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A ‘Service Logic’ Rationale for Business Model Innovation

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Abstract

Successful firms use business model innovation to rethink the way they do business and transform industries. However, current research on business model innovation is lacking theoretical underpinnings and is in need of new insights. This objective of this paper is to advance our understanding of both the business model concept and business model innovation based on service logic as foundation for customer value and value creation. We present and discuss a rationale for business models based on ‘service logic’ with service as a value-supporting process and compared it with a business model based on ‘goods logic’ with goods as value-supporting resources. The implications for each of the business model dimensions: customer, value proposition, organizational architecture and revenue model, are described and discussed in detail.

Keywords: Business model, business model innovation, customer value, innovation, service logic, value creation
1. Introduction

The success of many organizations depends on innovation (Tidd et al. 2001). Innovation creates opportunities for larger growth (new markets, diversification), better performance (higher margins) and beating competition (escape the ‘commoditization trap’). While innovation is about identifying and seizing opportunities, many companies restrict themselves because of a narrow view on innovation and mistakenly see it as synonymous with new product development or traditional research and development (Sawhney et al. 2006).

However, sometimes companies need to fundamentally rethink the way they do business by innovating their business model. Chesbrough (2010) even argues that ‘a company has at least as much value to gain from developing an innovative new business model as from developing an innovative new technology.’ Unprecedented opportunities for today’s organizations open up when companies recognize that more new business models are both feasible and actionable than ever before (McGrath 2010).

Business model innovation refers to organizations rethinking their dominant value logic and coming up with new ways of creating value for their customers and themselves. It offers a transformational approach, where the business model is used to address change and focus on innovation, either in the organization, or in the business model itself (Demil and Lecocq 2010). For example, when Google wanted to introduce their search engine they needed a way to monetize this service. While traditional search services worked with a subscription model, this did not seem to work on the Web. They adopted an advertising model and transformed it by using ‘keywords’ and adapted it to the browser interface via the design of the results page with clearly separating search results from advertisements. This resulted in Google creating value for people searching for information and advertisers searching for attention, and Google capturing part of that value via the advertisement revenues.
Business model innovation is relevant for young companies trying to attain significant size and profitability (e.g., Zott and Amit 2007) and for established companies trying to seize opportunities outside their core operating space (e.g., Johnson 2010). Business model innovation is important because it is a form of innovation itself, it can complement other forms of innovation, and it is often required to commercialize new technologies. New business models are radical innovations with the potential to shake whole industries (Demil and Lecocq 2010) and can result in a competitive advantage if they are hard to replicate (Magretta 2002). Zott and Amit (2007) show that novelty-centred business models have a positive effect on the performance of entrepreneurial firms. In addition, business models offer a systematic and holistic approach for looking at other forms of innovation from a broader perspective. For example, Bouwman and Fielt (2008) describe how service innovation can benefit from a business model perspective. Finally, business models are required when new technology is introduced in the market to ensure that it delivers value to the customer (Chesbrough and Rosenbloom 2002). Teece (2010) argues that ‘the more radical the innovation, and the more challenging the revenue architecture, the greater the changes likely to be required to traditional business models.’

Understanding and studying business model innovation is challenging because the concepts ‘business model’ and business model innovation’ lack conceptual clarity and theoretical underpinning, business model innovation has received little attention in scientific research so far, and business model innovation is challenging for organizations. A business model describes the value logic of an organization in terms of how it creates and captures customer value (e.g., Osterwalder and Pigneur 2010). Every company has a business model, whether that model is explicitly articulated or not (Chesbrough 2006; Teece 2010). Examples of business models often encountered are Apple’s seamless music experience with the iPod and iTunes, Skype’s freemium model for phone calls, SouthWest Airlines’ low-cost carrier
model, and Rolls Royce’s ‘Power-by-the-Hour’ model for aircraft engines. While people agree on the importance of business models for the success of an organization, the concept is still fuzzy and vague, and lacks consensus on its definition and compositional elements (Al-Debei and Avison 2010; Morris et al. 2005; Shafer et al. 2005). There is a divergence of understanding among people, in particular between those who are business-oriented and those who are technology-oriented (Osterwalder et al. 2005).

