

Service Logic Business Model Canvas

Abstract

Purpose. The purpose of this article is to develop a service logic oriented framework for business model development. “Service logic” covers the basic principles of the three contemporary customer value focused business logics: service-dominant logic, service logic, and customer-dominant logic.

Design/methodology/approach. This article is based on an empirical qualitative research. It deployed the focus group method. The data were generated in a series of interactive co-creative focus group workshops involving both practitioners and academics.

Findings. As the outcome, a new tool was developed, called Service Logic Business Model Canvas. The new canvas is a modified version of the original Business Model Canvas (Osterwalder & Pigneur, 2010).

Research limitations/implications. The article adopts service logic in business model thinking and increases knowledge on how to keep the customer needs in the center of business model development.

Practical implications. The developed canvas functions both as a rapid prototype of a new business model and as a communication tool that quickly illustrates the company’s current business model. It can also function as a tool for creating a truly customer-centred business culture. It ensures that the customer is in the centre of all the elements of a business model. It is designed to be applied to each customer profile separately, thus enabling a deeper understanding of the customer logic of each relevant profile.

Originality/value. Earlier business model frameworks tend to be provider-centric and goods-dominant, and require further development and adaptation to service logic. This article adopts service logic in business model thinking. It embeds the true and deep customer understanding and customer value in each element of the business model. Contributes to both business model and service-dominant logic literature.

Keywords. Service-dominant logic, service logic, customer dominant logic, business model canvas, service innovation, service design, customer value, business development.

Introduction

A business logic is a strategic mindset, or a mental model, of a company and its business activities (e.g. Heinonen et al., 2010), and thus it guides conscious and unconscious decisions made in companies. Contemporary academic discussions on business logics that focus on the identification and creation of customer value (e.g. Vargo and Lusch, 2008; Heinonen *et al.*, 2010; Grönroos and Ravald, 2011) and the actual business logics that companies apply in practice seem to differ significantly (e.g. Allen *et al.*, 2005, 2006). Traditional thinking about value creation in business sees every company as occupying a position in the value chain, adding value to inputs and then passing the output to the next actor in the chain (see Porter, 1985). In a value chain, value creation takes place inside a company through its own activities, and companies act autonomously with little or no interference from customers (Prahalad and Ramaswamy, 2004). Consequently, the value-added is equalized with the cost incurred by the supplier company (Gummesson, 2008). This traditional business logic based on goods-dominant logic (GDL) suggests that value is embedded in the units of output (value-in-exchange), and the outputs present the fundamental units of exchange (e.g. Vargo and Lusch, 2008). Interaction takes place mostly at the end of the value chain, and the value chain stops when the end-customer has bought a product or service (Prahalad and Ramaswamy, 2004). GDL highlights the supplier company's process as primary, and the role of a customer is to fulfil scripts defined by the supplier (Heinonen et al., 2010).

During the past decade, the academic discussion has strongly shifted away from GDL and the traditional thinking about the sequential value creation process to new business logics that emphasize customers' active role in value creation (e.g. Vargo and Lusch, 2004; Grönroos, 2006; Heinonen *et al.*, 2010). The service-dominant logic (SDL) (Vargo and Lusch, 2004; 2008), service logic (Grönroos 2006; 2008), and customer-dominant logic (Heinonen *et al.* 2010; Voima *et al.*, 2010) have dramatically changed the understanding of business thinking and value creation (Schlager and Maas, 2012). However, most businesses continue to operate in terms of GDL, and the reason for this may not always be ignorance of the new thinking, but lack of managerial approaches and tools. According to Lusch et al. (2007, p. 5):

“Paradoxically managers, though motivated to perform and aware of the links among service, competitive advantage, and firm performance, often fail to execute on that knowledge (cf. Bharadwaj et al. 1993). Additionally, academics, though aware of these links, have not sufficiently informed normative theory to adequately assist in that execution. We submit the problem is that there is not a full and adequate understanding of the concept of “service” and its role”.

Most importantly, popular business tools that direct companies' planning and decisions are still based on GDL (e.g. Viljakainen et al., 2013; Lüftenegger, 2014; Nuutinen and Ojasalo, 2014). According to Viljakainen et al. (2013, p. 1), “until now the business model framework has focused on goods production and technological contexts.” Thus, practitioners do not have tools and simply

may not know how to implement contemporary business logics that focus on customer value (SDL, service logic, CDL) in their business.

The purpose of this article is to develop a service-logic oriented framework for business model development. Here the term “service logic” covers the basic principles of the three customer value focused business logics (SDL, service logic, customer-dominant logic). Based on an empirical study, this article further develops one of the most popular business model frameworks, namely the Osterwalder and Pigneur’s, (2010) Business Model Canvas BMC, to better take into account service logic principles. The methods suggested are developed in the context of service design, which is an emerging research field that offers practical approaches for developing service businesses based on genuine customer insight (e.g. Ojasalo *et al.*, 2015).

The structure of this article is as follows. First, it briefly discusses business models. Then, it views the contemporary business logics and the service design approach. After that, it explains the empirical method of this study. Then, as a result, it introduces the modified business model framework developed during the empirical study. Lastly, it discusses the theoretical contribution and managerial implications of this study and draws final the conclusions.

Business models

A large number of studies dealing with business models can be found in the literature (e.g. Betz, 2002; Chesbrough and Rosenbloom, 2002; Magretta, 2002; Hedman and Kalling, 2003; Osterwalder, 2004; Shafer *et al.*, 2005; Tikkanen *et al.*, 2005; Voelpel *et al.*, 2005; Giesen *et al.*, 2007; Zott and Amit, 2007, 2008; Johnson *et al.*, 2008; Al-Debei and Avison, 2010; Nenonen and Storbacka, 2010; Smedlund, 2012; Maglio and Spohrer, 2013; Lüftenegger, 2014; Kindström and Kowalkowski, 2014). The role of a business model is to capture, visualize, understand and communicate the business logic (Osterwalder, 2004). The interest in researching business models started to grow in the latter half of the 1990s. In addition to the transaction cost economics, Amit and Zott (2001) anchor the theoretical foundations of business model research in Porter’s value chain framework, in Schumpeter’s theory of innovation and in the resource-based view of the firm. Osterwalder *et al.* (2005) identify the roots of academic discussions on the business model concept as being mainly in transaction cost economics. According to Chesbrough (2007), a business model has the following functions. It articulates the value proposition and explains the value created for customers by the offering. It identifies the market segments and puts forward to whom the offering is useful and for what purpose. It defines the structure of the value chain required by the company to create and distribute the offering, and it determines the complementary assets needed to support the company’s position in this chain. Moreover, it specifies the revenue generation mechanism for the company, and it estimates the cost structure and profit potential in producing the offering, given the value proposition and value chain structure chosen.

