Thinking Out Loud (1.0)

S-D
Logic

Presented by:
Robert F. Lusch, University of Arizona
Stephen L. Vargo, University of Hawaii

June 18, 2009

Stream of Consciousness

➢S-D logic & Performance

➢The Culture of Iterating and Doing

➢The Market as Dialogue

➢Managing

S-D LOGIC & PERFORMANCE

S-D logic & Performance

➢S-D logic reduces errors and reduced errors leads to higher performance.

S-D logic & Performance

➢S-D logic reduces errors and reduced errors leads to higher performance.

➢S-D logic engages actors (employees, customers, suppliers). Engaged actors are involved. When actors are involved they work harder and performance rises.

S-D logic & Performance

➢S-D logic reduces errors and reduced errors leads to higher performance.

➢S-D logic engages actors (employees, customers, suppliers). Engaged actors are involved. When actors are involved they work harder and performance rises.
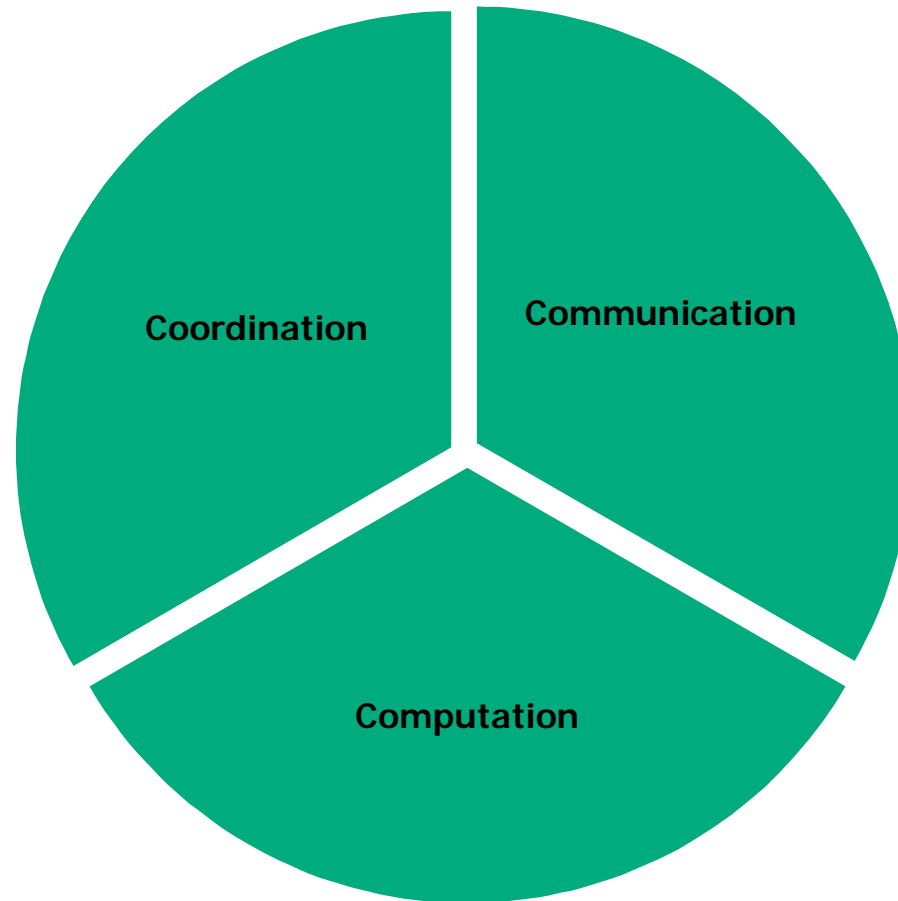
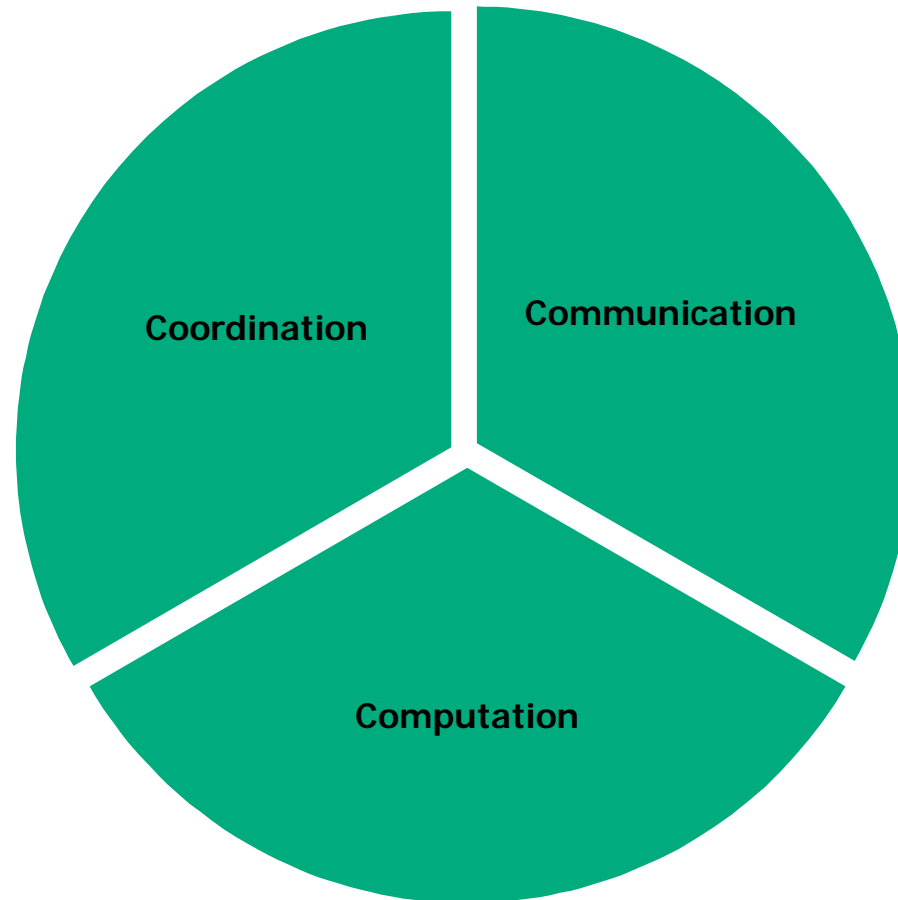➢S-D logic is a "better" way to practice business.