Business model innovation is also challenging because it is a form of innovation that is mostly not explicitly recognized and studied so far and presents significant challenges for organizations. ‘When executives think of innovation, they all too often neglect the proper analysis and development of business models which can translate technical success into commercial success’ (Teece 2010). Zott and Amit (2007) argue that the business models of established firms may be more constrained by path dependencies and inertia than more entrepreneurial firms. Chesbrough and Rosenbloom (2002) warn that the dominant logic of the existing business model can hinder organizations in defining new business models because ‘the choice of business constrains other choices, filtering out certain possibilities, even as other prospects are logically reinforced.’ According to Johnson et al. (2008) companies are confronted with two challenges. Firstly, there is a lack of understanding into the dynamics and process of business model development in general. Secondly, most companies do not understand their existing business model well enough to determine when they can leverage it and when a new model is required.

This objective of this paper is, therefore, to advance our understanding of both the business model concept and business model innovation. In particular, it intends to develop a theoretical underpinning for the core notions of customer value and value creation, based on ‘service logic’ (Grönroos 2006; Vargo and Lusch 2004a). The remainder of the paper is structured as follows. First we take a closer look at the business model concept and its
theoretical underpinning. Then we will present service logic and discuss how it can be used for business model innovation by developing a business model rationale based on service logic. We end the paper with concluding remarks addressing further research and limitations.

2. Business model

We will first discuss the business model concept in more detail by addressing definitions and compositional elements. Then we will take a closer look at the theoretical foundations of the business model concept.

2.1 Business model definitions

While defining the business model concept has been among the first tasks of early researchers in the area (Osterwalder et al. 2005), the definitions themselves have been subject to much debate (Pateli and Giaglis 2004) and a general accepted definition has not yet emerged (Morris et al. 2005). According to Ghaziani and Ventresca (2005) the public talk about ‘business models’ commenced in the early 1970s and rose to prominence halfway the 1990s, at the same time as the digital economy. Their research shows that the early discourse was framed around computer/systems modelling while the current discourse is mostly framed around value creation. In addition, the term business model is also often framed as a tacit conception where its meaning is taken-for-granted.

One of the first definitions that became popular, was proposed by Timmers (1998). He defined a business model as ‘an architecture for the product, service and information flows, including a description of the various business actors and their roles; and a description of the potential benefits for the various business actors; and a description of the sources of revenues.’ Another early definition comes from Rappa (2000) who sees a business model as ‘the method of doing business by which a company can sustain itself – that is, generate revenue.’ This emphasis on the monetary aspects in terms of the revenue model,
financial arrangements or profitability, is also prominent in some other definitions (for example, Afuah and Tucci 2001; Mullins and Komisar 2009; Teece 2010). This often comes with an emphasis on competitive advantage (for example, Afuah and Tucci 2001; Morris et al. 2005). More comprehensive definitions combine the ideas of an architectural representation of the business network and the generation of revenues for the focal organization (Dubosson-Torbay et al. 2002; Morris et al. 2005). For example, Morris et al. (2005) define a business model as ‘a business model is a concise representation of how an interrelated set of decision variables in the areas of venture strategy, architecture, and economics are addressed to create sustainable competitive advantage in defined markets.’

Earlier definitions often summarize what a business model is made off in terms of its compositional elements (Bouwman et al. 2008; Osterwalder et al. 2005; Timmers 1998), while later definitions are more formulated around the value logic in terms of creating, delivering and capturing value (Chesbrough 2006; Johnson 2010; Osterwalder and Pigneur 2010; Teece 2010). For example, Chesbrough (2006) states that a business model performs two important functions: value creation and value capture. ‘First, it defines a series of activities that will yield a new product or service in such a way that there is net value created throughout the various activities. Second, it captures value from a portion of those activities for the firm developing the model.’ Where earlier authors often emphasised value capture, most authors nowadays emphasise value creation. This does, however, not mean that value capture is ignored (Zott et al. 2010). While the value concept is included in most common definitions, it is mostly not further explained or specified. Most definitions seem to refer to customer value, i.e. value for the customer (such as, Afuah 2004; Dubosson-Torbay et al. 2002; Osterwalder and Pigneur 2010; Tapscott 2001; Teece 2010). There are some definitions that refer to value for both the customer and the company (e.g., Bouwman et al. 2008; Johnson 2010), and others refer to other value concepts such as economic value (Gordijn and
Akkermans 2001) or value streams (Mahadevan 2000). Moreover, definitions that include value capture seem to refer to capturing customer value to create business value (i.e. value for the business) in terms of economic value.