The business model concept has an enormous practical power (Magretta, 2002), and it offers managers a coherent way to consider their options in uncertain, fast-moving and unpredictable environments (McGrath, 2010). To be useful, a business model framework must be reasonably simple, logical, measurable, comprehensive, and operationally meaningful (see Osterwalder, 2005).

Osterwalder and Pigneur's Business Model Canvas

Next, Osterwalder and Pigneur's (2010) business model canvas (BMC) is described in more detail, as it functioned as the starting point for the empirical work conducted in our study (Table 1). The BMC consists of nine building blocks that are presented on a one-page canvas template. The three blocks on the left side of the canvas are associated to internal processes and efficiency: key resources, key activities, and key partnerships. The three blocks on the right side of the canvas are associated with customers and value: customer segments, channels, and customer relationships. The value proposition is at the centre, and the cost and revenue structures are presented at the bottom of the canvas template.

Table 1. Business Model Canvas (Osterwalder and Pigneur, 2010, p. 44)

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The Osterwalder and Pigneur's (2010) business model canvas consists of the following building blocks

- *Customer segments* refer to those different groups of people or organizations the company aims to reach and serve.
- *Channels* describe how the company communicates with and reaches its customer segments.
- *Customer relationships* define the types of relationships the company establishes with the targeted customer segments.
- *Value proposition* describes the bundle of products and services that creates value for a specific customer segment. A value proposition may include characteristics such as newness, performance, customization, "getting the job done", design, brand/status, price, cost reduction, risk reduction, accessibility, and convenience/usability.
- *Revenue stream* represents the cash the company generates from each segment.
- *Key resources* are the most important assets required to make the business model work.
- *Key activities* describe what the company must do to make the business model work, such as production, problem solving, platform and networking activities.

- *Key partnerships* constitute the network of suppliers and partners that makes the business model work. Partnerships may be strategic alliances between non-competitors as well as competitors (coopetition), joint ventures to develop new business, or buyer-supplier relationships.
- *Cost structure* describes all costs incurred to operate the business model.

The business logic behind this business model framework is seemingly close to goods dominant logic. Viljakainen *et al.* (2013, p. 5) reviewed Osterwalder's (2004; Osterwalder and Pigneur, 2010) two versions of the canvas found that "The model itself is not service-oriented.." (p. 5) and "..relies on value chain thinking.." (p. 9). Viljakainen *et al.* (2013) conducted an empirical study among SMEs in magazine publishing industry and concluded that "The necessity of further work in both of these areas [i.e. configuration of offering with value proposition and financial aspects of business models] is a central finding in our empirical study, in which we mapped the changes that are going on in the business models of magazine publishers as the result of the adoption of service logic." (*ibid.*, p. 18). Thus, there is a clear need to modify the framework to be more evidently based on the service logic.

Contemporary business logics focusing on customer value

Contemporary customer value focused business logics open up new opportunities for any company in any industry to develop their business strategies in ways that previously were unique to companies representing pure service industries only (e.g. Grönroos and Ravald, 2011; Grönroos, 2011; Lüftenegger, 2014). The service-dominant logic (SDL), which stresses the co-creation of value, value-in-use and value-in-context, has been proposed as an alternative view to the traditional notion of value-in-exchange (Vargo and Lusch, 2004; 2008). The central idea of the SDL is that there is no value until the offering is used and experienced by the customer (Vargo and Lusch, 2008). The SDL argues that a company can offer value propositions and value is always co-created (Vargo *et al.*, 2008). Grönroos (2006; 2008) has provided an alternative view, service logic, which suggests that customers are value creators during value-generating processes and in value-supporting interactions. Companies are facilitators and co-creators that engage themselves in the customers' processes. In other words, customers not only determine the value, but also control the value creation in their processes (Grönroos and Ravald, 2011; Heinonen *et al.*, 2010; Voima *et al.* 2010). Gummesson (2008) suggests that when focusing on value-in-use, the supplier offers a value proposition that can support customer's value creation processes, but it is the customer who actualizes the value. In other words, the role of a company has shifted from being a producer of value to a supporter of value, since customers are in charge of their value creation (Grönroos, 2011). Thus, adopting the service logic means that the supplier company searches for possibilities to understand and support the customers' value creation processes (e.g. Grönroos and Ravald,

2011; Grönroos and Voima, 2013). Value emerges rather than is being delivered (Grönroos, 2006; Gummesson, 2007), and service providers can only create resources and means to facilitate customers to create value for themselves (Grönroos, 2006).

The latest Nordic School concept “customer-dominant logic” goes still further and emphasizes a deeper understanding of the customer’s everyday life and the service experience as a long-term, context-bound process (Heinonen *et al.*, 2010). Understanding the customer experience also before and after an interaction and knowing how value is experienced in the customer’s own context gives companies opportunities to help their customers to better fulfil their daily tasks (Heinonen *et al.*, 2010; Voima *et al.*, 2010). Heinonen *et al.* (2010) argue that SDL and service logic are still production and interaction-focused, and in these logics, service is viewed from the perspective of a service provider (see also Schlager and Maas, 2012). According to their view, SDL represents a more advanced company-based view where the customer is seen as a partner in co-creation, but which offers an incomplete understanding of what the customer does with the service. Also Strandvik *et al.* (2012) suggest that even though the SDL highlights the customer’s service experience and value co-creation, the common terminology (e.g. a solution, service offering, and value proposition) still implies the seller company’s dominant position for value creation. Strandvik *et al.* (2012) found in their study that seller companies are too preoccupied with their own products and tend not to make a sufficient effort to learn about individual customers and how they think. They conclude that the sellers’ mental models differ from the customers’ and developed the “customer needing” concept to draw attention to mental models in a setting where, typically, only resources and activities have been recognized. What makes the concept of needing even more significant is that it goes beyond studying customer needs and wants as such and instead aims to reveal the customer’s logic (Strandvik *et al.*, 2012).

