

SERVICE DOMINANT LOGIC

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The paper outlines the necessity of marketing flexibility in the context of new theoretical and practical conditions, and proposes a synthetic model of flexible marketing systems capable to enhance the value co-creation process.

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Introduction

Flexibility is a controversial concept that covers multiple aspects (Sushil, 2001). In the last 30 years, both theoretical and technological advancements have increased the importance of flexibility for customer satisfaction and marketing performance. In business studies, flexibility was often associated with manufacturing processes (McTavish, 1984; Prabhaker, 2001), human resource management (Dyer, 1998), and strategy. Despite the fact that flexibility is implicit in the application of the marketing concept (Combe and Greenley, 2004), very few studies have directly addressed marketing flexibility.

The main role of marketing is to develop and deliver better value propositions for customers (Keefe, 2004; Payne and Holt, 2001; Woodruff, 1997). However, the meaning of this purpose has significantly changed in the last century. The 21st Century markets are characterised by dynamism, unpredictability, intense competition and increased consumer power, evolving towards and increased fragmentation of targeted segments. In this context, creating and delivering customer value is increasingly considered as the next source of competitive advantage. Many leading scholars argued that this process can be enhanced by emphasizing marketing relationships as opposed to transaction-based exchanges (Kotler, 2000; Parvatiyar and Sheth, 1997; Webster, 1992).

In their book 'The Future of Competition', Prahalad and Ramaswamy (2004) suggest that nowadays the value is co-created by companies together with their customers, and therefore, marketing should adopt a relational approach. From this perspective, value is embedded directly in the co-creation experience, and does not stem from products, services, or from the expertise of marketers and service providers. This orientation leads to a service-dominant logic in marketing, in which the firm should concentrate on operant rather than operand resources, in order to develop valuable experiences for its customers (Vargo and Lusch, 2004).

The service-dominant logic in marketing

A clear shift was made in marketing logic, with the statement that consumers do not buy products and services, but rather life-enhancing experiences (Vargo and Lusch, 2004). This new approach has eliminated most of the differences between product and service marketing, and extended value delivering process from transactions to relationships – both ante- and post-purchase.

For centuries, the excessive focalisation of theorist and practitioners on exchange-value has introduced an important conceptual bias in the firms' marketing orientation (Vargo and Lusch, 2004). In the context of the service dominant logic, it is rather the value-in-use that determines the level of consumer satisfaction (Gummesson, 2002; Jüttner and Wehrli, 1994; Normann, 2001; Normann and Ramirez, 1993; Stobarcka and Lehtinen, 2001; Vandermerwe, 1996; Woodruff and Gardial, 1996). In comparison with the exchange value, which was standardised and rigid, the value-in-use is relative, depending on the specific needs, wants, perceptions, attitudes and circumstances of every customer. Satisfaction can therefore be defined as the affective response of the customer to the consumption experience of a product or a service, being always personal and subjective (Giese and Cote, 2000; Westbrook, 1987).

In comparison with previous marketing paradigms, the service-dominant logic modifies the source of competitive advantage from operand to operant resources. Constantin and Lusch (1994) define operant resources as physical, tangible assets on which operand resources, such as skills, knowledge and know-how, are applied in order to produce specific effects. If consumer satisfaction is personal and subjective, determined by a dynamic relationship rather than an impersonal transaction, the creative use of operant resources is the key to develop and deliver personalised experiences to customers.

This conclusion supports the service-dominant paradigm in marketing, showing that the role of the firm is not confined to manufacturing and commercialisation, but extends also to facilitating consumption during the entire period of customer-object or consumer–service interaction. On the other hand, this new paradigm drastically redefines the role of the customer and his/her responsibilities. Customers cannot be considered anymore as a passive element of the transaction process; the new orientation implying the active customers' participation in the

design, development, and choice of elements that permit the fulfilment of their existing needs and wants. The customers become partners in the value-creation process (Deighton and Narayandas, 2004)

The modern shift in consumer's role

The increased competition in all markets coupled with the recent advances in communication and information technologies have empowered the customer. The traditional passive role of customer in market transactions has shifted towards a more active stance because of information availability, globalization, ability to network, and the desire to experiment (Prahalad and Ramaswamy, 2004). Using the Internet, the customers can easily access, select, and compare information regarding the available offers of goods and services, at a global level. More than that, they can express their own views and opinions regarding about personal consumption experiences, creating lasting online knowledge that can benefit other consumers.