2.2 Business model elements

Closely related to the business model definitions are the compositional elements describing what a business model is made-off. The elements are also referred to as, for example, building blocks (e.g., Osterwalder and Pigneur 2010), components (e.g., Pateli and Giaglis 2004), (key) questions (e.g., Morris et al. 2005), or functions (e.g., Chesbrough and Rosenbloom 2002). Business model elements are sometimes presented as part of the definitions and other times described in separate lists, frameworks or ontologies. Business model frameworks and ontologies do not only specify the elements, they also specify the relationships between the elements (e.g., Gordijn et al. 2005). They often also introduce some structure, in particular a two-layered model with higher-level and lower level elements (e.g., Osterwalder 2004). Over the years, different authors have developed a number of frameworks, for example, the Business Model Canvas (Osterwalder 2004; Osterwalder and Pigneur 2010), the Four-Box Business Model (Johnson 2010), Business Model Schematics (Weill and Vitale 2001), Technology/Market Mediation (Chesbrough and Rosenbloom 2002), and ‘e3-value’ (Gordijn 2002; Gordijn and Akkermans 2001). While the frameworks seem useful for describing and designing business models, most frameworks are not developed or tested via a systematic and evidence-based approach nor has their successful application been verified in a rigorous manner.

As example, we will present the Business Model Canvas (Osterwalder and Pigneur 2010) in more detail. The Business Model Canvas presents a shared language for describing, visualizing, assessing and changing business models. It consists of nine building blocks: (1) an organization serves one or several Customer Segments, (2) it seeks to solve customer
problems and satisfy customer needs with Value Propositions, (3) Value Propositions are delivered to customers through communication, distribution, and sales Channels, (4) Customer Relationships are established and maintained with each Customer Segment, (5) Revenue Streams result from Value Propositions successfully offered to Customer Segments, (6) Key Resources are the assets required to offer and deliver the previously described elements…, (7) …by performing a number of Key Activities, (8) some activities are outsourced and some resources are acquired outside the enterprise via Key Partnerships, and (9) the business model elements result in the Cost Structure. In earlier work, Osterwalder (2004) has the nine building blocks grouped into four pillars: customer interface (the ‘who’ covered by building blocks 1, 3 and 4), product (the ‘what’ covered by building block 2), infrastructure management (the ‘how’ covered by building blocks 6, 7 and 8) and financial aspects (the ‘how much’ covered by building blocks 5 and 9). In this earlier work he also shows how the nine building blocks synthesize most of the other models at that time (covering, amongst others, Afuah and Tucci 2001; Hamel 2000; Magretta 2002).

While there are differences between the frameworks (for example, how explicitly they include technology), the similarities are significant enough to see them as relating to the same underlying definition in terms of describing the creation and capture of customer value. From a comparison of 18 frameworks and lists, Morris et al. (2005) state that the number of elements mentioned varies from four to eight and that a total of 24 different items are mentioned as possible elements, with 15 receiving multiple mentions. They conclude ‘that the most frequently cited are the firm’s value offering (11x), economic model (10x), customer interface/relationship (8x), partner network/roles (7x), internal infrastructure/connected activities (6x), and target markets (5x). Some items overlap, such as customer relationships and the firm’s partner network or the firm’s revenue sources, products, and value offering.’ Al-Debei and Avison (2010) suggest a unified business model conceptual model with the
dimensions value proposition, value architecture, value network, and value finance. Based on our description and discussion of business model frameworks, the findings of Morris et al. (2005) and the unified model of Al-Debei and Avison (2010), we suggest that the higher-order elements should at least cover the following dimensions: (1) **Customer**: the way the customer is perceived and the kind of customer that is targeted, (2) **Value Proposition**: the customer problem that the business initiative is trying to solve and the solution that is offered to deal with that problem, (3) **Organizational Architecture**: the way in which the value proposition can be provided by the different actors and their capabilities and assets, in particular the focal organization, and (4) **Revenue Model**: the economic considerations (possibly including non-financial ones) related to the bringing the customer, value proposition and architecture together, often focussed on how the organizations, in particular the focal organization, can make money.