While most customer practices, activities and experiences are often more or less subconscious, value creation may be described as value emergence or formation (e.g. Heinonen *et al.*, 2010; Grönroos and Voima, 2013). In the customer-dominant logic, value emerges when a service becomes embedded in the customer’s context, activities, practices and experiences together with the service company’s activities. Heinonen *et al.* (2010) argue that it is important to understand how value emerges also from the customers’ mental and emotional experiences and what the customers are doing to accomplish their goals. In other words, a more holistic understanding of the customer’s life, practices and experiences (in which service is embedded) is needed. This requires that companies build their businesses on an in-depth insight into customers’ activities, practices, experiences, and context, and analyze what implications these have for the service (Heinonen *et al.*, 2010). To implement CDL, companies should learn what processes customers are involved in, in their own context, and what different types of inputs (both physical and mental) customers need to support these (Heinonen *et al.*, 2010).

In this study, the term “service logic” is used to cover the basic principles of all three logics (SDL, service logic, customer-dominant logic) that acknowledge the importance of customer value. The

service logic has profound theoretical and managerial implications for businesses (e.g. Edvardsson *et al.*, 2010; Lüftenegger, 2014). However, even though the business logics and the thinking of value creation have changed over the past ten years, very little knowledge exists on the implementation of service logic (e.g. Heinonen *et al.*, 2010; Karpen *et al.* 2012). Especially the principles of customer-dominant logic, which entail facilitating customers' activities, have not been given sufficient attention in the current service thinking and business practice (Heinonen *et al.*, 2010).

The traditional models and tools used in new service development and service innovation tend to be based on provider-dominant logic focusing on processes controlled by the focal company (e.g. blueprinting). The typical provider-dominant way of developing offerings have been to start from the offering and then identify the customers' activities where the company can fit in. The recent trend of integrating design thinking into service business development turns the process over by starting from deeply understanding customers' activities, and then based on deep customer insight, ideating and designing new ways to support customers' activities and embed the service in customers' existing and future contexts, activities, and experiences (e.g. Ojasalo *et al.*, 2015). In other words, design thinking and the approach and methods of service design bring new kinds of means for implementing service logic. The principles of service design support the service logic since the process and outcomes of service design are not based on what an offering can do, but on what customers want to achieve and what they do with the service (e.g. Wetter-Edman, 2011). When applying the service design approach, companies might do in-depth ethnographical research and use various methods to involve customers and other stakeholders as active partners in the design process. In other words, a service is designed with the customers, not just for them (e.g. Segelström, 2013). This kind of approach helps in diagnosing and revealing the customers' mental models and in forming a picture of their needs and translating these needs into an offering that truly matches their needing (cf. Strandvik *et al.*, 2012).

Service design supporting the implementation of service logic

Service design methods are relevant in the present study since these provide a practical set of tools for companies to explore their customers' world, develop service experience and, ultimately, facilitate customers' value creation. The same conclusion was drawn by Wetter-Edman (2011), who studied the relationship between SDL and service design and found that service design practices have the potential to realize SDL in business.

The service design approach is both a set of methods for practitioners developing a service as well as an emerging scientific field. The general awareness of service design has increased rapidly among practitioners because the methods of this approach have proven to be very powerful in bringing customers and the service experience into the centre of service development (Ojasalo *et al.*, 2015). On the other hand, academic research on service design is still in its infancy, but it is growing (e.g. Erlhoff *et al.*, 1997; Pacenti, 1998; Sangiorni, 2004; Han, 2010; Wetter-Edman,

2011, 2014; Gloppen, 2012; Vaajakallio, 2012; Clatworthy, 2013; Segelström, 2013; Blomkvist, 2014).

Based on over twenty different processes for service innovation, new service development, and service design described in the literature, Ojasalo *et al.* (2015) have developed a framework for service innovation based on service design and foresight. This framework gives an overview of the service innovation process and methods often used in service design. The framework presents four phases of the service innovation process: 1) Map and understand, 2) Forecast and ideate, 3) Model and evaluate, and 4) Conceptualize and influence. It should be noted that the process is rarely linear. It may be highly iterative and the phases might overlap. Related to each and every phase in the process are five typical examples of foresight and/or service design methods. In each of the phases, the methods have a different role. The application of methods is situational, highly context-driven and dependent on the resources available (Saco and Goncalves, 2010). An insightful combination of different methods and tools can create visionary foresight and unique new ideas for service innovation.

Anticipating future changes in business environments and understanding customers' needs and desires in their contexts are extremely essential in service design (Ojasalo *et al.*, 2015). The methods of service design bring empathy to allow deep understanding of customers' and other stakeholders' perspectives (Polaine *et al.*, 2013). The findings from the mapping and understanding phase inspire ideation and forecasting alternative futures. Open-minded collaboration and co-designing with different stakeholders through forming heterogeneous teams is essential in providing divergent thinking for innovation (Brown, 2009). Modelling a new service shifts the service design process from sensing to seizing new opportunities. The intangible nature of customer experience and uncertain nature of the future require narrative and visual means to communicate and test the new service and to concretize the customer experience. Service design and foresight create, for example, highly visual and anticipatory stories by means of scenarios, prototypes and preliminary concepts. Modelling new service offerings early helps in assessing their true value for the customer and for the company before a lot of resources are used for actual implementation. Osterwalder and Pigneur's (2010) business model canvas is also frequently used in service design, among other tools.