Where to Focus?

Service Effort

Service Effort

S-D Logic

Coordination

Communication

Computation

All businesses are service businesses and virtually all of the costs of business are service costs.

Service Effort

- **Reflecting on the Macrocosm**

- **Reflecting on the Microcosm**

Thinking Out Loud (1.0)

THE CULTURE OF
ITERATING & DOING

The New Cultural Reality

The third culture creates new tools faster than new theories, because tools lead to novel discoveries quicker than theories do. The third culture has little respect for scientific credentials because while credentials may imply greater understanding, they don't imply greater innovation. The third culture will favor the irrational if it brings options and possibilities, because new experiences trump rational proof.

- Kevin Kelly

New Cambrian Explosion

BIOLOGICAL WORLD

1. Simple organisms
2. Individual cells dominated

3. Occasionally organized into cells
4. Then about 530 million years ago there rapidly evolved major groups of complex animals

SOCIO-ECONOMIC WORLD

1. Simple organizations
2. Individual organizations dominated (often fully integrated)
3. Occasionally organized into supply chains
4. Then the Internet emerged, converged, and proliferated and what evolved were major groups of complex value networks

	Biological World	Socio-Economic World
5.	455 days per year	365 days per year
6.	19 hours a day	24 hours a day
7.	Spread out of oxygen	Spread out of IT as network (www)
8.	All living entities have access to oxygen	All humans have access to information
9.	Oxygen is no more scarce	Information is no more scarce = no economic value
10.	Life is independent of time and space (water)	Appl. of information is independent of time and space?
11.	Entities are free "to choose" where to live	People are free to choose where to apply info