### 2.3 Business model theoretical foundation

While most definitions and frameworks are in some way related to theoretical insights, mostly a thorough and systematic foundation is lacking. The concept of a business model lacks theoretical grounding in economics or in business studies, such as organizational and strategic studies, and marketing science (Teece 2010). Authors that do discuss theoretical perspectives mostly based themselves on literature and theories related to strategic management, often in combination with technology/innovation management and/or entrepreneurship (e.g., Afuah and Tucci 2001; Chesbrough and Rosenbloom 2002; Hedman and Kalling 2003; Morris et al. 2005).

An exception to the lack of theoretical grounding is the work of Amit and Zott (2001), who provide a comprehensive and detailed discussion on the theoretical underpinning and positioning of the business model concept. They identify four potential sources of value creation in e-business: efficiency, complementarities, lock-in, and novelty. Amit and Zott

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**Erwin Fielt**

**A ‘Service Logic’ Rationale for Business Model Innovation**

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10
argue that these value sources are interdependent: the presence of each value source can enhance the effectiveness of any other source. They also discuss five different theoretical perspectives from strategic management and entrepreneurship: value chain analysis, Schumpeterian innovation, the resource-based view of the firm, strategic network theory, and transaction costs economics. They conclude that each of the identified sources of value creation cuts across established theoretical frameworks and commands equal attention for explaining value creation. Amit and Zott argue, therefore, that the business model concept can address the need for an integrated approach that offers a more complete picture on value creation and may enable scholars to answer a unique set of questions that cannot be sufficiently addressed by prior frameworks.

However, the theoretical perspectives proposed by Amit and Zott emphasize the supply side where the producers (solely) create value as reflected in the common term ‘added value’ (Priem 2007). According to Priem, this has been influenced by the industrialization and the separation between production and consumption in space and time. Economical and technological developments require a more customer-centric approach to value creation and capture (Teece 2010).

Concluding, while the business model concept has been interpreted and applied in different ways there seems to be a convergence around the notions of customer value and value creation with as core dimensions the customer, value proposition, organizational architecture, and revenue model. Its theoretical foundation is not yet well advanced and mostly biased by a provider focus. In the remainder of this paper we will introduce service logic (Grönroos 2006; Vargo and Lusch 2004a) as a perspective on value creation through the lens of the customer that can contribute to a better theoretical foundation of the business model concept and business model innovation.
3. Service logic

We will introduce service logic by discussing two perspectives on service: service as market offering and service as value logic. This latter perspective will then be applied as business model rationale in the next section.

3.1 Service as market offering

A product is described as anything that can be offered to a market for attention, acquisition, use, or consumption, in order to satisfy a want or need (Kotler 1988). Similar to physical products, services can be seen as the object of exchange relating to something that can be offered to the customer (Edvardsson et al. 2005). Early service definitions are influenced by a strong need to differentiate services from physical products (i.e. goods) as market offering. This resulted in defining services based upon the ‘IHIP’ characteristics for services: Intangibility, Heterogeneity (or non-standardisation), Inseparability (of production and consumption), and Perishability (or exclusion from inventory) (Zeithaml et al. 1985).

Nowadays the IHIP approach is heavily criticized because it provides a contra-view of service (e.g. as non-good), overly emphasizing the view of the provider (Vargo and Lusch 2004b), and it does not capture the essence of services; in particular their process and interactive nature (Edvardsson et al. 2005). Grönroos (2006) provides a more comprehensive definition of service as ‘a process consisting of a series of more or less intangible activities, that normally, but not necessarily, take place in interactions between the customer and service employees and/or physical resources or goods and/or systems of the service provider, which are provided as solutions to customer problems.’