Empirical methodology

The research methodology of this empirical study is based on focus group method. (Bloor *et al.*, 2000; Silverman, 2011; Wilkinson, 2011). According to (Hines, 2002), focus groups include three categories: phenomenological interaction-centered focus groups, clinical focus groups, and exploratory research. The phenomenological focus group is designed to share the experience of a group of people and to participate in the shared understanding. The researcher attempts to experience the view of the world from the point of view of the participants, and experience and deeply understand their experiences through the discussion. Interaction between the participants is an essential for the researcher to identify and report the true feelings of the group. Clinical focus

groups are used to obtain even deeper understanding of individual behaviors. Exploratory research is used to examine a topic quickly and at low cost before conducting follow-up survey (ibid.). The present study combines phenomenological and exploratory focus groups aimed at increase understanding as well as getting critical feedback from practitioners and improving the ideas further with them. Gummesson (2001; 38-41) calls this as interactive research. Interactive research is based on interaction and communication with chosen relevant audiences. It ties together the process of knowing, the knower, and the known. This approach is based on various kind of interactions, such as interaction between the researcher and the object of study and its actors; between one's consciousness and qualities of one's inner self; between substantive data and general concepts; between the parts and the whole; between words, numbers, body language and tacit language; and concurrent, non-linear and dynamic interaction between data collection, analysis, interpretation and conclusions. In interactive research, theory generation and theory testing are inseparable twins, not isolated consecutive stages. The phases of the research process employed to develop the new are shown in detail in Table 1.

Kasanen *et al.*, (1993) introduced the constructive method which refers to a research procedure that aims at solving managerial problems in business organizations through the construction of models, diagrams and plans. Constructions mean entities that solve problems that emerge in running business organizations. In this research, the construction refers to the Service Logic Business Model Canvas. The construction of a solution to a problem should be practical relevance, theory connection, practical functioning, and theoretical contribution. According to Oyegoke (2001), the constructive approach encourages co-production of knowledge between the industry practitioner and the researcher. According to Kasanen *et al.* (1993), the research process using the constructive approach includes the following phases, which may vary in order from case to case: (1) finding a practically relevant problem that also has research potential, (2) obtaining a general and comprehensive understanding of the topic, (3) innovating, i.e. constructing a solution idea, (4) demonstrating that the solution works, (5) showing theoretical connections and the theoretical contribution of the solution concept, and (6) examining the scope and applicability of the solution. These phases were present in the our study as shown in Table 1.

The initiation of the research process took place in an invitation based expert panel (Step 1) where 12 service researchers concluded that one of the most widely-spread business model frameworks, namely Osterwalder and Pigneur's (2010) Business Model Canvas, requires further development, particularly towards the principles of service logic. Most importantly, the researchers saw that the BMC is based on traditional provider-centered value-chain thinking where value is created inside a company through its activities and resources and then delivered to customers. For example, the terminology of BMC reflects the goods-dominant logic, for example the "Channels" block of the BMC describes how "value propositions are delivered to customers through communication, distribution, and sales channels" (see Osterwalder and Pigneur, 2010, 16). The BMC does not see customers as value creators, nor does it suggest how service could be embedded in customer's contexts, activities and experiences (cf. Heinonen et al, 2010).

The research process took 18 months and consisted of 15 steps (Table 1). The interaction in which data were generated and understanding increased consisted of interactive co-creative workshops. According to Chrzanaowska, (2002), the mood of the focus group session can look like a deep and meaningful discussion, or it can look more like a creative workshop. The process included twelve interactive workshops in which data from pre-understanding, interaction, interpretation and increased understanding, and existing theories were interwoven together. The research process was conducted in Finland and related to the activities of the Finnish Service Alliance. It is an association that brings together service researchers and people from companies and public sector organizations interested in developing services. The other author of this paper planned the workshops beforehand and facilitated and documented them. The workshops were documented by writing notes during and after each workshop, by collecting all the raw material produced by the participants during the workshops (notes, writings, and drawings made by the participants), by taking photographs, and by recording the most important parts of the workshops. After each workshop, the business model canvas, which was the central researched object, was further developed based on the data and increased understanding generated in the interactive workshop. The actors of the workshops were researchers and practitioners. In this case, “researchers” include academic researchers from seven universities and other research related organizations. They were professors, senior researchers, doctoral students and coordinators of large national research programs. “Practitioners” refer to representatives from companies and other organizations (Group A). “Practitioners” also include master level adult students who conduct their studies alongside their full time job in companies and other organizations (Group B). 18 researchers and 106 practitioners participated in this process. Thus, altogether 124 persons were involved in the research process. Their common character was that they had an interest in developing service management practice and research. The data were qualitative in nature, and its subjective interpretation took place during and after the interactive workshops both individually and collectively. In general, the emphasis shifted from theoretical thinking and model development towards practical model development and testing. The participants of the first workshops were mostly researchers (Steps 1-6) while the participants of the later workshops were mostly practitioners (Steps 7-10, 14).

Table 1. Phases of the research process

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Advantages and limitations of the method. Our study has the inherent advantaged and limitations of any qualitative or case study. They are summarized as follows (Gummesson, 2000; Yin, 1994)

Advantages:

- attempts to derive general conclusions from a limited number of cases,
- may seek to arrive at specific conclusions regarding a single case,
- may represent a powerful means in educating students,
- can be exploratory, descriptive, or explanatory,
- can be used both for generating theory and initiating change,
- may obtain a holistic view of a specific phenomenon or series of events.

Limitations:

- lack of statistical reliability and validity,
- can be used to generate hypotheses but not to test them,
- generalizations cannot be made

The result of any qualitative study or case study is never proven theory, it is a suggested theory. It is “an integrated set of hypotheses” (Glaser 1978, 134). As we use term “testing” above, it does not mean the same as quantitative testing. “Testing” here refers to gathering qualitative feedback and comments from participants of focus group workshops. The workshops of our study included (non-quantitative) testing of the synthesis from the previous workshops and redesign it further. For example, the light application version of Service Logic Business Model Canvas emerged in this way. Also, since the process included several phases, no clear distinction between a pure idea generation and idea testing can be done. Gummesson 2001, p. 39) explains the role of theory development and testing in qualitative study

“theory generation and theory testing are Siamese twins and not separate, consecutive stages. It is not a matter of doing conceptual, qualitative pilot studies first and then ‘do the real thing and go empirical’ by testing hypotheses with numbers. Through further theory generation in never-ending iterations we gain a spiralling effect and build a helix of continued development of knowledge.”

