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**Servitisation, Service-Dominant (S-D) Logic and Supply Chain Management**

**SEVKI NACI**

**PhD Student  
(First Year)**

**QUEEN'S UNIVERSITY MANAGEMENT SCHOOL**

**107, Botanic Avenue  
Belfast  
BT7 1JP  
Northern Ireland  
UK**

**E-mail: [snaci01@qub.ac.uk](mailto:snaci01@qub.ac.uk)**

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# **Servitisation, Service-Dominant (S-D) Logic and Supply Chain Management**

## **Introduction**

It has become very difficult for manufacturers to survive as purely manufacturing organisations in developed countries due to forces of deregulation, technology, globalisation and fierce competitive pressures as well as declined demand for products and decreased profits on products sold (Almeida, Miguel and Terra da Silva, 2008; Vandermerwe and Rada, 1988). Massive pressures on manufacturing in developed economies are forcing manufacturers to move from manufacturing goods to providing services (Lindberg and Nordin, 2008; Neely, 2009).

Manufacturing organisations can survive in developed economies by moving up the value chain and by creating more innovative products and services so that they do not have to compete on the basis of cost alone (Neely, 2009). By adding value to their core product business via services, these manufacturing organisations can increase customer loyalty as well as revenues and improve their chances of long-term growth and competitiveness (Jacob and Ulaga, 2008). In addition to these, today's customers are demanding more services. They are not just looking for a product but rather for "bundles" integrating products and services (Vandermerwe and Rada, 1988). By climbing the economic value chain, manufacturing organisations can improve their competitiveness. They have to aim for becoming "fully servitised organisations" in order to survive in developed economies.

This research project aims to contribute to marketing and supply chain management literatures by exploring the motives and strategies of organisations in various stages of the productisation – servitisation continuum as well as examining the challenges faced by them using the newly revised ten foundational premises (10 FPs) of the service-dominant logic of marketing as a guiding framework.

The objectives of this research project can be listed as follows:

1. To identify companies in various stages of the transition from a “purely manufacturing organisation” to a “fully servitised organisation” (i.e. in various stages of the productisation – servitisation continuum)
2. To explore and obtain an in-depth knowledge of the motives and strategies of organisations (such as the degree of integration of products and services, the extent to which two-way interactions are characterised and the extent to which organisations are seeing themselves as integrators in terms of co-creating solutions etc.) in various stages of the productisation – servitisation continuum using the newly revised ten foundational premises (10 FPs) of the service-dominant logic of marketing as a guiding framework
3. To examine the challenges faced by organisations in various stages of the productisation – servitisation continuum using the newly revised ten foundational premises (10 FPs) of the service-dominant logic of marketing as a guiding framework

### **Brief Review of the Literature**

The move to integrating products and services into solutions or functions is called ‘Servitisation’ by Vandermerwe and Rada (1988). Almeida, Miguel and Terra da Silva (2008) defined servitisation as the offer of integrated ‘bundles’ of goods, services, support, knowledge and self-service that add value to the organisation’s core business.

In a servitised system, product and service are an integrated package and they are inseparable, that is, the core product and service elements are inextricably linked (e.g. General Motor’s OnStar in-vehicle safety and security service integrated to GM vehicles). However, a non-servitised system refers to a product with service as an add-on package such as a typical industrial product offering with service as a separate addition to the core tangible product (e.g. the traditional product related service offerings that are based on provision of spare parts and repair services) (Robinson, Clarke-Hill and Clarkson, 2002). Adoption of a servitisation philosophy can enable manufacturing organisations to improve their competitiveness as well as their organisational performances (Oliva and Kallenberg, 2003; Penttinen and Palmer, 2007; Vandermerwe and Rada, 1988; Vandermerwe, 2000).

Innovation of organisational capabilities and processes (Neely, 2009) as well as effective management of supply chains (Johnson and Mena, 2008) are required in the transition from a manufacturing to a servitised organisation (Neely, 2009) by the adoption of a servitisation philosophy. Servitisation involves a customer proposition that includes a product and a range of associated services (Johnson and Mena, 2008). As a result of this, a servitised supply chain requires the integration and synchronisation of manufacturing and service supply chains in order to deliver the complete product-service proposition to the customer (Johnson and Mena, 2008).

Similar to manufacturing organisations move towards providing services, both marketing and supply chain management have been moving from a product-centred view to service-centred view of business. Product-centred view of business is characterised by the goods-dominant logic which is focused on tangible operand resources, embedded value and transactions. On the other hand, service-centred view of business is characterised by the service-dominant logic which is focused on intangible operant resources, co-creation of value and relationships (Vargo and Lusch, 2004; Vargo and Lusch, 2008a; Lusch, Vargo and Tanniru, 2009). In goods-dominant logic, economic exchange is concerned with units of output (products) that are embedded with value during the manufacturing process whereas in service-dominant logic, service is the fundamental basis of exchange (Vargo and Lusch, 2004; Vargo and Lusch, 2008b).

