

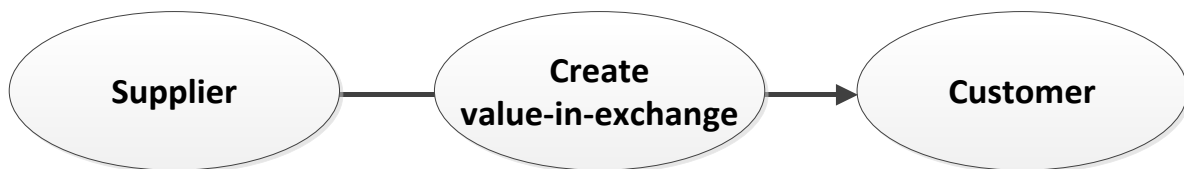
# Extending Service Dominant Logic: Proposition, Lexicon and Framework

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## Introduction

Under Goods-Dominant logic (G-D logic), the meaning of value refers to value-in-exchange, such that marketing is seen as a process of “exchange of units of output”, and “exchange of output embedded with value” (Vargo and Lusch, 2006a, p. 48). The relationship is an exchange between a supplier and its customer. The following figure illustrates a value-in-exchange based relationship: A supplier creates value-in-exchange for a customer.

Figure 1 Value-in-Exchange Based Value Creation Relationship in G-D Logic



Thus, consumers are largely seen as passive or merely facilitators of value propositions offered by an organisation. Concerns have been raised regarding the inefficiency of associated mass marketing practices and subsequent costs on society at large, but these have not yet been fully addressed (Beckett and Nayak, 2008). As marketing practices guided by G-D logic fall short of today’s more complex and competitive market (De Marez and Verleye, 2004), interest in exploring an alternative paradigm has been raised (Vargo and Lusch, 2004; Sheth and Uslay, 2007). Driving the paradigm shift from exchange to value creation (Sheth and Uslay, 2007), the evolving Service Dominant Logic (S-D logic) seeks to move marketing thinking away from G-D logic (Vargo and Lusch, 2004; Lusch and Vargo, 2006d; Vargo and Lusch, 2008c). S-D logic is a mindset proposing that exchange of service is the fundamental concern of organizations, markets, and society (Cova, Ford, and Salle, 2009; Alter, 2010). S-D logic is not a theory, but rather, it is a perspective to guide marketing theory and practice (Vargo and Lusch, 2006a; Lusch and Vargo, 2008; Vargo and Lusch, 2008b; Maglio, Vargo, Caswell, and Spohrer, 2009), and serves as a lens through which to view value creation. Eight foundational premises (FPs) were originally developed, forming the initial basis of S-D logic in 2004. They have since been revised and extended to ten FPs (Lusch and Vargo, 2006e; Vargo and Lusch, 2008d), shown in Table 1: S-D Logic Foundational Premises.

Table 1 Service Dominant Logic Foundational Premises

(FP1) Service is the fundamental basis of exchange
(FP2) Indirect exchange masks the fundamental nature of exchange
(FP3) Goods are distribution mechanism for service provision
(FP4) Operant resources are the fundamental source of competitive advantage
(FP5) All economies are service economies
(FP6) The customer is always a co-creator of value
(FP7) The enterprise cannot deliver value, but only offer value propositions
(FP8) A service-centered view is inherently customer oriented and relational
(FP9) All economic and social actors are resource integrators
(FP10) Value is always uniquely and phenomenologically determined by the beneficiary

Source: (Vargo and Lusch, 2008c, p. 7)

It is suggested here that the ten FPs can be classified into two themes that represent the essence of S-D logic: The first five FPs underpin the concept of a service-centred orientation, or a service centrality. The remaining five FPs underpin the concept of value co-creation. These two themes represent the fundamental thoughts of S-D logic: (1) service is always exchanged for service, and (2) value is always co-created. Service centrality represents the concept that value creation is a function of ‘service-for-service’ exchange, and value co-creation represents the concept that value creation is always a co-creation process. In the view of S-D logic, service refers to the application of competences for the benefit of another entity or the entity itself, and co-creation of value refers to value-in-use, which is determined through application (e.g., use or integration) of resources (Vargo and Lusch, 2004; Lusch and Vargo, 2006c; Vargo and Lusch, 2008c). Further discussion on these two fundamental perspectives of S-D logic, service centrality and value co-creation, are presented below.

### **Conceptual Development**

#### **Service-for-Service Exchange**

According to Vargo and Lusch (2006a), in order to address relational value creation in marketing, a shift to a service centred model is essential. This orientation of S-D logic is identified as service centrality. The premise suggests that what lies behind service centrality is the notion that service is always exchanged for service through relationships (Vargo and Lusch, 2008c). In other words, S-D logic sees value creation as a relational process of ‘service-for-service exchange’ (Vargo and Lusch, 2006a; Vargo, Maglio, and Akaka, 2008).

An exchange of 'service-for-service' implies all parties are both value-creators and value beneficiaries (Lusch and Vargo, 2006d), and as a result, distinctions between firms and customers become blurred. According to Lusch and Vargo (2006d), "The offerer/customer and supply/ demand distinction vanishes" (p. 285). Lusch and Vargo disagree with the notion proposed in the relationship literature of totally abandoning the concept of exchange. Instead, they suggest that S-D logic is about aligning with relational models of exchange, not eliminating its connection with exchange (Vargo and Lusch, 2006a). They insist that in terms of value creation, service is more fundamental than relationship (Vargo and Lusch, 2006a), and that "service [is] a process of the co-creation of reciprocal value, where the output of an entity is viewed as an input into a continuing process of resource integration" (Vargo and Lusch, 2008a, p. 1). This reciprocal process-driven view is entirely different from G-D logic's view of value as value-in-exchange where value is created through exchange of units of output (Vargo and Lusch, 2006a). Vargo and Lusch (2006a) claim that the idea that value is derived from exchange of output (i.e., traditional classification of goods and services) is flawed. Instead, they suggest an input view and see "services as the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself" (Vargo and Lusch, 2004, p. 2).

Adopting this perspective, the concept of service is proposed as the core of S-D logic (Vargo and Lusch, 2004). It offers a new mindset to draw focus toward value creation and resource integration, and away from debates between goods and services (Gummesson, Lusch, and Vargo, 2010). This service world-view has received wide support in the literature (Ballantyne and Varey, 2006; Grönroos, 2006; Vargo and Lusch, 2006c; Gummesson, 2008b). As Grönroos (2009) points out, service centric logic enables marketing to go beyond conventional marketing framework and models.