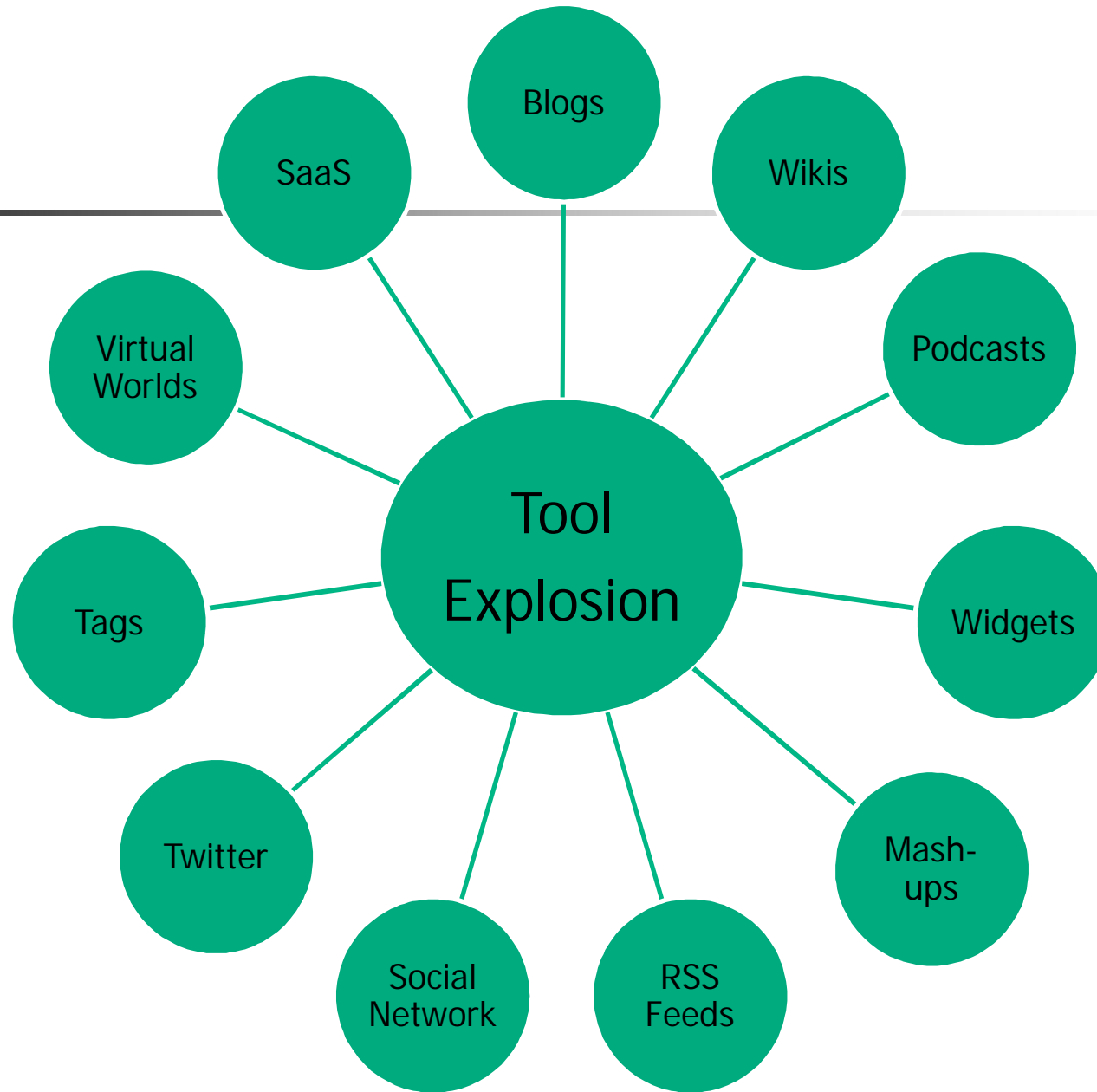S-D Logic

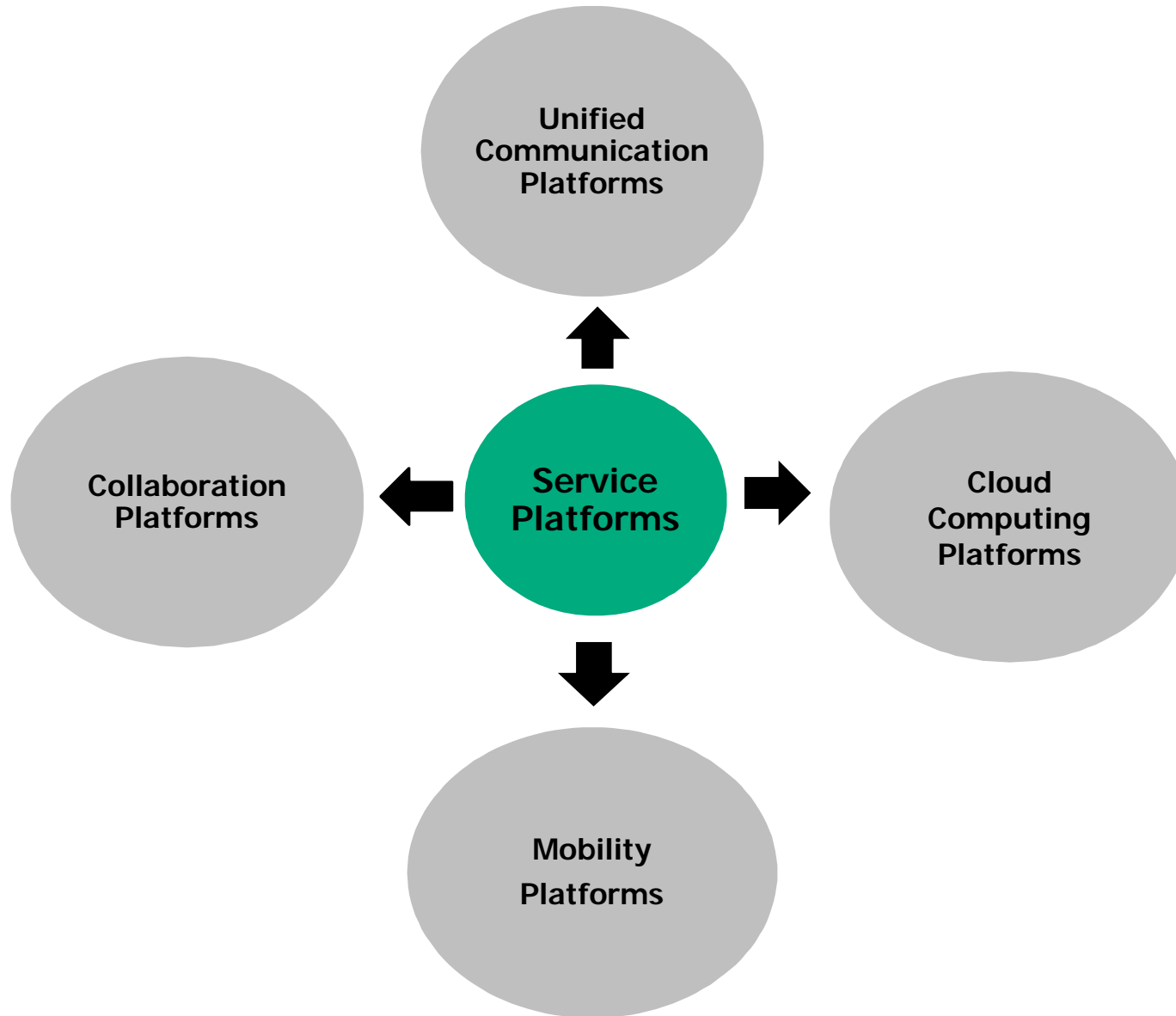|	**Biological World**	**Socio-Economic World**
S-D Logic 12.	Life developed around the globe	12. Appl. of information = service develops around the globe.
13.	Diversity of species expanded.	13. Diversity of services expands.
14.	New forms of coalitions develop (herds, groups etc.)	14. New forms of coalitions to co-create service and value develop.

