

## The Shifting Boundaries of Marketing and Operations under Service-Dominant Logic

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## The Marketing Challenge - from Value-in-exchange to value-in-use

- Use value and economic/exchange value (Marxist's 'commodification' concept)
- 'Value-in-use' (goodness in experience) and 'value-in-exchange' (goodness in worth)
- Value-in-exchange: utility as proxy for use-value. A product has its inherent own essence to serve some purposes. Value is de-contextualized and de-individualized.
- Value-in-use or -in-context - value as the goodness of experience towards outcomes. Value is recontextualised
- Increasingly possible because of convergence of purchase and use, aligning revenues with use








## Context as the focus

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- because context is where value creation happens, we can now try to understand the way interactions happen *and could change* with different products and technology.
- Technology liberates us from constraints of
  - time, when things can be done
  - place, where things can be done
  - actor, who can do what
  - constellation, with whom it can be done

– (Normann, 2001)

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## Context as the focus

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- context is where the market/revenues are
- Convergence of context and choice e.g. outcome based contracts etc.


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## Context as the focus

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- we can focus on *contextual invariances* - clusters of contexts that are similar.
- when we focus on value in context, we need to shift our focus away from the individual, onto what Normann would call *activity sets* i.e. the context of the experience.
- Instead of profiling individuals, we could be profiling contexts



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## The traditional Marketing (M) –Operations (O) interface

- Coordination and alignment of the M and O functions within and across companies
- Strategic level
  - Impact of integrating M and O functions on firm performance
  - Aligning goals and objectives of M and O
  - Integration of multiple functional areas beyond M and O
  - Strategic role of supply chain management
- Planning/Design level
  - Interrelationships product / process design; Service design
  - New Product Development
  - Demand management and capacity planning
  - Impact of pricing on demand/customer behavior
  - Marketing decisions, demand management, and production planning
- Operational level
  - Customer experience management; Quality management

## The traditional marketing-operations interface


- Interfaces for products
  - Issues are described before the product is used or consumed by the customer.
  - Very limited literature on interface issue arising from the consumption of products
- Interface for services
  - Issues are more prominent because of the higher levels of customer intensity (i.e. co-production/consumption)
- But...
  - Is a services vs goods distinction needed when we shift the focus to context and outcomes?
  - The blurring of boundaries between operations and marketing seems applicable even when goods are involved

## From G-D Logic to S-D Logic

- G-D logic (value-in-exchange) is the default logic in traditional literature
  - Scope of marketing: how transactions are managed or how the offering is developed, proposed, and sold to the customer
  - Operations: value is created in the manufacturing process and delivered when the product is transferred to the customer
  - IHIP to define and characterise “services”
  - The value of services is the reducible bundle of activities that is first exchanged and then delivered.
- **The interface between marketing and operations is that of effectiveness and efficiency of exchanges**

## From G-D Logic to S-D Logic

- Literature does not provide adequate frameworks or guidance on how traditional 'products' and 'services' work together as hybrid offerings to achieve outcomes
- Little is known about how traditional interfaces might change when the firm's offering is a hybrid or a part of a connected system of entities
- Shift to S-D Logic (value-in-use) as a novel lens to analyze value-creating systems
  - FP1: Service is the fundamental basis of exchange
  - FP6: The customer is always a co-creator of value
  - FP9: All social and economic actors are resource integrators
  - FP10: Value is always uniquely and phenomenologically determined by the beneficiary
- Business practice: markets are being created around outcomes of offerings, e.g. outcome-based contracts (OBC) of equipment-based service, outcomes of products that may be connected to other products.



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## Value creation

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- GD Logic Value Propositions (provision of assets, time and information as exchange value) i.e. what we can sell you (and deliver) – focus on value in exchange and the **buyer (choice & delivery)**
- SDLogic - Value Creating Activities (Collaborative co-creating activities to achieve value-in-use) i.e. what we do together (and with other entities) – focus on value-in-use and **the context (use & delivery)**

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## Implications for the interface (1)

1. *Unit of Analysis of operations management and marketing*
  - Combined firm-customer value-creating service system, with entities rendering their competencies i.e. service, to achieve outcomes
2. *Boundaries of OM and marketing*
  - Shift towards the context of value-creating service system that privileges neither the material, user or technologies, but the service (competences) of the entities
3. *Viability from Variety*
  - Understand the dynamic configuration of resources contributed by both the firm and the customer that could absorb variety to achieve greater effectiveness in efficient and scalable ways

## Implications for the interface (2)

4. *Segmentation*
  - Marketing and OM to segment based on contexts of use and how outcomes are achieved within the contexts (major implications for operations design)
5. *Managing the Value-Creating Service System*
  - Processes and Practices; Functional and Emotional; Autonomy and Compliance
6. *Modularization for new markets and new transactions*
  - Collaboration is necessary for the possibility of new boundaries created for new offerings to enter and lend resources to the system, thus generating new markets