S-D logic's current service centric view refers to service-for-service exchange, is process driven, and focuses on reciprocal market phenomena. Such thinking can also be viewed as a limitation because non-reciprocal based marketing practices and business models are continuously growing. By non-reciprocal, what is meant, is marketing practices that are based on sharing (Belk, 2009), and do not involve an obligated reciprocity or exchange with service providers and other consumers such as with open innovation and user-generated content. This is especially the case in the context of convergent mobile online services, for example, Facebook, YouTube and Twitter. The need to consider non-reciprocal market phenomena is

also supported by Belk (2009), who notes that such phenomena are important not only to online, but also offline consumption.

### **Experience Sharing as Resource Integration**

As a result of scholarly discussions after the initial presentation of SD-Logic in 2004, Vargo and Lusch (2006a) noted that it was important to address the idea of resource integration. This led to the development and further refinement of FP9, that ‘all economic and social actors are resource integrators’, recognising the contributing roles of individuals and households to marketing (Vargo and Lusch, 2006c). However, Lusch and Vargo (2006d) have indicated that this FP still requires further elaboration and refinement. We suggest that the notion of experience sharing, as part of resource integration, can form part of this ongoing work. While it is agreed that service is the essence of value creation, there is a need to consider the applicability of S-D logic in relation to non-reciprocal market phenomena. This has not been actively addressed or explored in the S-D logic literature to date. An example of experience sharing would be consumers sharing their personalised ways of using applications with other consumers in iPhone online communities.

The value of experience sharing is supported by Belk (2009), who notes that sharing is the most important non-reciprocal market phenomenon. He defines sharing as “the act and process of distributing what is ours to others for their use, and/or the act and process of receiving or taking something from others for our use” (p. 717). As such, sharing (as with user experiences sharing) can be seen as a form of resource integration in the context of non-reciprocal market phenomena. Sharing, particularly by social actors, is yet to be considered when accounting for value creation, and value integration in S-D logic. We argue that S-D logic has not fully considered non-reciprocal based service-for-service market phenomena, and that considering sharing as a component of resources integration is important. Thus, Proposition One is proposed:

Proposition One: S-D logic has not fully addressed the phenomenon of non-reciprocal marketing and the role of sharing in value creation.

### **From Service to Betterment**

Service is distinct from goods because of its focus on processes instead of outputs. S-D logic takes a process-outcome driven approach (i.e., value co-creation process) (Lusch and Vargo, 2006c) rather than taking an outcome-process driven approach, and sees value as a function

of service (Ramaswamy, 2011). It focuses on value creation processes without first taking into account possible asymmetric desired outcomes (e.g., of firms and customers). It can be interpreted that because of its reciprocal focus, S-D logic assumes that actors (firms and customers) within a value network desire symmetric outcomes (Vargo and Lusch, 2006b). This S-D logic perspective is based on the notion that the firm should always facilitate value creation with customers by focusing on resource integration and competencies to elevate those value propositions that enhance customers' value (Vargo and Lusch, 2004). Vargo and Akaka (2009) acknowledge that firms often set their priorities based on "efficiency for the benefit of the focal service system" (p. 40), that is, efficiency for the benefit of themselves. This of course potentially places less emphasis on the "effectiveness for the benefiting service system" (p. 40), that is, less emphasis on the effectiveness for the benefiting customer. Such an approach may in reality indicate that the desired outcomes between firms and customers are asymmetric. Moreover, Grönroos (2009) argues that customers value service offerings that fulfil their desired outcomes, not the process of rendering value to deliver the promise, and that the use of a service by a customer is about becoming 'better off' (Grönroos and Ravald, 2011, p. 7). The notion of being 'better off' is important because it resembles S-D logic's 'solution mind-set' (Sawhney, 2006, p. 367).

Thus, it is argued here that S-D logic can benefit from taking an outcome-process driven approach instead of a process-outcome driven approach. The service-for-service relationship should be based on the notion of being 'better off' (Gummesson, 2008a; Grönroos and Ravald, 2011) as an outcome for the economic and social actors, rather than the processes that drive efficiency benefits for the firm over the effectiveness of benefits for the customer. In this paper, the term 'betterment' is used to represent this 'better off' concept. The notion of 'betterment' and its relation to an outcome-process driven view will be further explained later. Thus, Proposition Two is proposed:

Proposition Two: S-D logic needs to consider an outcome-process driven approach, and the notion of 'betterment' as the centre of the service-for-service relationship.

### **From Exchange to Interaction**

Grönroos (2006) argues that the service-for-service relationship should go beyond exchange to consider interaction, and points out that the interaction concept and its implications for value creation have not been examined sufficiently. Grönroos (2006) suggests that value creation is based on service-for-service interaction, and makes the case that interaction should

be a substitute for exchange theory. Moreover, he argues that service-for-service interaction comes from a customer perspective, and service-for-service exchange comes from a firm perspective. In this instance, interaction refers to a "... mutual or reciprocal action where two or more parties have an effect upon on another", and that during this "... the customers' and the firms' processes are simultaneously occurring" (Grönroos, 2009, p. 14). Grönroos (2009) further suggests that market interactions can go beyond the parties who are in direct contact with each other. He points out that through technological facilitation, there are new types of interactions where a customer can also interact with systems or infrastructure (e.g., as with search engines like Google). In short, Grönroos argues that value creation is a process of service-for-service interaction, where the notion of interaction refers to activities that two or more parties take, reflecting mutual or reciprocal actions that influence the course of each other's value creation processes.

Grönroos (2006) points out that there is a need to recognise customers as value creators in the value-creation process. In an earlier work, he argues that customers can be the 'sole creator of value'(Grönroos, 2006, p. 324). That is, while firms can actively engage in customers' value creation processes and create value for customers, customers can also create value for themselves (e.g., by initiating the development of new resources (Grönroos, 2009). This would be particularly relevant in a CMOS context where certain customers initiate the creation of personal value from the applications (or 'Apps') provided, but do not directly interact with the firm providing the apps to share their value creation. This view is further supported by Baron and Harris (2008), who outline that consumers can be resource integrators through consumption and co-consumption.

The service-for-service relationship in S-D Logic needs to further recognise consumers' active roles as initiators and mutual participants in the value creation process (a view shared by Grönroos (2006)). Thus it is argued here that S-D logic currently overlooks the customer's active role in terms of taking initiative in creating value in the service-for-service relationship, and thus, Proposition Three is proposed:

**Proposition Three: S-D logic has not fully reflected customer initiated value creation phenomena.**

Further insights regarding service-for-service interaction and customers' initiation of value creation will be discussed later.