Source: Robert Lusch and Helge Lobler

S-D
Logic

Blogs

SaaS

Wikis

Podcasts

Virtual
Worlds

Tool
Explosion

Widgets

Tags

Twitter

Mash-
ups

Social
Network

RSS
Feeds

Emerging Service Platforms

Alexa Global Traffic Rankings

S-D
Logic

Rank	2005	2008	2009
1	yahoo.com	yahoo.com	Google.com
2	msn.com	google.com	Yahoo.com
3	google.com	youtube.com	Youtube.com
4	ebay.com	live.com	Facebook.com
5	amazon.com	facebook.com	Live.com
6	microsoft.com	msn.com	msn.com
7	myspace.com	myspace.com	Wikipedia.com
8	google.co.uk	wikipedia.org	Blogger.com
9	aol.com	blogger.com	Baidu.com
10	go.com	hi5.com	Yahoo.co.jp

Ranking as of: (1) 12/31/05; (2) 11/24/08; (3) 5/29/09
Source: Alex Global Traffic Rankings

Emergence of the Semantic Interactive Collaborative Web

S-D
Logic

WEB 1.0	WEB 2.0
Speak to Customer	Conversation with Customer
Customer is Passive	Customer is Experiencing
Customers Locate Content	Customers Offered Service
Push Messages Out	Pull Customers In
Standardized Mass Produced Messages	Customized and Relevant Exchange of Messages
Seller Control	Customer Control

Emergence of the Semantic Interactive Collaborative Web

WEB 1.0	WEB 2.0	WEB 3.0
Speak to Customer	Conversation with Customer	
Customer is Passive	Customer is Experiencing	
Customers Locate Content	Customers Offered Service	
Push Messages Out	Pull Customers In	
Standardized Mass Produced Messages	Customized and Relevant Exchange of Messages	
Seller Control	Customer Control	

Web 3.0:
A Service Ecosystem?

S-D
Logic

A service ecosystem is a network of spatially and temporally arrayed social and economic actors that exchange resources and are connected via value propositions, language, technology and norms.

Web 4.0: A Density Seeking System??

- Maximum density is "the best combination of resources which is mobilized for a particular situation—e.g., for a customer at a given time in a given place—independent of location, to create the optimum value/cost result." (Norman 2001).
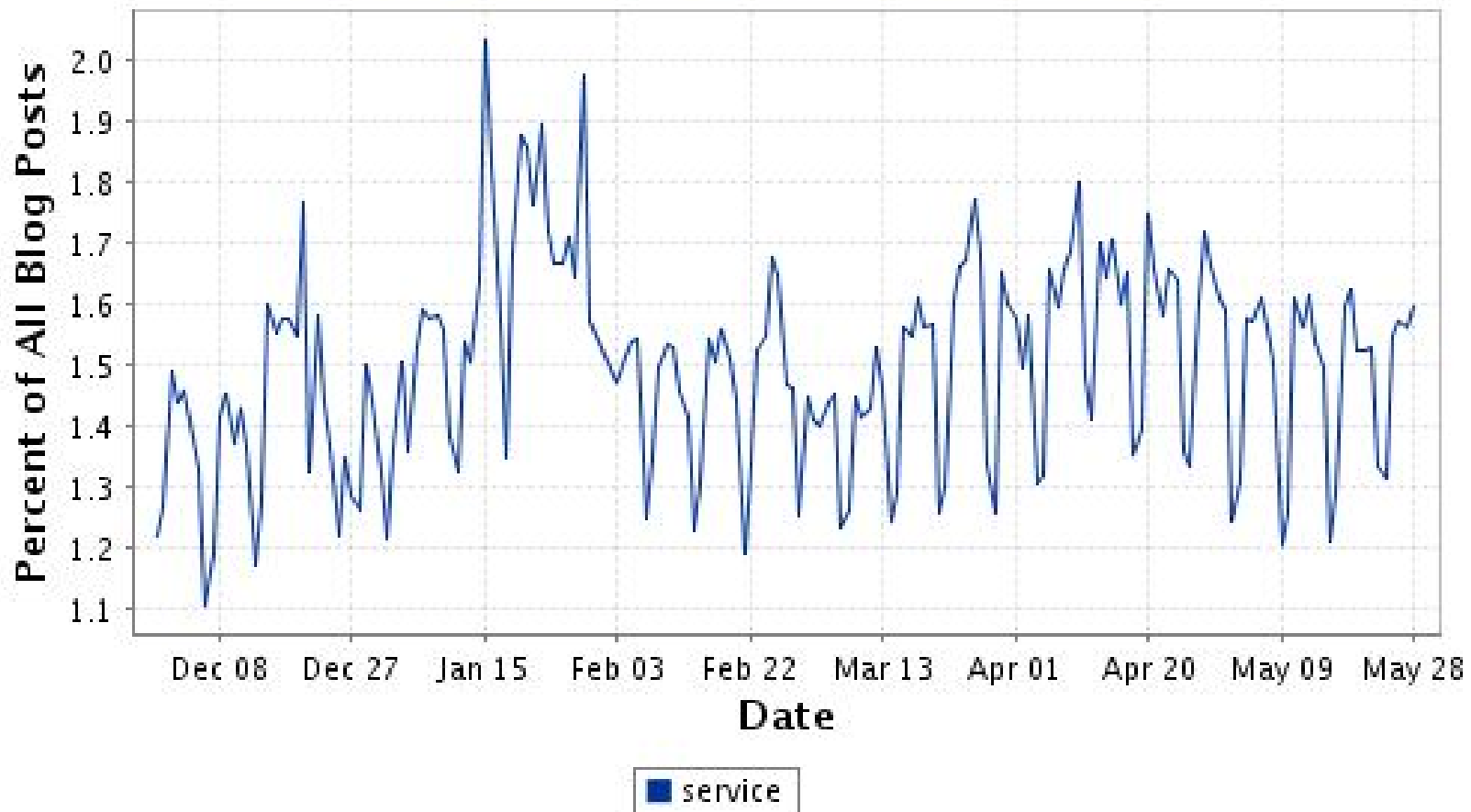
THE MARKET AS DIALOGUE