As a result of enhanced communication and interactive access to information, consumers have become more knowledgeable and more active in their relation with the market environment.

Lawer (2004) identifies the rise of the 'One Minute Customer' which has an increased technological versatility in finding the necessary market information, and who initiates a new type of contact with companies. This new customer is characterized by four main requirements during market interactions:

a. Value for time: the recent technological advances in communication and information technology compress and enrich time, and as a consequence, accelerate and fragment human activity. In these conditions time rapidly becomes a valuable currency for customer and organizations alike. The new customers perceive time-saving and efficiency as important quality dimensions of their interaction with firms (Stalk, 1988).

b. Value for attention: the high level of interactivity of the new media channels offer the customer an increased control over the information s/he consumes. On the other hand, multiple marketing messages with different contents are competing for consumers' attention. Godin (1999) estimates that US consumers are roughly exposed to five thousand advertising messages every day. To protect themselves, modern customers learn how to use communication and information technology in order to select and control the number and the content of the received messages, and are increasingly capable to identify the marketing methods used by companies to step up commercial pressure and to manipulate emotions. As a result, the marketing media overload leads to lower levels consumer attention, since people are willing to access only personally meaningful messages.

c. Control of personal data: the implementation of information intensive data-mining techniques and aggressive customer relationship campaigns has increased the awareness of modern customers about the value of their personal data. In an increasingly competitive environment, the consumers learn quickly how to valorize the information about their private buying and consumption behavior that has become a strategic resource for companies.

d. Life-enhancing services: customers are focusing more and more on services rather than products, looking for life-enhancing experiences (Vargo and Lusch, 2004).

Marketing flexibility

The theoretical and practical applications of the service-dominant marketing paradigm directly imply an increase in the flexibility of marketing structures and processes. The opportunity to receive real-time information from consumers who expect immediate value benefits can be used only if the organisational value-chain allows flexible participation, interaction and implementation.

Flexibility of participation

The customers should be capable to decide and if, and in what measure, they want to participate to the value co-creation process. When the consumer needs are simple and the value of the purchase is reduced, the consumer might prefer to purchase a highly standardised product that has a reasonable level of quality. Other possible elements that can determine the customer involvement in the co-creation process are the degree of technical competence, the subjective satisfaction derived from the co-creation process, and the sacrifices/costs required for a meaningful participation.

The flexibility of participation requires from companies to maintain a combination of classical and modern marketing systems, and to use them according to the specific situation of customer involvement:

a. when the consumer decides not to participate, a standardised product version should be available on demand, in this situation all marketing system acts by default, using the data collected from market and consumer research to produce a standardised consumer offer – standardised marketing;

b. when the consumer decides not to participate, but s/he is willing to explore alternative offers, the marketing system should use the input provided by other customers a with similar demographic profile to make new value propositions – tribal marketing;

c. when a consumer is an active participant in one or more phases of the co-creation process its contribution should be integrated in the final value proposition, resulting in customisation – personalised marketing.

Flexibility of interaction

When a customer decides to get involved in the value co-creation process, s/he must have the possibility to interact with the organisation at different levels and through various systems. The main challenges of interaction flexibility are:

(a) to adapt interaction to the specific level of consumer's competence – consumers involved in the value co-creation process will present individual variations in terms of communication skills, level of technical competence, and cooperation patterns. The interactive systems must incorporate a sufficient level of flexibility to make them adaptable to specific consumer profiles and approaches. Usually, the interactive systems will be structured through a combination of operand (technical elements) and operant (human elements) resources, the human factors allowing a higher level of adaptability.