## **Value Creation is Value Co-Creation**

Vargo and Lusch suggest that value is always co-created, and that value creation refers to co-production and co-creation of value (Lusch and Vargo, 2006c). Originally, Vargo and Lusch (2004) used the term value co-production to underpin firm-customer relationships, and this was seen as complementary to the notion of service centricity through service-for-service exchange. This highlighted consumers' active roles in value creation processes, although it objectified consumers as resources. This notion was criticised for not going far enough to recognise consumers' active roles as resource integrators for themselves (Day et al., 2004; Peñaloza and Venkatesh, 2006). Prahalad (2004) suggested further work was needed to understand how customers engage themselves in the value-creation process. In response, Vargo and Lusch (2006d) have updated their views by moving from value co-production to value co-creation. In more recent iterations of SD-Logic Vargo and Lusch propose FP9, which makes the point that 'all social and economic actors are resource integrators' (Vargo and Lusch, 2008d).

Vargo and Lusch (2004) have proposed that the meaning of value creation, termed value-in-use, is the essence of S-D logic. They suggest that service has no value unless it is used or consumed by a consumer and therefore, the concept of customers as value co-creators in a value-creating process is at the core of marketing (Lusch and Vargo, 2006c). In a later iteration, they propose value-in-context (Vargo and Lusch, 2008d) which is complementary to value-in-use. Value creation refers to service-for-service as a co-creation process, and was integrated into FP6; that 'customers' are always value co-creators' (Vargo and Lusch, 2008c).

The notion of value co-creation is continuing to evolve in S-D logic. Grönroos and Ravald (2009; 2011) continue to argue that value co-creation requires further clarification and development, and that FP6 and FP9 are too simplistic. They suggest that there is a distinct difference between resources (e.g., goods) and value. While the concept of customers being co-producers of resources with firms is clear, Grönroos and Ravald note that the concept of customers being co-creators of value remains fuzzy and confusing. They suggest that questions such as how and for whom value is created have not been explained under Vargo and Lusch's notion of value co-creation, and claim that "the concept of value co-creation has to date been treated on a level of abstraction too far removed from theoretical and practical analysis" (2011, p. 4). These authors outline the need to further conceptualise value co-creation in terms of "analysis of the scope, content and nature of value co-creation and of the

roles of suppliers and customers in a service logic based view of value creation" (2011, p. 4). Grönroos and Ravald (2011) suggest that to better understand value co-creation, it is essential to further analyse customers' roles as value creators. These ideas further highlight the third Proposition proposed; that S-D logic currently overlooks customer initiated value creation phenomena (Proposition 3).

It can be concluded from the discussion above, that although consumers' active roles have been implied in FP6 and FP9, their roles and efforts in terms of initiation of value creation need refinement and elaboration. As Arnould, Price and Malshe (2006) suggest, firms must understand how consumers integrate both their and the firm's resources to overcome their operant resource shortcomings. To address this, and to further explore customers' active roles in the value co-creation process, the concept of value co-creation can be considered from the perspectives of value creation as value-in-use, and the firm-customer co-creation relationship.

### **Meaning of Value Creation**

Fundamentally, in the view of S-D logic, value creation resides in the notion of value-in-use (Vargo and Lusch, 2004). Vargo and Lusch state that value is "a joint function of the actions of the providers and the consumers but is always determined by consumers" (Vargo and Lusch, 2006b, p. 44). The rationale is that "there is no value until an offering is used - experience and perception are essential to value determination" (Vargo and Lusch, 2006b, p. 44). The meaning of value creation as value-in-use is relational and reciprocal, and based on perceptions and experiences as captured in the idea that the customer is always a co-creator of value (FP6) (Vargo and Lusch, 2008d).

In a recent iteration of S-D logic, Vargo and Lusch extend the concept of value-in-use, and propose value-in-context to further address the experiential nature of value as captured in FP10 (Vargo and Lusch, 2008c). Value-in-context encompasses the idea that a customer's meaning of an experience is attached to produce/service bundles in relation to the context in which they are used (Vargo and Lusch, 2008d). In other words, rather than viewing value as being contained in a product, value-in-use can be extended to capture the phenomenological experience perceived by a customer interacting with bundles of products/services in use situations (Woodruff and Flint, 2006). Thus these two notions are complementary rather than mutually exclusive, and they can be used concurrently.



For the purpose of this paper, the discussion here is focused on value-in-use because it provides a new mindset for the contemporary marketing paradigm and theory, and it opens up the black box of post consumption (Grönroos, 2006). It also highlights customers' essential roles in a value creation process because it implies that the firm as a service provider, provides a service offering that is used and evaluated by consumers, and that an offer has no value until it is used by a customer. Next, firm and customer perspectives of value creation are discussed.

**Firm initiative efforts toward value creation** It is argued that although value-in-use is built upon the notion service-for-service reciprocal exchange through a relationship initiated by a firm in a value creation process, this current rationale seems to ignore that a firm may directly or indirectly create value for customers. Grönroos (2008; 2009) agrees that the meaning of value creation is captured through value-in-use but argues also that firms can co-create value (indirectly create value) with customers through service-for-service interactions. It is argued here however, that it is also possible that a firm directly creates value for customers. When consumers respond in exactly the way that is intended by service providers, the value propositions are fully appreciated by customers as they use the offering. For example, the iPhone and iPad provide many innovative experiences that consumers would not have otherwise experienced or sought to experience. When consumers use these technologies, they may say something like “I did not know what I wanted before, but this is even better than I could have imagined”. Or, “I didn't even know I wanted this, but now I find it's essential”.

It can be said that firms evaluate the level of resource integration required to be competitive, and at the same time profitable in the market. This evaluation has an effect on the level of effort (marketing effort) made in relation to the provision of *service*. That is, before value is perceived and evaluated by consumers and becomes a part of the consumer experience, the level of effort made to create value propositions embedded in a service offering is made and evaluated by the firms. Firms can endeavour to integrate these customers' efforts into their value creating process as value co-creators (Prahalad and Ramaswamy, 2004a). In this paper it is argued that the meaning of value creation in a co-creation process should not be based on current interpretations of value-in-use (e.g., Lusch, Vargo, and O'Brien, 2007), which is that “value can only be created with and determined by the user in the ‘consumption’ process”. Instead, here it is proposed that the meaning of value creation should take into account efforts made and evaluated by firms.