The revised canvas resulting from our study is intended to be a general framework rather than industry or service specific, similarly as the original Osterwalder and Pigneur’s (2010) canvas. Thus, the participants of the focus group workshops were not representing their industries but rather their general expertise and experience in service. Many of them had experience in several industries during their professional careers. This is in line with the Service Dominant Logic (Vargo & Lusch, 2004) which is not an industry specific concept, nor is it dependent on the degree of tangibility/intangibility properties of the offering; instead it is a general philosophy grounded on customer perceived value.

Results

This section describes the business model framework that resulted from the empirical interactive research process. The result is a modified version of Osterwalder and Pigneur's (2010) BMC, which takes into account the principles of service logic. Here, the service logic orientation covers the basic principles of the SDL, service logic and customer-dominant logic. Since a business model describes how an organization creates and captures value (Osterwalder and Pigneur, 2010), and its purpose is to depict the managerial opportunities for the focal company to influence value creation (cf. Nenonen and Storbacka, 2010; Zott and Amit, 2010), we argue that the framework cannot be solely based on the customer perspective and CDL. Consequently, our redesigned business model framework takes into account both the service provider's and the customer's perspective.

The modified business model framework is called *Service Logic Business Model Canvas* (Figure 1). In the interactive research process, each building block of the canvas was addressed separately as well as the canvas as a whole. The canvas was developed step-by-step and revised several times during the research process. In the beginning of the process, the most evident development needs of the BMC were identified: how to highlight the customer's active role and add the notion of the customer as a value creator and the company supporting that value creation (cf. Grönroos, 2008; Heinonen *et al.*, 2010). Gradually, the new framework progressed to its current form. In the first phases of the research process, the terminology used in the revised versions was very academic and expressed on a highly abstract level, but after the company representatives got involved, the terminology was refined into being more of a business language.

Service Logic Business Model Canvas

The present framework, the Service Logic Business Model Canvas, is composed of nine building blocks, like the original BMC. During the research process, a need to break the structure of the original BMC by placing the blocks in a contrary order (moving original "customer blocks" to the left side of the canvas), or even by designing a totally new kind of circular template, was discussed in several workshops. However, since the original BMC is widely used, we decided to stick to the original structure and redesign each block to be more service logic oriented, instead of redesigning the whole structure of the canvas. In this way, it is also easier for companies to compare the two canvases, i.e. the original and the modified one, and easier to understand the difference between traditional business thinking and service logic based thinking.

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Figure 1. The Service Logic Business Model Canvas (Ojasalo and Ojasalo, 2015a, p. 321)

In each block of the canvas, both the provider viewpoint ("*From our point of view*") and the customer viewpoint ("*From a customer point of view*") must be considered. The customer viewpoint was added to make companies analyse their business from the perspective of customers' activities, practices and experiences. In the original business model canvas, the guiding questions

in each block made companies consider their business only from their own point of view. Thus, the present framework is more in line with Heinonen *et al.* (2010, p. 535), who argue that “customer’s understanding of service use is different from the service provider’s understanding of it”. Also the study by Strandvik *et al.* (2012) clearly shows that customers’ and suppliers’ views are likely to differ significantly (see also Allen *et al.*, 2005). One of the obvious reasons for the conflicting viewpoints might be that many issues related to value-in-use are often invisible to the company, whereas value emerges in the customers’ everyday processes (see Heinonen *et al.*, 2010). Thus, all the elements of a business model should be carefully analyzed from both the company’s and the customer’s viewpoints and be based on genuine customer insight.

The first block (1) to be considered is called “*Customer’s World and Desire for Ideal Value*” (see Figure 1). This is the block where the customer-dominant thinking becomes most evident. This block goes beyond the actual business that the business model is describing, and here the customer’s life is analyzed in depth. Before moving to the value proposition and other blocks of a business model, it is very important to get a deep insight and holistic understanding of the customer’s world: context, activities, practices and experiences (cf. Heinonen *et al.*, 2010). In this block, the customer’s explicit and latent reasons for buying and the benefits that the customer desires are analyzed. Latent customer needs are those that generate fuzzy and implicit expectations, which may be an opportunity or a pitfall for customer experience, depending on how they are managed (Ojasalo, 2001). In addition to functional and economic benefits, customers may also value emotional, social, ethical, environmental and symbolic aspects (cf. Nordin and Kowalkowski, 2010). Additionally, in the case of b-to-b customers, it is also essential to analyze the customer’s own customers’ worlds.

The second block (2) of the canvas is “*Value proposition*”. According to Grönroos and Ravald (2011:14), “Value propositions are suggestions and projections of what impact on their practices customers can expect” from the proposition. This block should be based on the customer insight described in Block 1. The “Value proposition” highlights the importance of capturing what the customer really buys when the supplier sells their offering. The company’s offering should correspond with customer needing, i.e. with the customer’s mental model of what the customer intends to get and achieve with the offering (cf. Standvik *et al.*, 2012).

The third block (3) is named “*Value creation*”. This was one of the most difficult blocks to redesign because of its abstract nature. This block focuses on what customers are doing with the value proposition to reach their goals. This block reflects how the company’s world is related to the customer’s world, and how the service becomes embedded in the customer’s context, activities, practices, and experiences (cf. Heinonen *et al.*, 2010). Here, the company analyzes the possibilities to facilitate customers’ value creation and how they can help customers reach their goals. From the customer’s point of view, it is important to analyze how value emerges in customer’s practices (also from mental and emotional experiences) and how the customer gets the long-term benefits (Ojasalo, 2000) through their own activities.

The fourth block (4), “*Interaction and co-production*”, focuses on the customer’s participation in the company’s activities and utilization of its resources. Here, the key questions relate to how to facilitate the interaction between the company and the customer (cf. Grönroos, 2006) and what the customer’s mental models of interacting with the company are. In addition, customers’ activities and their different use contexts are analyzed here (cf. Heinonen *et al.*, 2010).