(b) to efficiently centralise the information provided by the customer; and

(c) to make it readily available to any department that can customise the marketing offer. Considering all the communication formats and channels that can be used today by consumers, this problem can be solved mainly through the use of an integrated marketing communication/information system.

Flexibility of implementation

If the contribution of the customer is received but not implemented, it is not possible to speak about a real value co-creation system. The organisational value chain should be capable to absorb and implement customer requirements, creating the basis for a personalised marketing offer. However, a personalised marketing approach might not be profitable or desirable for every organisation. Because of this, in reality, any organisation will define the level of marketing flexibility that can be profitably sustained, and on this basis, define a series of implementation points, in which consumer contribution can be absorbed and used to customise the value offer. The sooner the consumer contribution will be implemented in the value-added chain, the more customised will be the marketing approach.

a. Flexibility of the product design – will determine a made-to-order marketing approach. The project will be expensive both for the firm and for the customer, and the internal resources of the firm will often limit the production output to a specific number of projects/year. This is a common example for public construction projects, that are developed through a close collaboration between architects, construction firms and beneficiaries.

b. Flexibility of production – will determine a modular marketing approach. In this situation, the consumer is capable to select and combine a number of pre-existent modular components of the final product. This is the case of online car configurators, that are now available on the web site of most car manufacturers, or of Dell, who allows customers to configure online the computers they order.

c. Flexibility of supporting service – will determine a customised service approach. The level and the specificity of supporting services will be specifically adapted to each customer's requirements. On the other hand, since in the service marketing model the consumer is actively participating to the creation and consumption of services, not only the type of service, but also the service scenario has to be flexible and customisable. This case is exemplified by the post-purchase assistance provided to firms by suppliers of electronic equipment – such as computers or telecommunication systems.

The level of marketing flexibility in the value co-creation process will be influenced significantly by the predominance of operand and operant resources in the value-added chain. Since the operant resources are, by their nature more flexible and adaptable, they will allow a higher level of marketing flexibility. On the other hand, the consumer's contribution often represents an operant resource, that has to be flexibly absorbed and integrated in the process of value creation.

The new theories of value advocate an extension of marketing analysis and scope from a purely customer-centric model, to a multi-centred approach, which takes into account the interests of company's employees and stakeholders (Payne and Holt, 2001). From this perspective, the flexibility of the marketing structure and processes during the participation, interaction and implementation stages should be considered within an extended model of value co-creation, which addresses the creation and management of dynamic value constellations comprising employees, customers and other categories of stakeholders.

Concluding remarks

This article has a theoretical focus. Starting from an analysis of the modern marketing, both from a theoretical and practical point of view, the concept of flexibility is brought at the forefront of new marketing systems, which are built around procedures that favour customer participation. Flexibility, within specific limits determined by company's skills, resources and profitability objectives, represents the main feature of participative marketing systems, that allow interactions with, and among employees, customers, and other stakeholders.

The flexibility of marketing systems has to be applied to all the processes of participation, interaction and implementation, in order to develop complex value-constellation systems that are capable to maximise the satisfaction and the benefits of all parties involved.

The theoretical approach of this study has a number of limitations. First of all, the model developed and discussed is only a preliminary tentative to identify the main areas of the marketing system that need flexibility in order to enhance the value co-creation process. Secondly, the analysis of flexibility in the context of participative marketing systems has mainly focused on the advantages of this approach. Thirdly, the model presented is only a theoretical construct, that needs to be tested and improved through empirical research.

Despite the importance of the value co-creation approach for the marketing theory and practice, there is a lack of studies and models concerning the practical organisation and management of such systems. The existing research framework is mainly composed from a series of anecdotic examples that emphasise the opportunities provided by value co-creation system for modern organisations. This study can provide a starting point for developing a stream of research into the necessary features of a participative marketing system, organised and managed in order to enhance the value co-creation process among customers, organisations and stakeholders.

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