**Consumer initiative efforts toward value creation** Another reason for highlighting the need to further explore the meaning of value is to account for consumer initiative efforts toward value creation. It is said that value is not created and delivered by the supplier, but emerges during usage in the customer's process of value creation (Ballantyne and Varey, 2006; Gummesson and Gouthier, 2007; Grönroos, 2008). In other words, the value-in-use concept states that value for customers is created during the use of resources (Grönroos and Raval, 2011). Thus, it is important to know how consumers employ their resources to both determine and enhance their own consumption experiences, individually or collectively (Arnould, et al., 2006; Baron and Harris, 2008). As noted, the current meaning of value creation in a co-creation process (value-in-use and value-in-context) implies evaluation efforts made by customers e.g., value is always determined by consumers depending on the context (Vargo and Lusch, 2008d). It is argued here that S-D logic has only partially reflected the initiative efforts (i.e., evaluation efforts) made by customers in their value-creating process.

It can be argued that under S-D logic, the relationship between value and value propositions is a linear function because firms can only produce value propositions, and that value is a function of value propositions in a service-for-service exchange process of value creation (Vargo and Lusch, 2008d). Any value derived from outside an exchange process is neglected. This would be the case with value derived from customers' use initiation (Szmigin and Foxall, 1998), and creative ways of using an offering for a solution that is not intended or offered by service providers (e.g., the use of Gmail as an online backup hard drive). Such value need not necessarily be advocated by firms, nor indeed, be legal. Also overlooked would be value derived from customer-to-customer interaction (Nicholls, 2010), such as that seen with online communities, virtual worlds like Second Life, or with contributing video replies on sites like YouTube. It is argued here that in a value co-creation process, customers' efforts are not limited to the evaluation of perceived value propositions, and so should include initiative efforts made to create and co-create value, value propositions and offerings.

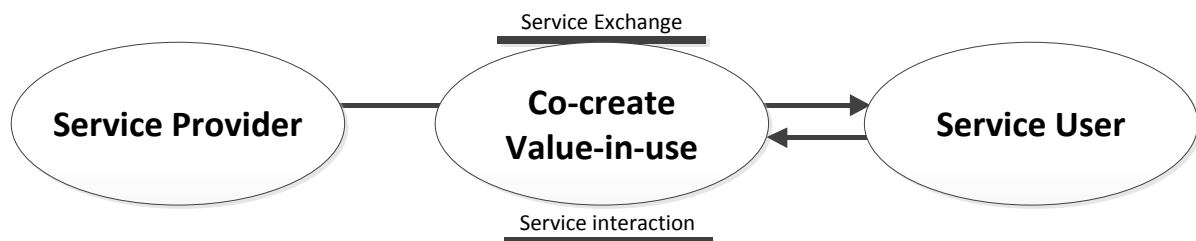
The point to be made from all of this is that the current meaning of value creation in S-D logic does not explicitly accommodate all efforts made by firms and customers. The meaning of value creation in a value co-creation process should neither focus on competencies to exchange resources (G-D logic), nor competencies as resources for exchange (S-D logic), instead, it should focus on competencies to integrate resources as co-creation. The meaning

of value creation underpinning value co-creation should go beyond evaluation based meaning, and towards an effort-based meaning of value creation. Proposition Four is thus proposed:

Proposition Four: S-D logic has not been extended to cover effort-based meaning of value creation reflecting the reality of value co-creation.

From the discussion above, a conceptual diagram can be constructed to illustrate firm-customer relationships under the different interpretations of value creation processes. Current S-D logic (Vargo and Lusch, 2008d) refers to service as the application of competencies for the benefit of others (implying a service provider-service user relationship). It implies that firms are service providers and provide service for the benefit of others (e.g., customers) (i.e., firm centricity), and customers are service users, and use service for the benefit of themselves. The figure below illustrates a value-in-use based service-for-service relationship. It shows how a service provider provides service and co-creates value with service users.

Figure 2 Meaning of Value Creation in S-D logic



### **Customers' Role as Service Providers**

Under S-D logic, value is always co-created, and customers are endogenous rather than exogenous entities to the value co-creation process (Lusch, et al., 2007). This can be considered in two parts: co-creation of value and co-production (Lusch, et al., 2007). In terms of a firm-customer relationship, Grönroos and Ravald (2011) argue that the current notions of value creation and value co-creation, as elaborated in S-D logic, are “confusing” because S-D logic “[mixes] service co-production with value creation” (p. 11). They additionally criticise its “all-encompassing use of the expression value co-creation” (p. 11), and suggest that the idea that customers are always value co-creators needs further clarification. Under the interaction perspective, Grönroos and Ravald (2009) also disagree with S-D logic on its

premise that “ firms can only produce value propositions” (Vargo and Lusch, 2004, p. 5). Instead, customers are value creators, and firms, on the other hand, are value facilitators and value co-creators (Grönroos and Ravald, 2009). In some cases, consumers themselves generate new experiences out of the use of service offerings, and use them in ways that are not intended or proposed by the service providers. In other cases, service providers do create value for customers when customers have new experiences outside of their expectations and imaginations.

In more recent iterations of SD-Logic Vargo and Lusch (2008c) characterise all actors within service systems as resource integrators (FP9). This extended notion of all actors as resource integrators implies that value co-creation involves complex interactions among firms, customers and other value-network partners (Lusch, et al., 2007; Vargo and Lusch, 2008c). With reference to the previous discussion on service centricity, the service-for-service perspective has been extended to interactions within and among all service systems (Vargo and Lusch, 2008c), and all actors are both providers and beneficiaries under the service-ecosystems (Vargo, 2009).

This paper draws away from this firm-customer perspective and the debates on the confusing nature of value creation roles (cf., value creators, value facilitators or value co-creators), and focuses on customer initiated value co-creation phenomena (e.g., co-creating value through customer to customer interactions). As addressed in Proposition 1 and Proposition 3, S-D logic currently also overlooks customer initiated value creation, and non-reciprocal market phenomena in the process of value co-creation. Non-reciprocal marketing phenomena such as open innovations and user-generated content demonstrate the importance of paying attention to customer initiated value creation processes. In the context of non-reciprocal market phenomena, customers provide services to benefit themselves and others, and thus, customers can be value creators as well as value facilitators in a value co-creation process. Customers can be service providers in customer initiated value creation phenomena. This paper argues that S-D logic currently overlooks customers’ roles as service providers because it focuses on firm initiated reciprocal value creation phenomena, and overlooks customer initiated non-reciprocal value creation phenomena. Proposition Five is therefore proposed:

Proposition Five: S-D logic currently has not been extended to recognise customers’ roles as service providers in the value co-creation process.