U.S. Presidential Election:
Service as Dialogue

Generated by BlogPulse Copyright 2009 The Nielsen Company.

Michael Dell, 2007 International Consumer Electronics Show

AP Photo/Damian Dovarganes

Avg. Words/Sentence: **16.5**
Lexical Density: **26.3 %**
Hard Words: **6.4%**
Gunning Fog Index: **9.1**
Video   Text

The Market as Dialogue

advanced alienware announcing awesome bandwidth broadband cable cancer ces challenge com computer consumers cool cpu desktop digital downloaded dvd environmental exciting exponentially fact families focused free gamers gaming gear global graphics great home incredible innovations internet korea labs love massively media migrate monitor notebook okay online partners phone photos processor recover recycling rob science seamless sneak terabyte tuner users video vista warcraft worldwide yeah

Bill Gates, 2007 International Consumer Electronics Show

AP Photo/Damian Dovarganes

Avg. Words/Sentence: **21.6**
Lexical Density: **21.0%**
Hard Words: **5.11%**
Gunning Fog Index: **10.7**
Video | Text

The Market as Dialogue

advances advantage backup browse capability click cool deliver devices digital everywhere expand fact feedback files flour ford foundational grandma graphics great hardware hey home incredible innovation interaction interface internet investing keynote love marketplace media milestone multiple neat notices okay partners pcs phone photos portable rich richer scenarios screen selecting server simple simplicity space strength terabytes touch ultra updating users video vista windows wireless xbox