According to Vargo and Lusch (2008c), the terms ‘service’ (singular) and ‘services’ (plural) have different meanings. In service-dominant logic, service is at the heart of value-creation and exchange processes (Vargo and Lusch, 2008c).

Service-dominant logic of marketing proposed by Vargo and Lusch (2004) is serving as a framework for integrating marketing and supply chain management practices (Lusch, Vargo and Tanniru, 2009).

Service-dominant logic, which is grounded in ten foundational premises (Vargo and Lusch, 2008a) emphasizes commitment to collaborative processes with customers, partners and employees (Lusch, Vargo and O'Brien, 2007). In service-dominant logic, service is the basis of exchange and it is based on the application of specialised human knowledge and skills, innovation and collaborative relationships for the benefit of the customers (Coltman, Keating and Devinney, 2007). The focus is on intangible, continuous and dynamic operant resources such as skills, information, knowledge, interactivity, connectivity and ongoing relationships (Vargo and Lusch, 2004).

In service-dominant logic, both customers and suppliers are resource integrators in consistency with the concept of the co-creation of value. Organizational partners throughout the value network as well as customers are brought into the process of co-creation of value (Cova and Salle, 2008). Thus, supply chains are viewed as “value-creation networks/constellations” (Lusch and Vargo, 2006) where each entity collaborates with other entities and integrates resources with them (Cova and Salle, 2008). Thus, according to service-dominant logic, solutions are results of value co-creation processes that involve actors from the supply networks as well as the customer networks (Cova and Salle, 2008).

The following criteria for deep relationships have to be satisfied according to the true solution strategy advocated by the service-dominant logic: (i) the integration of products with services to offer a complete bundle of benefits, (ii) a two-way interaction resulting in mutual commitments, (iii) co-creation of solutions by customers and suppliers, (iv) tailoring of solutions to customers, and (v) some absorption of customer's risk, so that suppliers' skills and knowledge are transferred to customers that lack them, (Day, 2004:18). These are particularly relevant to servitisation which is the move to integrating products and services into solutions.

Lusch, Vargo and O'Brien (2007) developed nine derivative propositions of the foundational premises of the service-dominant logic of marketing to inform marketers on how to compete on service. Bolton et al. (2004) provided commentaries of distinguished scholars on different aspects of Vargo and Lusch's seminal article. These commentaries stated how different aspects of service-dominant logic contribute to organisational competitiveness.

The transition towards a “fully servitised organisation” is not an easy process. We believe that the newly revised ten foundational premises (10 FPs) of the service-dominant logic of marketing (Vargo and Lusch, 2008a) may act as a framework or catalyst in assisting this transition. Lusch and Vargo (2008: 89) summarised the ‘new mindset’ that is needed for the effective implementation of the service-dominant logic.

## **Methodology**

The empirical research study is comprised of two phases. Ontological and epistemological positions of the researcher are modified objectivism and critical realism respectively.

The purpose of the first phase is to identify companies in the various stages of the transition from a “purely manufacturing organisation” to a “fully servitised organisation” (i.e. in various stages of the productisation – servitisation continuum) (Objective 1). This aim will be achieved by developing an identification framework for the relevant stages by using existing literature and online databases.

The purpose of second phase is exploratory. An inductive research approach will be adopted in this phase and the study will be based on a multi-case design. The aim of this exploratory phase is to explore and obtain an in-depth knowledge of the motives and strategies of organisations (such as the degree of integration of products and services, the extent to which two-way interactions are characterised and the extent to which organisations are seeing themselves as integrators in terms of co-creating solutions etc.) in various stages of the productisation – servitisation continuum using the newly revised ten foundational premises (10 FPs) of the service-dominant logic of marketing (Objective 2). The exploratory phase will also examine the challenges faced by organisations in various stages of the productisation - servitisation continuum using the newly revised 10 FPs of the S-D logic of marketing (Objective 3).

These objectives will be achieved by conducting multiple-case studies at selected organisations in Northern Ireland. In-depth interviews will be used as the main research instrument in the multiple-case studies. Key people at these selected organisations, who are in the best position to provide information regarding the objectives of this study will be identified. They will be contacted and asked for an interview.

The use of multiple-case study research strategy is expected to improve the reliability, validity and generalisability of the findings of this research study.

Utmost attention will be paid to research ethics during the conduct of the research study. Issues such as informed consent, maintaining privacy, confidentiality and anonymity, voluntary nature of participation and right to withdraw, as well as researcher's objectivity will be considered throughout the research study.

### **Main Issues or Problems**

- Is case study research strategy the best method for this research study?
- Is it feasible to concentrate on one industry or sector in this study?
- How should the theoretical sampling be done?

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