-dominant (S-D) logic. Vargo and Lusch (2004, 2008) suggest that, in SD logic, the firm's offering is merely a proposition for the customer to realize at point of use. Until the point of value realization, an offering is only potentially valuable.

Such a logic is increasingly useful for new business models such as outcome-based contracts (OBC) of equipment-based service, that allow the customer to pay only when the firm has achieved outcomes of equipment, such as Rolls-Royce's Power-by-the-hour® (Kim et. al., 2007) or a bank of flying hours for a jet airplane (Ng, et. al., 2009, 2010). In OBC, the firm is remunerated not through service activities such as material and repairs, but based on the achievement of its outcome in continual-use situations (i.e. the number of hours of engine in the air). This is analogous to the often-cited story of being paid for holes-in-walls, rather than for the maintenance, repair and upkeep of the drill (Levitt, 1960). Such a business model is challenging because the continual-use equipment sits in the customer's space, and requires a reliance on customers' competency to

achieve use for their own goals, bringing the customer (and therefore marketing) into the operational domain. In addition, from the delivery standpoint, outcome-based contracting (OBC) is unlike traditional service contracts where there is a sequential process (call comes in, processes triggered, equipment repaired, activities invoiced). In OBC, there is usually no linear or sequential 'value chain'; effective equipment use is a consequence of collaborative processes and practices with the customer in a value-creating system to achieve such outcomes (Ng, et. al., 2012). Achieving performance in such a contract is therefore dependent on the nexus of logistics, relationships, operations and management within the system and how they come together effectively so that engines continue to generate power and planes continue to fly. As technology advances, greater connectivity between people, goods and activities and greater digitization of information is starting to increase the visibility of customer's use or "consumption" contexts for other offerings, proposing new business models that are outcomes-driven. This has led to an increasing need to shift the focus from exchange value to that of value-in-use. In this respect, we argue that S-D Logic offers a useful lens through which this emerging view can be observed, analyzed, and understood. Yet, within such a lens, there is a need to understand how the boundaries between marketing and operations are shifting.

This paper examines the interface of marketing and operations from a service-dominant logic perspective as we re-conceptualize value as primarily being in-use and in-context, rather than in-exchange. First, we present the characteristics of the traditional Marketing-Operations interface and their different temporal challenges at strategic (Marketing strategy, operations strategy), tactical (marketing planning, operations design), and operational (marketing management, operations delivery) levels when value is considered as exchange. We then propose that boundaries between Marketing and Operations would shift from a Service Dominant Logic perspective when value is considered to be in-use. The traditional marketing-operations interfaces shift from 'ports' to 'membranes' (Weinberg, 1975) and towards the merging of the disciplines. This shift has major implications for Marketing and Operations research. While the whole spectrum of research topics across both disciplines is affected, we focus our attention on the Marketing Management and Operations Delivery interface and its implications on the Marketing Planning and Operations Design interface. These areas comprise several research issues that are critical for improving our understanding of value in use and in context and that are closely aligned to the demands of business practice. We then discuss implications for practice and research and propose a research agenda for going forward.

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