The five propositions proposed above highlight the need to depart from the ten updated FPs (Vargo and Lusch, 2008d) and to continue the S-D logic development.

### **Extending the Service-Dominant Logic Lexicon and Framework**

As Gummesson, Lusch and Vargo (2010) have suggested, to avoid "... being too narrow or not matching the conditions of contemporary and expected future business and social reality [, ...it is essential] to further develop a language and lexicon to describe the management of service and market economy mechanisms, consistent with a service-centred mindset" (p. 18).

It is proposed that in terms of service centricity, S-D logic can move towards a balanced centricity (Gummesson, 2008b), rather than a customer centricity. Gummesson (2008b) suggests that the current customer centric marketing concept cannot fully reflect contemporary marketing phenomena and "has not –and cannot – but partially be implemented in practice" (p. 15). He argues that a balanced centric lens should be applied to reflect the complexity of marketing which is aligned with the recent evolution of S-D logic that says that actor-to-actor (A2A) orientation should be adopted to reflect network-based value systems (Vargo and Lusch, 2010). As a result, there is an opportunity to refine S-D logic by extending the existing lexicon of terms and language used and developing an additional framework that reflects some of this thinking.

As part of this ambitious project, new additions to the lexicon of SD-logic are presented: value initiation and value initiator, value-in-experience, and betterment centricity and betterment outcomes. Firstly, the concept of 'value initiation' reflects consumers' role as service providers. Secondly, value-in-experience reflects an effort-based meaning of value creation. Thirdly, betterment centricity reflects an outcome-process driven lens of a value co-creation process.

### **Value Initiation and Value Initiator**

According to S-D logic's view (FP9), all economic and social actors are resource integrators (Vargo and Lusch, 2008c). However, as proposed in Proposition 3 and Proposition 5, S-D logic (Vargo and Lusch, 2008d) has not fully addressed customer initiated value creation, and customers' roles as service providers.

This paper argues that concepts of initiation of value and value creation already exist in discussions pertaining to S-D logic. For example, Vargo and Lusch (2006b) suggest that

firms take initiatives to provide service for their customers. Moreover, Grönroos (2006) suggests customers initiate their value-generating process using their own skills and knowledge. However, this is predominantly masked by firm initiations of value creation. As Gummesson (2007) suggests, market phenomena are more than firm initiated marketing phenomena (i.e., B2B and B2C), and that customer initiated marketing phenomena (i.e., C2C and C2B) should also be taken into account. He proposes a concept of ‘balanced centricity’ suggesting that “in long term relationships and a well-functioning marketplace all stakeholders have the right to satisfaction of needs and wants” (p. 24). Moreover, value creation takes place in a network of activities involving not just the firm and the end consumer but multiple stakeholders, such as employees, shareholders, citizens, and society” (p. 24). In the same vein, Vargo and Lusch (2010) propose an actor-to-actor (A2A) orientation which is a further iteration of FP9. Based on the A2A orientation, value creation becomes a complex exercise (Vargo, 2009) in complex value networks where value is always co-created by all actors through resource integration and service provision (Vargo and Lusch, 2010).

Thus, to account for value creation phenomena that are complex and co-creative, we propose a unified concept, namely ‘value initiation’ to clarify complex interactions among actors. This reflects that all types of actors can be both providers and beneficiaries of value creation activities in service-ecosystems (Vargo, 2009).

This paper suggests that in the view of A2A-oriented and network-based value systems, ‘value initiation’ reflects actors’ initiative efforts made towards desired outcomes. It focuses on desired outcomes (cf., outcome-process driven) and helps to interpret the value creation relationship between actors (e.g., who initiates value creation and why?) within a value system. In other words, value creation is seen as service-for-service through initiation. ‘Value initiation’ is an essential concept in the view of the A2A orientation because it focuses on identifying key actors involved in the process of value creation in A2A value creation phenomena. By highlighting the starting point of value creation, it moves away from confusing terms like value co-creator, which are caught in conventional dyad marketing relationships (i.e., B2B, B2C, C2C, and C2B).

### **Value Initiator**

The term ‘value initiator’ is proposed to capture the notion that firms, customers and other actors (e.g., government) can be service providers and users of each other’s services, in

efforts toward achieving desired outcomes. This term is useful to S-D logic because it highlights the fact that in conventional marketing literature, firms are assumed to be the ones who initiate the value creation process. In turn, it reflects the notion that (1) customers' roles as service providers, and customers' provision of services are for the benefit of self as well as for the benefit of others, and (2) the fact that firms provide services not only for the benefit of others, but for their own good as well (Gummesson, 2007; Vargo, 2009).

### **Further support for value initiation and value initiator**

It is recognised that the concepts of change in customers' desired value (i.e., customer value change), and initiators of change in customers' desired value, were proposed by Flint and Woodruff (2001). This was the first marketing literature to provide the foundation for conceptualising value initiation and value initiators, and underpins the continuous nature of value co-creation.

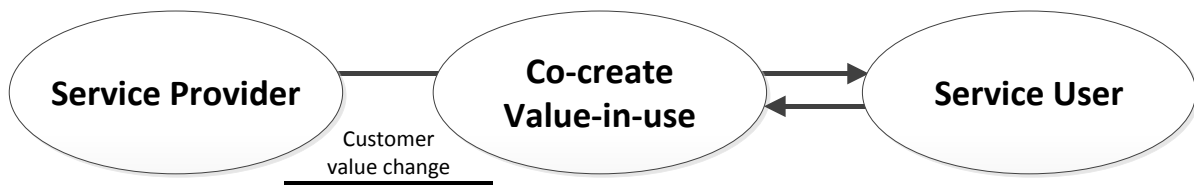
According to Flint and Woodruff (2001), customer value change is related to customer received value and customer desired value. Customer received value refers to the value customers actually experience from using a service and is similar to value-in-use. Customer desired value refers to the value customers want to receive from service providers.

Importantly, customer desired value and customer received value are dynamic (Flint and Woodruff, 2001), and Flint and Woodruff suggest this dynamic nature gives room to customer value change. This change is driven by tension derived from the inconsistency between received and desired value (Flint and Woodruff, 2001). Based on the foregoing discussion, it is likely that this tension also derives from asymmetric outcomes between firms and customers, and that it will always exist. As such, customer value change can be considered as an on-going rather than a fixed concept.