In the fifth block (5), “*Revenue Streams and Metrics*”, the company’s earnings logic, financial feedback (profits, market share, cash flow, etc.) and other benefits (customer, brand, network equity, etc.) are described. This block also focuses on analyzing for which benefit(s) the customer is willing to pay. The price is here linked to customer value rather than costs involved in providing the service (cf. Storbacka and Pennanen, 2014). This block also shows the key performance indicators that verify the provider and customer value created.

The sixth block (6), “*Key Resources*”, focuses on operant resources, i.e. the dynamic, often intangible resources that act upon other resources (cf. Vargo and Lusch, 2004). Thus, the core competences as key resources are highlighted. In service logic, the customer is an important operant resource, and consequently the customer’s knowledge and skills should be analyzed.

The seventh block (7) represents the “*Key Partners*”. Although a business model cannot be developed without taking into account the holistic environment and all the systems a company is involved in, the aim of this study was to redesign a construct that is simple and easy to use in practice. For this reason, this block analyzes only those partners beyond a company-customer relationship that are directly required in value creation, typically suppliers and other network partners. Here, the roles related to value creation, the resources needed and the benefits generated are analyzed.

The eighth block (8) is renamed “*Mobilizing Resources and Partners*”. This block focuses on the utilization and development aspects of resources and partners and indicates how knowledge and skills are generated by all the participants (cf. Ojasalo, 2004). This block highlights the integration of resources, which is a central activity of all stakeholders involved in service relationships (cf. Vargo and Lusch, 2008).

In the ninth block (9), the focus shifts to the “*Cost Structure*”. In addition to analyzing the company’s costs and other sacrifices inherent in the business model, the costs and other sacrifices induced for the customer are analyzed. It is important for companies to carefully analyze their cost structure since cutting certain costs may have a direct negative impact on customer value (cf. Grönroos and Ojasalo, 2004; Grönroos and Ojasalo, 2015).

Even though the new canvas recommends the order in which the elements of the canvas could be developed, it is clear that the order may well be different, depending on the case. Also, it should be noted that the process is never straightforward, but rather iterative. This means that the development of each block cannot happen in isolation from the development of others. The interconnections and cross-effects of different elements should be taken into account. In addition,

and as the business environment changes, the dynamics of the business model should be managed, meaning that it requires continuous updating and renewal.

The present framework is meant to be applied individually to each customer profile, which represents a customer group with similar logics. This makes it possible to focus on each customer profile's specific contexts at a time. However, the present framework is not applied in isolation from the models for other profiles. There may be strong interconnections between the profiles' specific business models. Such links between the business models (or sub-models) may be numerous and very different in nature. Consequently, the development of one model affects the development of another.

The Service Logic Business Model Canvas functions best if it is integrated in a service design process. To fill in the various blocks of the canvas requires first a deep customer insight. The holistic insight can be generated by using user-centred, emphatic and participatory methods of service design. Based on in-depth customer knowledge, customer profiles (personas) and customer journeys (customer's activities) can be designed and drawn, and these profiles and journeys can be very useful when developing the business model. Using design games can be a productive way to integrate various stakeholders to generate helpful ideas for filling in the Service Logic Business Model Canvas. Next, the process of using the modified canvas tool is explained.

The process of using the Service Logic Business Model Canvas

Based on our study, we propose the following process of applying the Service Logic Business Model Canvas consisting of three main phases (Figure 2).

1. A light application version of the Service Logic Business Model Canvas.
2. Applying service design methods.
3. The full application version of the Service Logic Business Model Canvas for targeted customer profiles.

The light application version of the Service Logic Business Model Canvas follows the idea of "rapid prototyping" or "lean business development" or "lean start-up" (cf. Blank, 2013; Ries, 2011; Maurya, 2012; Cooper and Vlaskovits, 2013). The canvas is used quickly for tentative idea development and testing. This can be for example, a half day workshop with the development team, possibly with a customer and other stakeholders present. It can also utilize existing customer data, market data, foresight reports, etc. It can also involve experts. Most importantly, it is conducted quickly and based on easily accessible information. This also helps in mapping the service design tools required in the next phase. Doing the light version exercise also helps in planning the service innovation project. It helps in mapping and deciding on what service design tools should be used in the process and how much time and other resources are needed. In general, the light version helps in planning the whole innovation project and also makes the development team aware of what kind of outcomes are expected at the end of the process. The light application is used in the early stage of the innovation process, or when there is no time or resources to apply

the full version. SMEs and start-up companies that do not have much resources or developed networks may find it particularly useful to apply at least the light Service Logic Business Model Canvas version if they do not have resources or time to develop a full version. The light version is later modified into full version during the phase 2 based on deep customer understanding gained with service design methods. The process of using the Service Logic Business Model Canvas is often lean process, based on iterative improving and testing with authentic customers (Ojasalo and Ojasalo, 2015, 2018).

<<< insert Figure 2 here >>>

Figure 2. The process of Using Service Logic Business Model Canvas (Ojasalo and Ojasalo, 2015b, p. 841)

The application of service design tools includes the selection and use of relevant service design methods. This phase includes acquiring a deep customer insight. The main purpose is to understand the customer's world and what represents value to the customer, and how the provider company can most effectively facilitate the customer's value creation. Several selected co-creative and customer-involving service design tools can be used in this phase (see Table 2). In most cases, the process results just one business model, but sometimes it is relevant to develop a different business model (or sub-model) for different customer profiles. The full application version of Service Logic Business Model Canvas for each of the targeted customer profiles consolidate all the relevant customer information and results of the development work throughout the process and offer a solid business model description. Service logic thinking, a deep understanding of customer needs, value, and experience, and facilitation of customer's value creation are rooted in the business morel, or in each of the profile-specific sub-models if several models are developed.

Table 2 gives a tentative suggestion on which service design tools may be useful for information gathering and development work related to each block of the Service Logic Business Model Canvas. It should be noted that in addition to the commonly used tools referred to in Table 3, there are many other tools available (e.g. Curedale, 2013).