Steve Jobs, 2007 Macworld Conference and Expo

AP Photo/Paul Sakuma

Avg. Words/Sentence: **10.5**
Lexical Density: **16.5%**
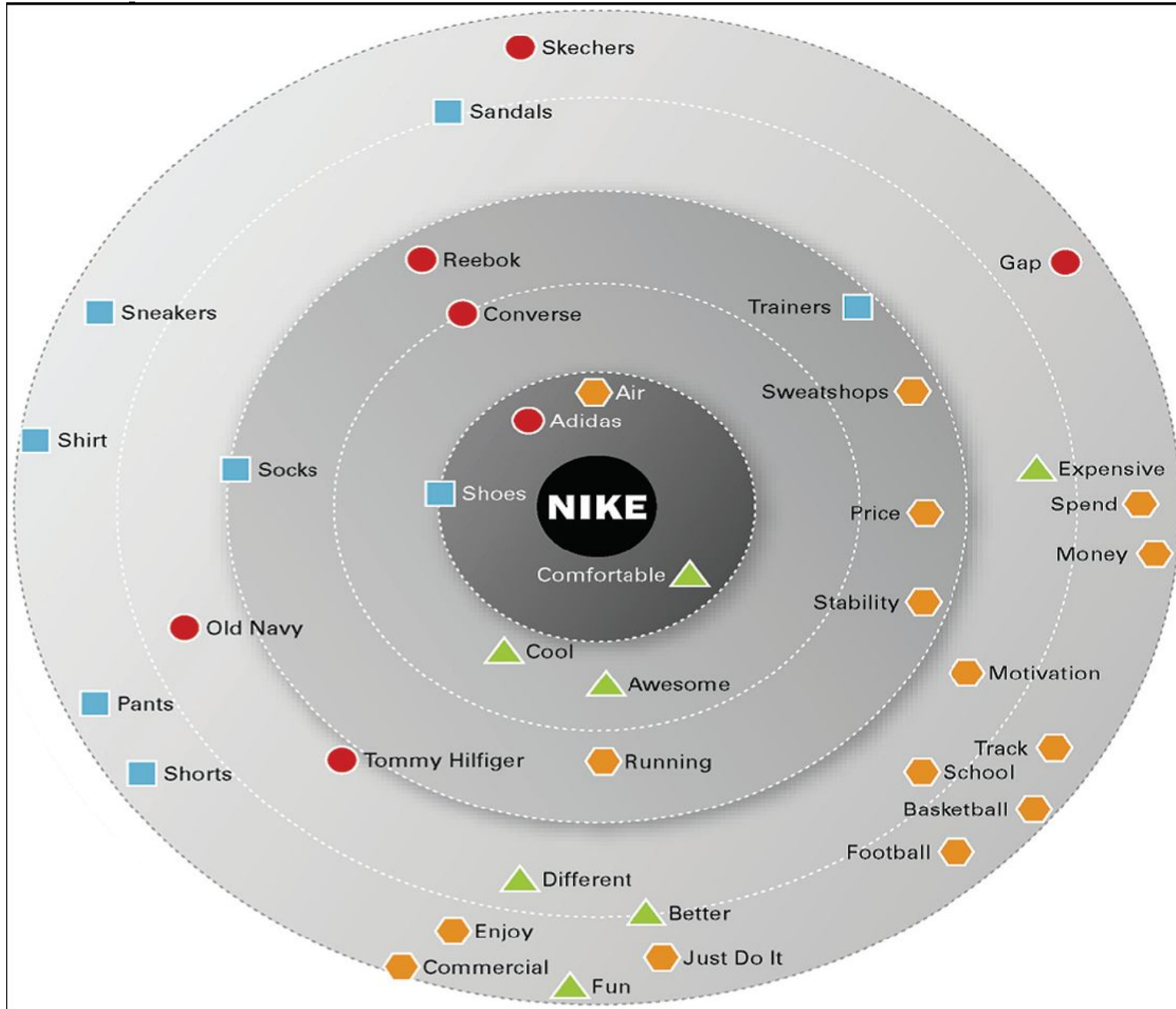Hard Words: **2.9%**
Gunning Fog Index: **5.5**

The Market as Dialogue

album amazing amazon app appletv audio automatically awesome boom breakthrough browser button calendars communicator computer cool device digital favorites google gorgeous great home imap incredible intel interface internet iphone ipod itunes itv keyboards love mac macbook maps message networking phone photos playlists processors revolutionary rich satellite screen scroll sensor simple sms starbucks stream synch touch unbelievable update user video wallpaper web widescreen widgets yahoo

BRAND AS A CENTRAL ELEMENT OF DIALOGUE

Source: Nielsen

The Market: Changing Views

TOM'S SHELL

Self Serve — Cash or Credit

Regular — ARM 9

Plus — LEG 9

Premium — First Born 9

Traditional View

- Economic Exchange

- A Point in Time
- Exchange of Value
- Price = Coordination

- Resource Allocation

- Channel or Chain

Market as Dialogue

- Economic & Social Exchange

- A Continuous Process
- Exchange of Meaning
- Communication = Coordination

- Resource Integration

- Network and Systems

MANAGING

New Organizational Realities

Old Reality	**New Reality**
Hierarchical Control	Grounded Control
Rigid Structures	Flexible Structure
Centralized Management	Distributed Management
Defined Boundaries	Fuzzy Boundaries
Secretive	Transparent
Closed System	Open System
Supply Chains	Value Networks
Produce & Store	On-Demand
Optimizing	Adaptive & Learning
Planning	Improvising