It is postulated that there are different ways to reduce this tension. It can come from either initiative efforts made by firms (Flint and Woodruff, 2001), for example with the provision of better service, or from initiative efforts made by customers (Flint, Woodruff, and Gardial, 1997), for example through changing suppliers. Furthermore, if consumers' desired outcomes strongly deviate from what firms can deliver or facilitate, they may choose to make their own effort with other consumers to close the gap between received value and desired value. As a result, it is argued here that the easing of tension not only comes from firm initiated efforts but also from consumer initiated efforts. Thus, customer desired value changes can be driven by 'nonmarketer controlled forces' (Flint and Woodruff, 2001).

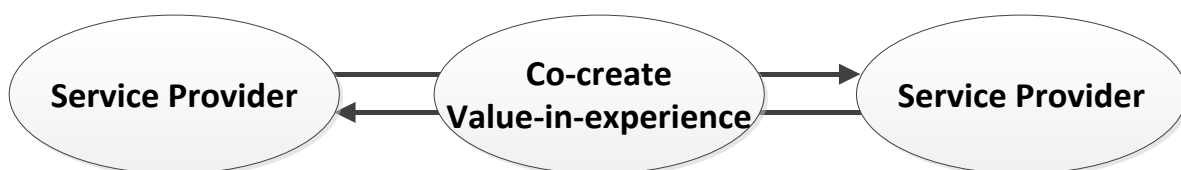
Flint and Woodruff (2001) point out that there can be a gap between desired and received value, and that there is a distinctive role for actors within the value networks who make efforts to close the gap between desired and received value. They also suggest that competitive advantage can be obtained if the future state of knowable initiators of change, who cause customer value change, is better understood (Flint and Woodruff, 2001). In other words, firms desired outcomes (i.e., competitive advantages) can be achieved through collaboration with customers who are initiators of customer value change. As illustrated in Figure 3 below, the current S-D logic has not fully addressed customer value change. It does not fully explain “how and why service users voluntarily participate in value co-creation?”

Figure 3 The Service-for-Service Value Co-Creation Relationship and the Gap



Currently, Flint and Woodruff’s (2001) work focuses on service – customer interaction in a B2B context. This paper suggests that the relevance of their work is not limited to B2B contexts but can be extended to the context of A2A. Thus, through an A2A lens, it can be suggested that it is useful to conceptualise ‘value initiation’ as a value creation phenomenon consisting of complex and co-creative interactions of all actors, and ‘value initiators’ as actors who make initiative efforts to close gaps between received and desired value. Value co-creation phenomena are on-going interactions between service providers. The figure below illustrates value-in-experience and its underlying implications to service-for-service interactions and initiation, in line with the actor-to-actor (A2A) interaction (Vargo and Lusch, 2010).

Figure 4 The A2A Experience-for-Experience Relationship





In short, the initiation and value initiator concepts proposed above, support S-D logic's actor-to-actor orientation (Vargo and Lusch, 2010), perceiving value creation through a network lens. They illustrate a focus on nodes (value initiator) as well as on links (value creation through initiation) in value networks.

### **Value-In-Experience as an Effort-Based Meaning of Value Creation**

As mentioned earlier, the meaning of value creation resonates with co-creation and underpins the firm-customer relationship through a lens of service-for-service exchange. Currently, the meaning of value creation is value-in-use, and by extension, value-in-context (Vargo and Lusch, 2008d). This thinking is derived from the FP6 and FP10 that states the customer is always a co-creator of value based on the premise that until an offering is used there is no value, and that phenomenologically, consumer experiences and perceptions are essential to determining that value. It is argued here that the conceptualisation that the customer is always a co-creator of value, and the firm is a facilitator of that value implies that S-D logic does not fully account for efforts made by customers, especially in a customer initiated value-creating process, either with other customers or with firms. It is also argued that currently value-in-use is evaluation-based where value is always determined by consumers. This does not reflect a co-creative, effort-based view where value creation is a joint function of integration efforts made by all actors (Vargo and Lusch, 2010).

As a result, value could be conceptualised to include both efforts made in value co-creation through interaction and evaluation of meaning. It is proposed that value-in-experience should identify value as a function of value co-creation efforts made by all actors, including efforts of evaluation. It is suggested here that the term value-in-experience is more aligned with effort-based value creation. This paper argues that value-in-experience is needed to truly reflect (1) a marketing fulfilment mindset (Grönroos, 2009), and (2) an effort-based meaning of value creation in a value co-creation process.

Firstly, value-in-experience represents an effort-based meaning of value creation that is essential to S-D logic because it is aligned with a marketing fulfilment mindset (Grönroos, 2009). Grönroos (2009) argues that marketing is not about marketing a promise of value but about value fulfilment. This view can be extended to suggest that the meaning of value co-creation is not only based on the value determination mindset of making a promise and evaluating that promise (Vargo and Lusch, 2006c), but it should also be associated with

fulfilment and efforts made to fulfil the desired outcomes. It is argued here that the meaning of value creation should imply or reflect co-creation efforts made together to fulfil the experience between firms, customers, and value network partners towards desired betterment outcomes.

Secondly, value-in-experience is grounded in the notion that consumer value is an interactive relativistic preference experience (Holbrook, 1999) and that value is embedded in individuals' personalised experiences (Payne, Storbacka, and Frow, 2008). However, the definition of value-in-experience proposed here goes beyond its current evaluation based focus (Arnould and Thompson, 2005; Holbrook, 2006; Woodruff and Flint, 2006) which is an effective, contextual, non utilitarian meaning of an evaluation outcome of a customer (Payne, et al., 2008). Instead, Prahalad and Ramaswamy (2004c) suggest that there is a move away from those goods and services centric models to more recent models where value is embedded in experiences. They also identify that a move to an experience-centric view of co-creation, creates new and exciting opportunities (Prahalad and Ramaswamy, 2004b). It is suggested that S-D logic should go further to adopt an experience centric co-creation view. That is, value is not derived from the consumption of goods and services, but is embedded in the actual personalised experiences created through engagement and involvement (Prahalad, 2004).

This effort-based meaning of value creation is termed value-in-experience and the following discussion pursues this view further.