Table 2. Service Design Methods for the Service Logic Business Model Canvas (Ojasalo and Ojasalo, 2015a, p. 326)

<<< insert Table 3 here >>

The effective full application of the Service Logic Business Model Canvas requires plenty of information and development work. The information gathering and development work is done with various case-specific service design methods. The Service Logic Business Model Canvas

functions as a guiding framework and finally consolidates all the information generated and development work done during the innovation process (Figure 2).

Finally, the main differences between the original Osterwalder and Pigneur's (2010) Business Model Canvas and the Service Logic Business Model Canvas are summarized in the following. These changes bring the service logic into the business model development.

- Each building block includes two perspectives: the service company perspective and the customer perspective. Thus, the customer perspective is considered throughout the business model.
- The process of applying the canvas is based on using service design methods and lean iterative process with testing and improving. This ensures that the customer's voice and value perception is in the edge during the whole development process.
- The order in which the blocks of the business model are designed is recommended. Even though the order is not typically straightforward but iterative, and even though there may be a good case-specific reason for choosing some other order, the given recommendation enhances thinking and discovering customer value first.
- The canvas is applied to each customer profile separately. Keeping this in mind prevents falling into the "one size fits for all" trap. It enables discovering new customer profiles during the process based on different customer value and modifying suitable versions of the business model for each of them.

Contribution and discussion

Theoretical contribution. So far, the business logics for service have ignored systematic approaches to business model development. Similarly, the business model literature has not included service logic philosophy in their approaches. Indeed, there was a clear knowledge gap to be addressed and the Service Logic Business Model Canvas filled it.

The theoretical contribution of this study stems from adopting service logic in business model thinking. Most importantly, this study increases knowledge of how to implement service logic in practice. This study developed a tool which is useful for both academic research and for companies interested in enhancing their business with the service logic. The modified business model framework considers both the provider's and the customer's viewpoints. Indeed, it is difficult to find any study or business model framework that explicitly addresses both the provider and the customer viewpoints in each element of the business model. From these two, most importantly the customer viewpoint represents a new perspective in business model thinking (cf. Viljakainen et al., 2013). This study is in line with Edvardsson and Tronvoll (2013), who introduced a new conceptualization of service innovation grounded in SDL and service systems. They propose that service innovation is always actor-centric and practice-related in a specific system context, and

that service innovation must be studied in practice because value is always co-created and assessed in context and over time. This supports the present findings and attempt to develop a framework that guides the development of business models in the direction of context-specific and customer-involving co-creative methods. Edvardsson and Tronvoll (2013; see also Edvardsson *et al.*, 2011) point out the importance of understanding the social context in which innovation takes place, the service system, social structures, resources, and the actors' abilities to acquire, integrate and use the available structures in the social context. The various service design methods as well as the proposed Service Logic Business Model Canvas offer practical tools for this purpose. In brief, the main theoretical contributions are

- The Service Logic Business Model Canvas adopts service logic in business model thinking. It embeds the true and deep customer understanding and customer value in each element of the business model.
- The fundamental contribution compared to earlier business model frameworks is that the value formation in customers' everyday lives/businesses is in the core of the business development. The Service Logic Business Model Canvas is a tool that enables the company to effectively analyse, develop and communicate how to facilitate the customer value formation.
- It makes the theory of SDL tangible and easily applicable in practice (cf. argumentation of Lusch *et al.*, 2007, p. 5). Those who use the Service Logic Business Model Canvas do not have to master the SDL theory itself. The managerial implications are next explained in more detail.

Managerial implications. This study provides several managerial implications. The developed canvas, most importantly, enables developing a business plan which is truly based on customer value. It also can also be used as a rapid prototype tool of a new business model and as a thinking and communication tool. If used in workshops with various manager and employee groups of the company, the new canvas can also function as a tool for creating a more customer-centred business culture. It enables placing the customer in the centre of all the elements of a business model. The modified canvas highlights the importance of deep customer insight, and it is designed to be applied to each customer profile separately, if several customer profiles are targeted. By using the framework individually to each relevant customer profile, it is possible to have a deeper understanding of the customer logic of each profile. Also, discovery of new profiles during the development process becomes easier.

The most significant managerial implication of the present research responds to what Allen *et al.* (2005; 2006) call the "delivery gap". In a survey of 362 companies, they found that 80% believed they delivered "superior experience" to their customers, and more than 95% of management teams claimed to be customer-focused. But when asked the same from their customers, the answer was that only 8% of the companies were really delivering a superior experience. This 8% of the companies were called "achievers", while the rest were labelled "believers". The survey covered

a cross-section of industries weighted to represent the FT Global 500. The survey further revealed that only 50% of management teams tailor their products and service to the needs of customers, only 30% organize the functions of their company to deliver superior customer experiences, and only 30% maintain effective customer feedback loops. Furthermore, the survey found that most large companies were capable of using traditional market research, segmentation and product design tools, but still fail to connect between what they learn about customers and what they offer them. Companies lack the processes to ensure that market research includes real customer interaction, which would lead to insight on the essential question: “What do our most important customers really want?” Additionally, companies fail to make sure their organization understands for whom each proposition is offered (Allen *et al.*, 2005; 2006). Clearly, while most companies say they are customer-oriented, few of them truly are.

Thus, there is a clear need for managerial approaches that actually help companies develop business models and offerings based on a deep understanding of customers’ needs and their worlds. The Service Logic Business Model Canvas responds to this need. The present framework guides its users systematically consider the customer viewpoint and the customer’s world in each element of the business model and throughout the development process. Most business model frameworks address customer needs and value as one of the elements addressed. However, in practice this is not enough to truly function according to SDL-philosophy (Viljakainen *et al.*, 2013). In contrast, the present framework shifts customers’ needs, value and worlds into the centre of the business. It relates the customer viewpoint to the provider’s viewpoint, thus enabling the development of a realistic business model that can be implemented profitably.

The Service Logic Business Model Canvas is a relevant, easy and simple tool that can help companies implement the contemporary business logics focused on customer value-creation. The differences compared to the original BMC and managerial implications of the Service Logic Business Model Canvas are summarized as follows.