An extensive literature review by Edvardsson et al. (2005) suggests that service definitions are too narrow, and that cited characteristics are outdated as generic service characteristics. They state that ‘service’ (singular) ‘involves to the whole organization’s performance in providing the customer with a good experience’ and conclude that, at a
general level, service is better conceived as a perspective on value creation through the lens of the customer, rather than a category of market offerings. This perspective is very prominent in the ‘Service Logic’ of Grönroos (Grönroos 2006; Grönroos 2007; Grönroos 2008) and the ‘Service-Dominant Logic’ of Vargo and Lusch (2004a; 2008).

3.2 Service as value logic

Starting-point for ‘Service Logic’ is that service is a value-supporting process, whereas goods are value-supporting resources (Grönroos 2006). In a value-supporting process, a set of company resources interact with the customers so that value is created or emerges in the customers’ processes. A good enough core solution (a physical product, a service, or a combination of goods and services) is necessary to compete in the marketplace, but is not sufficient for a competitive advantage. This requires a enhanced offering consisting of physical product components, service components, information, personal attention and other elements of customer relationships (Grönroos 2007). Grönroos labels this combination a ‘service offering’, even when the core solution is based on a physical product, because all elements of the offering are combined to provide a value-generating process supporting customers’ activities and processes. This results in overlapping service production and consumption processes and interactions between provider and customer.

Grönroos (2008) discusses service logic from the customer and provider perspectives. *Customer* service logic is a perspective on the customer’s value creation and can be applied as a foundation for customers’ purchasing and consumption processes. *Provider* (business) service logic is a perspective on the provider’s activities (business logic) and can be applied for organizations’ business and marketing strategies. Service as a business logic means that organizations focus on ‘understanding how they can assist customers’ value creation by supplying goods and services that support customers’ creation of value-in-use’ (Grönroos 2008). This means that organizations ‘should not be distracted by existing goods or services...
in their market offerings, but focus on understanding their customers’ everyday practices and value-generating processes where goods and services are used.’ When an organization want to become a co-creator of value with its customers, it needs an extended role in value creation by adopting a service logic and creating interactions with customers. In this way the organization can take an active role in the customers’ value-generating processes and directly influence them. As opposed to conventional views, it is the provider who becomes the co-creator of value, not the customer.

Related to the ‘Service Logic’ of Grönroos is the ‘Service-Dominant Logic’ of Vargo and Lusch (2004a; 2008). Service [is] ‘the application of specialized competences (knowledge and skills), through deeds, processes, and performances for the benefit of another entity or the entity itself’ (Lusch and Vargo 2006; Vargo and Lusch 2004a). According to the service-dominant logic, service is the fundamental basis of exchange; service is exchanged for service.

Vargo and Lusch (2004a) state that ‘people exchange to acquire the benefits of specialized competences (knowledge and skills), or services’ and argue that the nature of the exchange is skills-for-skills but this has become masked because most exchanges are nowadays indirect due to microspecialization and monetization. They stress the role of operant resources for service exchange, in particular knowledge and skills, because they are the producers of effects. Operant resources are employed to act on operand resources (and other operant recourses) to produce effects, as opposed to operand resources, i.e. resources on which an operation or act is performed to produce an effect.

Fundamental for customer value is value-in-use that is created (and determined) at the moment of consumption, not value-in-exchange that is added to goods during the production process. Value creation is interactional and the customer, who is primarily an operant resource, is always a co-creator of value. An organization constantly strives to make better
value propositions than its competitors and is, therefore, involved in a continuous learning process based on feedback from the marketplace.

While Grönroos, and Vargo and Lusch start from a marketing perspective, their ideas are broader and relevant for management and business in general. Moreover, related ideas can also be found in the management literature. Bowman and Ambrosini (2000) discuss the difference between use value and exchange value in relation to the resource-based theory of the firm. The ‘consumer benefit experienced’ viewpoint is introduced by Priem (2007) as alternative for the producer orientation in strategic management. This perspective on value creation complements the value capture orientation of the strategic management approaches based on firm positioning, transaction cost, and resource-based view. One of the fundamental ideas behind this perspective is that consumers experience value during their consumption activities. This means that the current purchase of a durable good can result in many future value-producing experiences. So products and services are not “value laden” as they are without value when they are unconsumed. According to Priem, a firm should aid consumers in maximizing the use value that is created and experienced during consumption, irrespective of the exchange value paid.