### **Conceptualising Value-in-experience**

Value-in-experience is defined here as an effort-based value. It is the currency of value co-creation (i.e., a driver of value co-creation) and leads to closing the gap between 'received value' and 'desired value' (Flint and Woodruff, 2001). In the B2B context, Flint and Woodruff (2001) propose that the concept of customer desired value refers to "the value that customers want to receive from products/services and their providers" (p. 322). Customer desired value is different from customer received value, and personal values because (1) it is broader than merely desired attributes of service, (2) it is beyond what customers actually experience through specific product customer interactions, and (3) it is dynamic and occurs in customers' use situations and use occasions (Flint and Woodruff, 2001, p. 323). Personal values, however, are relatively stable and reflect "ultimate end-states of existence desired by

individuals (Flint and Woodruff, 2001). By definition, personal values refer to “the central, core, enduring beliefs that guide customer behaviours across situations” (Flint and Woodruff, 2001, p. 323).

This paper proposes that customer received value is similar to value-in-use (Vargo and Lusch, 2004), and that customer desired value can refer to value-in-context (Vargo and Lusch, 2008d). It is argued that neither value-in-use nor value-in-context explicitly reflect higher order changes in customer desired value. They suggest that changes in customers’ desired values might be caused by specific factors rather than at random, and that therefore there is a need to understand these changes. In this paper, value-in-experience is conceptualised to capture value derived from efforts made by actors, which is added to customer received value to achieve customer desired value. In other words, value-in-experience refers to value derived from efforts made to fulfil the gap between customer desired value and customer received value. It is proposed here that value-in-experience as an effort-based value is the currency of value co-creation (i.e., a driver of value co-creation) that leads to closing the gap between received and desired value.

### **Betterment Centricity and Betterment Outcomes**

In relation to the outcome-process driven approach argued (see Proposition 2), S-D logic needs to be extended to cover the essence embedded in being ‘better off’. For the purpose of this paper, the term ‘betterment’ will be used to reflect this concept. Moreover, the term ‘betterment centricity’ will be used to represent an outcome-process driven mind-set. This is intended to replace the current process-outcome driven service centricity mindset with a focus on closing the gap between received and desired value. It reflects value initiators’ efforts to co-create value with the goal of achieving desired outcomes.

The concept of betterment centricity is resonant with S-D logic. For example, Grönroos suggests that using a service is about becoming ‘better off’ (Grönroos and Ravald, 2011, p. 7), or customer centric companies are ‘better off’ (Gummesson, 2008a). Moreover, using a service is a way to leverage resources through resource integration (or sharing) because of the service emphasis on “the application of improvable operant resources (i.e., knowledge and skills) as the basis for the co-creation of value” (Vargo and Lusch, 2006b, p. 50).

Furthermore, S-D logic is claimed to be pro-environment and pro-education, which means it focuses on improvement of social and economic conditions (Lusch and Vargo, 2006a).

It is proposed here that betterment centrality is a more fundamental concept, which is embedded in ‘service’, and is currently masked by a process driven view of S-D logic. It is argued that taking an outcome-process driven view, the concept of betterment centrality is essential, because it does not merely focus on service as value creation through resource integration, but it highlights that the provision of service is for the benefit of another entity as well as self. The concept of betterment centrality highlights the importance of understanding why actors participate in value co-creation, an aspect that needs extension, and consequently its influence on value creation has not been explored.

In addition, betterment centrality is important because it also highlights that S-D logic resembles a solution mind-set (Sawhney, 2006). It reflects actors’ desires/ willingness to make efforts to fulfil the gap between received and desired value, and it is about deriving new experiences. Moreover, the concept of betterment centrality focuses on the solutions and mutual benefit (symmetric outcomes) that can be achieved through co-creating value without overlooking the fact that actors may have asymmetric desired outcomes (tensions) when they initiate/engage in a value co-creation process.

In turn, we propose that betterment outcomes refer to ultimate desired outcomes that are mutually beneficial, and are achieved through an iteration of efforts made by value initiators to close the gap between received and desired value. For example, they can refer to betterment of life (consumer initiated) or brand equity and sustainable profitability (firm initiated). Thus, under betterment centrality, betterment outcomes are mutually beneficial for firms and customers and can be symmetric or asymmetric within or among service systems.

Finally, it is important to note that the concept of betterment centrality proposed here is in relation to outcome drivers. It is different from a process-outcome driven perspective that suggests “the provision of better service is the goal of most providers ...” (Oliver, 2006, p. 122). Instead, betterment centrality refers to a mindset reflecting the provision of service to enhance service providers’ and users’ desired outcomes. It is the fulfilment of desired outcomes that service is valued for, not the process of rendering value to deliver promises (Grönroos, 2009).

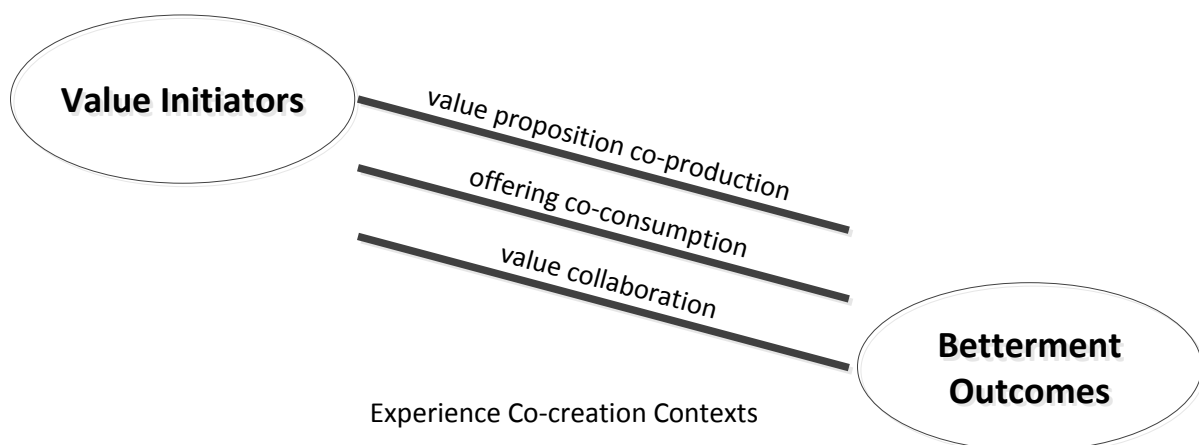
### **An Outcome-Process Driven Value Co-Creation Process**

According to Vargo and Lusch, value co-creation can be unfolded into value co-creation and value co-production in terms of value-in-use (Lusch, et al., 2007). As noted previously,

Grönroos and Ravald (2009; 2011) argue that the current notions of value creation and value co-creation as elaborated in S-D logic are “confusing” because S-D logic “[mixes] service co-production with value creation” (p. 11) as well as its “all-encompassing use of the expression value co-creation” (p. 11). Moreover, with value co-creation in S-D logic, “marketing is a continuous social and economic process, largely focused on operant resources ...” (Lusch and Vargo, 2006c, p. 105). Value co-creation allows entities within or amongst service systems to leverage limited resources through co-production, collaboration, co-participation and other value creating processes (Lusch and Vargo, 2006c).