- It enables placing the customer value in the centre of business model development. It highlights the importance of deep customer insight. It considers both the provider’s and the customer’s viewpoints in each element of a business model. Indeed, it is difficult to find any study or business model framework that would do the same. It provides an effective approach to eliminate the “delivery gap” (Allen *et al.* 2005).
- It encourages the use of various context specific service design tools and co-creation approaches. This enables gaining a deep customer understanding and developing solutions that truly represent value to the customer. The relevance of such approaches was recognized e.g. by Edvardsson and Tronvoll (2013) who say that service innovation is always actor-centric, practice-related, and context-specific.
- It functions as a rapid prototype tool for a new business model (light application version).

- It functions as a communication tool that quickly illustrates the business model by giving a snapshot of the big picture. Thus, it has totally different nature than traditional business plans.
- It can easily be used in workshops in various manager and employee groups of the company. Thus, it also functions as a tool for creating a more customer-centred business culture and helps the effective utilization of customer knowledge in the organization (cf. Nätti and Ojasalo, 2008).
- It is designed to be applied to each customer profile separately. By using the framework individually to each relevant customer profile, it is possible to have a deeper understanding of the customer logic (Heinonen et al., 2010) of each profile. The logic may be very different with different profiles.
- The development process enables a smooth and lean iterative evolution from the light application version to full application version (cf. Blank, 2013; Maurya, 2012; Ojasalo and Ojasalo, 2018)

Even though the canvas and its application process are easy to understand the context of application may be complex and wicked. Thus, easiness of the business model development project is eventually case specific.

How does The Service Logic Business Model Canvas help small businesses and SMEs?

According to Ates et al. (2013), SMEs tend to have internal operational focus and lack of external orientation. SMEs mostly response to internal operational needs, which present themselves mainly at the start-up of the business. Improvements are not planned, but rather they are made only in response to contingent and emerging problems, technical problems, and operational issues (Jennings and Beaver, 1997). Planning in SMEs is usually absent or limited only to the internal operational levels where performance is measured (Cagliano et al. 2001). In contrast, successful SMEs are more externally oriented and they actively scan general economic and business conditions, technological trends and capabilities and regularly analyze their competitive position in the market (Daft et al., 1988; Day and Schoemaker, 2005). The Service Logic Business Model Canvas shifts internal orientation into external orientation by encouraging and enabling to understand the customer value first and most importantly. This is the foundation for designing the internal processes to support the value creation. This is supported Kasouf et al. (2009, p. 67) and explained the implications of SDL at the marketing/entrepreneurship interface who says “Understanding value from the SDL perspective will increase our ability to effectively generate successful new ventures and corporate entrepreneurship initiatives.”

Applying Service Logic Business Model Canvas relies on learning from customers and understanding the value in depth, as well as designing the offering based on this understanding with service design tools. This supports innovation of SMEs. Based on their empirical study among SMEs, Bjorklund et al. (2013, p. 133) found that “The possibility to experiment and interacting directly with customers were also beneficial for both persuasion and for discovering opportunities to test and implement ideas. Entrepreneurship matched with market orientation (Slater, 1997) and learning culture (Nasution et al., 2011) contributes significantly to successful innovation. Oyedele (2016) discusses global business models and say that conducting a voice of customer research makes one understand and even uncover the unidentified need not previously articulated by the customer. Applying the Service Logic Business Model Canvas is also well in line with entrepreneurial marketing EM which involves the creative identification of market opportunities and the transforming of hard and soft resources from internal and external locations into valuable products (Bjerke and Hultman, 2002). Experimental form of marketing (Brownlie and Spender, 1995), competencies in imagination, vision and non-standard solution finding (Lehman et al., 2014) support developing unique business models based on deep understanding of customer value.

Moreover, SMEs have a clear advantage compared to large companies, namely the flexibility of processes. Large companies design and implement formalized processes to manage operational and managerial activities, however SMEs adopt less structured systems and processes when making decisions and managing the whole business. Flexibility, responsiveness, opportunity creation and risk taking are common characteristics of SME’s management (Margi and Philip, 1998; Aloulou and Fayolle, 2005), thus giving them many advantages over inflexible and bureaucratic large companies. Business models often need to be modified for different customer profiles to be successful. The Service Logic Business Model approach explicitly encourages to develop different versions of the business model for different customer profiles when needed as well as developing them over time. This is in line with Nagy and Kacmar (2013, p. 154) who conducted an empirical study among recently opened retailing businesses and say that “New venture leaders responsible for marketing and management should demonstrate and maximize the potential of their new ventures by inviting customers to ask for assistance, modifications, and customizations through signage and verbal reminders resulting from organizational policies.”

Conclusions

The purpose of this article was to adopt service logic in business model thinking. This article is based on an empirical qualitative research. It deployed the focus group method. The data were generated in a series of interactive co-creative workshops involving both practitioners and academics. This study developed and tested a new tool relevant for both academic literature as well as companies interested in enhancing their business with the service logic. It is called the Service Logic Business Model Canvas.

The following avenues for further research emerge from the present study. Firstly, the present study is based on qualitative empirical research. An interesting topic for further research would be to conduct a quantitative study to draw conclusions on generalizability with statistical reliability. Secondly, practitioners' readiness to understand and adopt service logic in their managerial work requires practical tools. While many business people have realized the importance of service logic for their business, the communication gap between academics and practitioners is significant. To make sure that the principles of service logic do not remain as a philosophical academic discussion, more research is required to develop tools for implementation. The present study offers an example of such effort. Thirdly, more research is needed on service logic's strategic potential and impact on the success of companies. A comparative study between companies operating with goods-dominant logic business models vs. service-dominant logic business models would be most interesting. Similarly, it would be interesting to study companies which have made the shift from goods dominant logic into service logic, and how this affected their success. Such research would help getting service logic sooner into a company's strategic agenda. Moreover, innovation is increasingly becoming open and agile. Clearly, more research is needed to examine service logic in the context of open innovation.

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Notes

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