4. A rationale for business model innovation

Service as value logic can provide a theoretical foundation for better understanding and reconceptualising the business model concept and for developing a business model rationale that can drive business model innovation.

The service logic perspective stresses the customer focus of the business model concept and addresses its core notions of customer value and value creation. This provides a better understanding of the business model concept and a reconceptualisation as far as the current understanding has been driven by a provider focus. With a conceptualisation based upon customer value as use value and created in the customers’ processes and with the
customer and provider being co-creators of value, existing definitions and frameworks of
business models may need to be reconsidered. For example, the Business Model Canvas
(Osterwalder and Pigneur 2010) should more explicitly recognize the activities and resources
of the customer required to create value and the move beyond the strict separation of the roles
of the provider and customer (and partners) in the business model. While there is much more
to be discussed about understanding the business model concept from a service logic
perspective and specifying its definition and elements based on service logic, we will not
address that in more detail here as our focus is on business model innovation. Important to
realize is that this reconceptualisation based on service logic can also be the rationale for
business model innovation, which we will address in more detail next.

The first question that arises is how a business model rationale based on service logic
would differ from a business model rationale based on goods logic? Following the Service
Logic of Grönroos (2007), a business model based rationale on service logic is driven by
service as a value-supporting process while a business model rationale based on goods logic
is driven by goods as value-supporting resources. Table 1 presents a preliminary framework
based on positioning Grönroos’ Service Logic on the business model dimensions. Next we
will discuss each dimension, i.e. customer, value proposition, organisational architecture, and
revenue model, in more detail and add additional insights from the Service-Dominant Logic
of Vargo and Lusch.
<table>
<thead>
<tr>
<th>Business model dimensions</th>
<th>Value logic</th>
<th>Service logic</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Goods logic</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Value-supporting resource</td>
<td>Value-supporting process</td>
</tr>
<tr>
<td>Customer</td>
<td>• Customer as consumer of value</td>
<td>• Customer as co-creator of value</td>
</tr>
<tr>
<td></td>
<td>• Transaction</td>
<td>• Relationship</td>
</tr>
<tr>
<td></td>
<td>• Short-term</td>
<td>• Long-term</td>
</tr>
<tr>
<td></td>
<td>• Getting customers</td>
<td>• Keeping and growing customers</td>
</tr>
<tr>
<td>Value proposition</td>
<td>• Product as core solution</td>
<td>• Service as core solution</td>
</tr>
<tr>
<td></td>
<td>• Focus on core solution</td>
<td>• Total service offering</td>
</tr>
<tr>
<td></td>
<td>• Hidden services not value-enhancing</td>
<td>• Hidden services as value-enhancing</td>
</tr>
<tr>
<td></td>
<td>• Technical quality</td>
<td>• Technical and functional quality</td>
</tr>
<tr>
<td>Organisational architecture</td>
<td>• Focus on providers’ processes</td>
<td>• Focus on customers’ processes</td>
</tr>
<tr>
<td></td>
<td>• Customer as consumer</td>
<td>• Customer as co-producer</td>
</tr>
<tr>
<td></td>
<td>• Traditional marketing (marketing mix)</td>
<td>• Traditional and interactive marketing</td>
</tr>
<tr>
<td></td>
<td>• Full-time marketers</td>
<td>• Full- and part-time marketers</td>
</tr>
<tr>
<td></td>
<td>• Production resources</td>
<td>• Part-time marketing resources</td>
</tr>
<tr>
<td></td>
<td>• Limited dependency between marketing, HRM, and operations</td>
<td>• Extensive dependency between marketing, HRM, and operations</td>
</tr>
<tr>
<td>Revenue model</td>
<td>• Pay for core solution</td>
<td>• Pay for the total service offering</td>
</tr>
<tr>
<td></td>
<td>• Service quality as additional costs</td>
<td>• Service quality as revenue or cost savings</td>
</tr>
<tr>
<td></td>
<td>• Revenues from transactions</td>
<td>• Revenues from relationships</td>
</tr>
<tr>
<td></td>
<td>• Neglects relationship costs</td>
<td>• Relationship costs taken into account</td>
</tr>
<tr>
<td></td>
<td>• More price elastic</td>
<td>• Less price elastic</td>
</tr>
<tr>
<td></td>
<td>• Profit logic based on managing external and internal efficiency separately</td>
<td>• Profit logic based on managing external and internal efficiency integratively</td>
</tr>
</tbody>
</table>
A service logic implies that it is the customer, not the provider, who creates value (Grönroos 2006). Value emerges and is perceived by the customer in its own value-creating process. A provider can only support this value-creating process by providing value-supporting processes (services) and/or value-supporting resources (products). In a similar way, Vargo and Lusch (2008) state that ‘the customer is always a co-creator of value.’ It is the customer with whom value is created with and determined by, it is the use value that matters (Lusch and Vargo 2006).