We suggest that since value-in-experience is proposed to underpin the meaning of value creation, value co-creation needs to be refined to reflect this meaning of value creation. It has been suggested that value co-creation can be unfolded further into three processes by experiential timing; pre-experience, customer experience, and post-experience (Tynan and McKechnie, 2009). We propose that value co-creation can be divided into value propositions of co-production (pre-experience) (Vargo and Lusch, 2004), offering co-consumption or co-participation (customer experience) (Baron and Harris, 2008; Pongsakornrunsilp and Schroeder, 2009), and value collaboration (post-experience) (Beckett and Nayak, 2008). These three types of value co-creation are termed experience co-creation contexts. An outcome-process driven value co-creation process is presented in Figure 5 below.

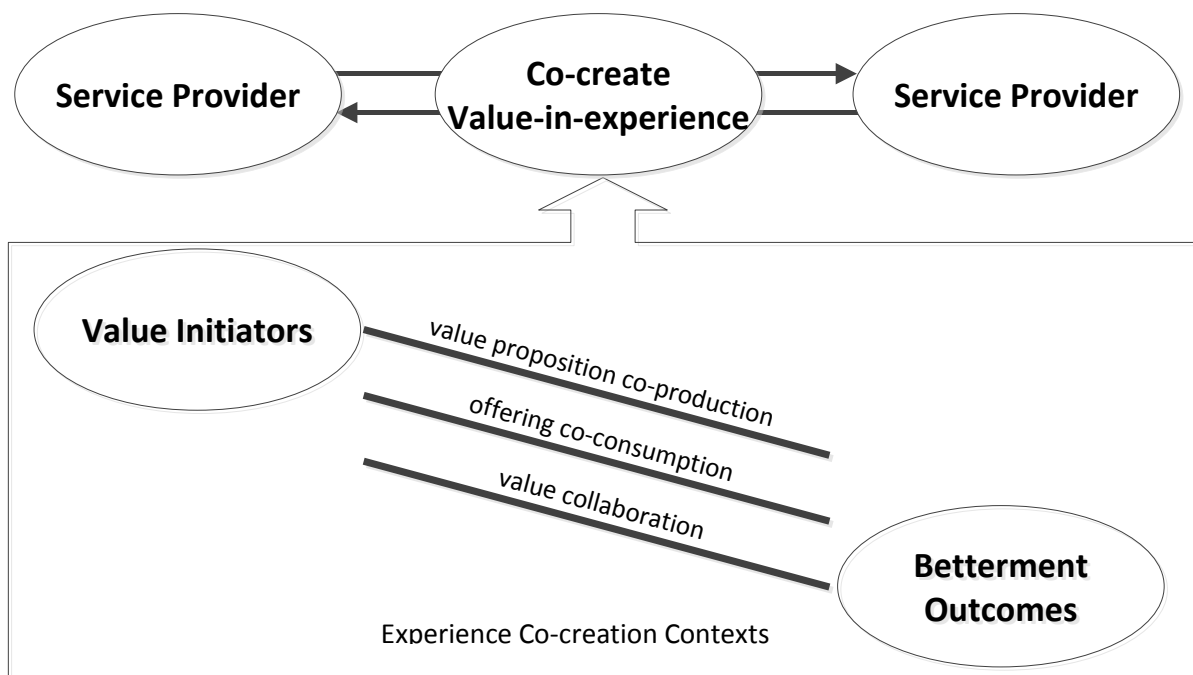
Figure 5 An Outcome-Process Driven Value Co-creation Process



## Experience Co-Creation Framework

From the discussion above, we propose a framework: the Experience Co-creation (ECo) framework. Figure 6 is a combination of Figure 4 and Figure 5 presented earlier, and represents the ECo framework. This framework incorporates and expands the lexicon in SD-Logic to include three new concepts to underpin the co-creation of value, namely value initiation and value initiator, value-in-experience, and betterment centricity and betterment outcomes. The ECo framework shows that value initiators make efforts toward achieving their desired betterment outcomes. Both firms and consumers can be value initiators (service providers), and are benefactors as well as beneficiaries who co-create value-in-experience for themselves and/or for others (Vargo, 2009). In short, the ECo framework is proposed to explain an outcome-process driven value co-creation illustrating that (1) value initiation is a starting point of the value co-creation process; (2) value-in-experience is the currency of the service-for-service relationship as a value co-creation process; (3) value initiators make efforts toward achieving betterment outcomes, and (4) the value co-creation process consists of value proposition co-production, offering co-consumption and value collaboration. The ECo framework is presented in Figure 6 below.

Figure 6 Experience Co-Creation Framework



## Conclusion

This paper makes key contributions to theory by providing the framework is embedded with an ‘S-D logic friendly lexicon’ (Lusch and Vargo, 2006d), reflecting five propositions identified based on the review of the ten foundational premises of S-D logic (Vargo and Lusch, 2008d). The conceptualisation of the ECo framework presents a new opportunity for extensions for S-D logic to further accommodate consumer initiated, non-reciprocal, value co-creation marketing phenomena. The ECo framework informs the most recent Actor-to-Actor orientation and network-world-view emerging from consolidated works of S-D logic (Alter, 2010; Gummesson, et al., 2010; Lusch, Vargo, and Tanniru, 2010; Vargo and Lusch, 2010). Most importantly, it offers an initiation-driven, effort-based and betterment-centric mindset complementing to the continuous evolution of S-D logic. It is expected that this synthesised outcome-process driven framework will resonate with a betterment centric logic, and will provide a new avenue for future research. It is also important to note that the notion of betterment centricity does not compete with that of service centricity in S-D logic, but is a further iteration of the essence of a solution-mindset in the service economy/system. The conceptual findings can be summed up as follows:

Just as service centricity reflects service-for-service through interaction, betterment centricity abides by the view that experience-for-experience through initiation for betterment is a mindset for service economy.

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