There is a continuum with transaction marketing and relationship marketing as extremes (Grönroos 2007). Relationship marketing relates to a service logic; it focuses on the customer relationship and has a long term focus. The emphasis is on keeping (customer satisfaction) and growing (customer commitment) relationships. Transaction marketing relates to a goods logic; it focuses on a single transaction and has a short term focus. Because of this, the emphasis is on getting new customers. Vargo and Lusch (2008) also argue for a customer-centric, relational focus that suits the interactive and integrative view of exchange. Even relatively discrete transactions still require relational participation of both the customer and the provider.

A service logic implies for the value proposition that the core solution is a service supporting the customer’s value generating processes, while a goods logic for the value proposition implies that the core solution is a product that supports providing value-supporting resources (Grönroos 2006). Vargo and Lusch (2004a; 2008) state that ‘service is the fundamental basis of exchange,’ which is about the beneficial application of operant resources, sometimes transmitted via operand resources. Value cannot be embedded in goods or added during the production process. Goods can replace direct service by embodying knowledge and, as such, be distribution mechanisms for service provisioning.
Moreover, a service logic takes the total service offering into account while a goods logic focuses on the core solution (Grönroos 2008). A focus on the core solution implies that additional services may be necessary but are not perceived as being of strategic importance and hidden services are not recognized as value-enhancing. A service logic implies that an enhanced offering is required to support the customer’s value generating processes, a core solution is necessary but not sufficient. Developing a total service offering is seen of strategic importance and hidden services are part of this offering and supportive to the customer’s value-creating processes (Grönroos 2008). Hidden services are often not seen as services to the customer, but as administrative, financial or technical routines that need to be taken care of. A service logic requires designing and managing hidden services as value-enhancing services to customers.

A service logic also requires bearing the total service quality in mind (Grönroos 2008). This implies taking the customer’s perception of quality into account and including not only the technical quality of the outcome (i.e. what the customer receives), but also the functional quality of the process (i.e. how the customer receives it). The service quality concept may even need to be broadened further from a service logic perspective to explicit recognize the role of the customer as co-creator of value and the fact that quality has to be considered within the network of relationships and contributions (Gummesson 2008).

A goods logic for the organisational architecture focuses on the processes of the providers while a service logic starts from the customers’ processes and include the customer as co-producer. A goods logic implies that the producer produces a product and the customer consumes the product while a service logic implies that the consumption and production process overlap and that customer and provider interact in as co-producers (Grönroos 2007). The Customer as co-producer makes the provider dependent on the participation of the customer and customers a resource in the marketing process. In a similar way, Lusch and
Vargo (2006) see co-production as the participation of the customer in the creation of service offering, for example, via customer innovation, co-design, or shared production.

The Customer as co-producer also means that the traditional (mass) marketing function with the marketing mix approach (i.e. 4Ps) needs to be supplemented with an interactive marketing function (Grönroos 2007). Interactive marketing is targeted at the interactions between customer and provider (the crucial moments of truth). This makes all employees and other resources involved in the service production process a resource in the marketing process, sometimes labelled as part-time marketing resources. The interface between marketing and other functions such as operations, human resources, and IT becomes of strategic importance together with internal marketing, i.e. developing a customer- and service-orientation in the whole organization.

Vargo and Lusch (2004a; 2008) stress the role of operant resources for service, in particular knowledge and skills, which are often dynamic and intangible. They position them at the heart of competitive advantage and performance. Organizations exist to integrate and transform microspecialized (individual) competences into complex services that are people want and are willing to pay for (Vargo and Lusch 2006). Moreover, all economic and social actors, including individuals and households, can be seen as resource integrators (Lusch and Vargo 2006). This implies that value is created in value networks which consist of largely loosely coupled value proposing social and economic actors who co-create value and co-produce service offerings (Lusch et al. 2010).

A goods logic for the revenue model is focussed on the revenues from the core solution and sees improvement of the service quality as a cost while a service logic is focussed on the revenues from the total service offering and sees improvement of the service quality as a way of increasing the revenues (premium pricing opportunities) and/or saving costs (Grönroos 2007). Related to this, in a goods logic the revenues from transactions are
leading while in a service logic the revenues from relationship are leading, in particular customer loyalty and repurchases (Grönroos 2007). A service logic also takes into account that both customer and provider incur relationship costs which increase the long-term customer sacrifice and decrease the provider’s net margin. Moreover, a relationship approach also makes customers less price-sensitive as there is more than the core product (and sometimes the image) to keep the customer attached to the provider when there is price competition.

The profit logic for a service logic also differs from a goods logic (Grönroos 2007). In a goods logic the revenues are generated by the external marketing activities (external efficiency) while the costs are generated by the production and administration activities (internal efficiency). This makes it possible to manage external and internal efficiency separately. For example, the manufacturing process can be automated without affecting the product sales. However, according to a service logic, external and internal efficiency influence both revenues and costs and, therefore, need to be managed in an integrated way. For example, an investment in training employees who interact with customers should be evaluated with respect to its effects on both revenues and costs.

In addition, Vargo and Lusch (2004a) stress the building of off-balance-sheet assets such as customer, brand, and network equity that increase the market value rather than the book value of the organization. Moreover, they also see an important role for financial feedback from the marketplace as a continuous learning mechanism to improving its value propositions and operant resources. They advice, however, to treat financial feedback as lacking in substantive validity, as it is a fuzzy signal (Vargo and Lusch 2006).
5. Concluding remarks

In this paper we set out to advance our understanding of both the business model concept and business model innovation by presenting and applying a theoretical perspective based upon service as logic for customer value and value creation. We discussed a business model rationale based on service logic driven by service as a value-supporting process and compared it with a business model rationale based on goods logic driven by goods as value-supporting resources. The implications for each of the business model dimensions: customer, value proposition, organizational architecture and revenue model, was described and discussed in detail.

To the best of our knowledge, this is one of the first papers exploring the relation between service logic and business model innovation. A related approach can be found in Chesbrough (Chesbrough 2011), who discusses Open Service Innovation and business model transformation with services. However, his approach does not build upon the Service Logic of Grönroos (Grönroos 2006; Grönroos 2007; Grönroos 2008) and/or the Service-Dominant Logic of Vargo and Lusch (2004a; 2008). We do see a value for future work in comparing the two approaches and, where possible, including Chesbrough’s ideas into the business model rationale based on service logic. In a similar way, the service logic business model will also benefit from further development based on a more comprehensive covering of the service literature. The inclusion of service logic as theoretical perspective into the integrated approach of Amit and Zott (2001) is also a potential valuable extension for this paper.

Furthermore, it is worthwhile stressing some of the limitations of this paper. Firstly, there is not a unified perspective on service logic, nor do the Service Logic of Grönroos and the Service-Dominant Logic of Vargo and Lusch always point in the same direction. It is, therefore, not possible to refer to the business model rationale based on service logic, nor should the presented model be seen in that way. The presented model has also not been
empirically tested yet, making it hard to assess its theoretical validity nor its practical usefulness. Finally, while we presented and discussed the business model rationale based on service logic as basis for business model innovation, we did not explicitly address how it contributes to the process of business model innovation.

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