G-D logic

S-D Logic

- Analysis
- Planning
- Implementation
- Control

S-D logic

Sensing & Anticipating
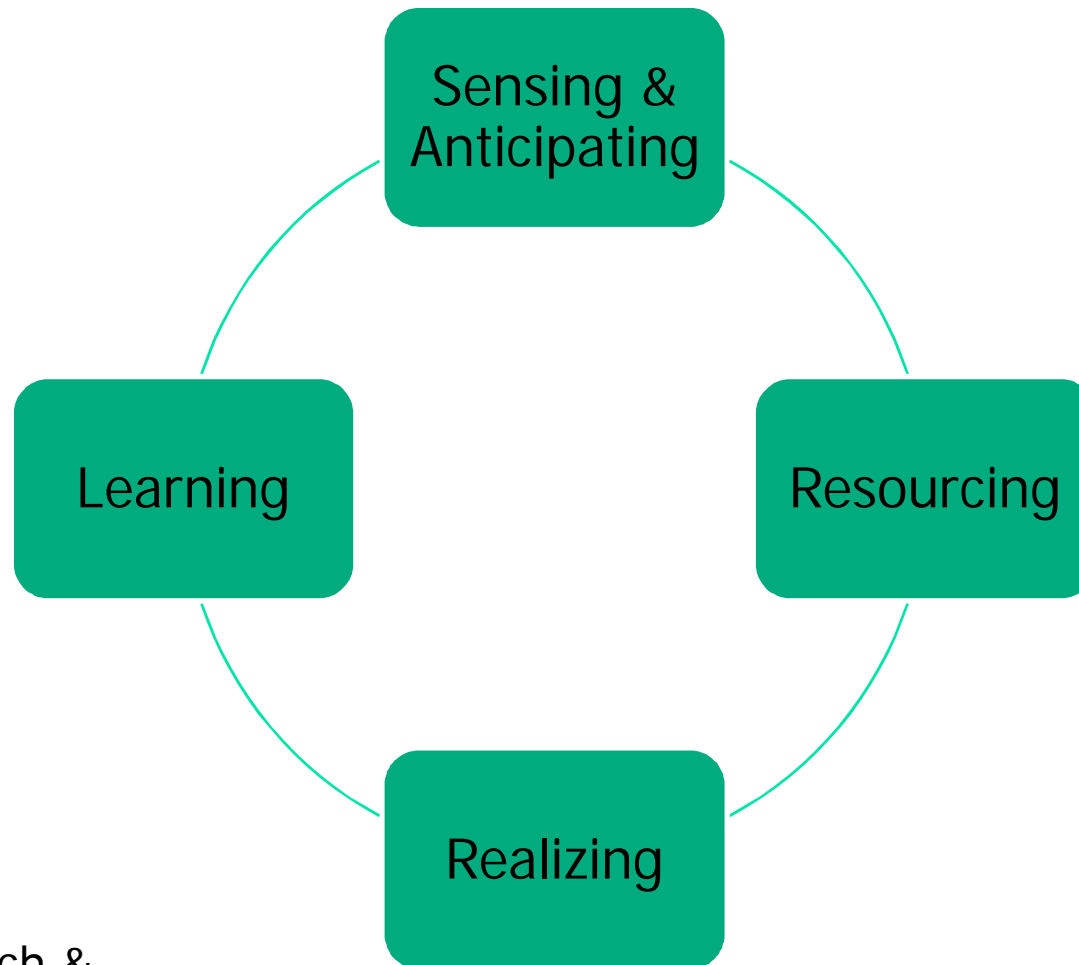
Resourcing

Realizing

Learning

Source: Robert Lusch & Frederick Webster

S-D logic

Sensing & Anticipating

Learning

Coproducing & Cocreating

Resourcing

Realizing
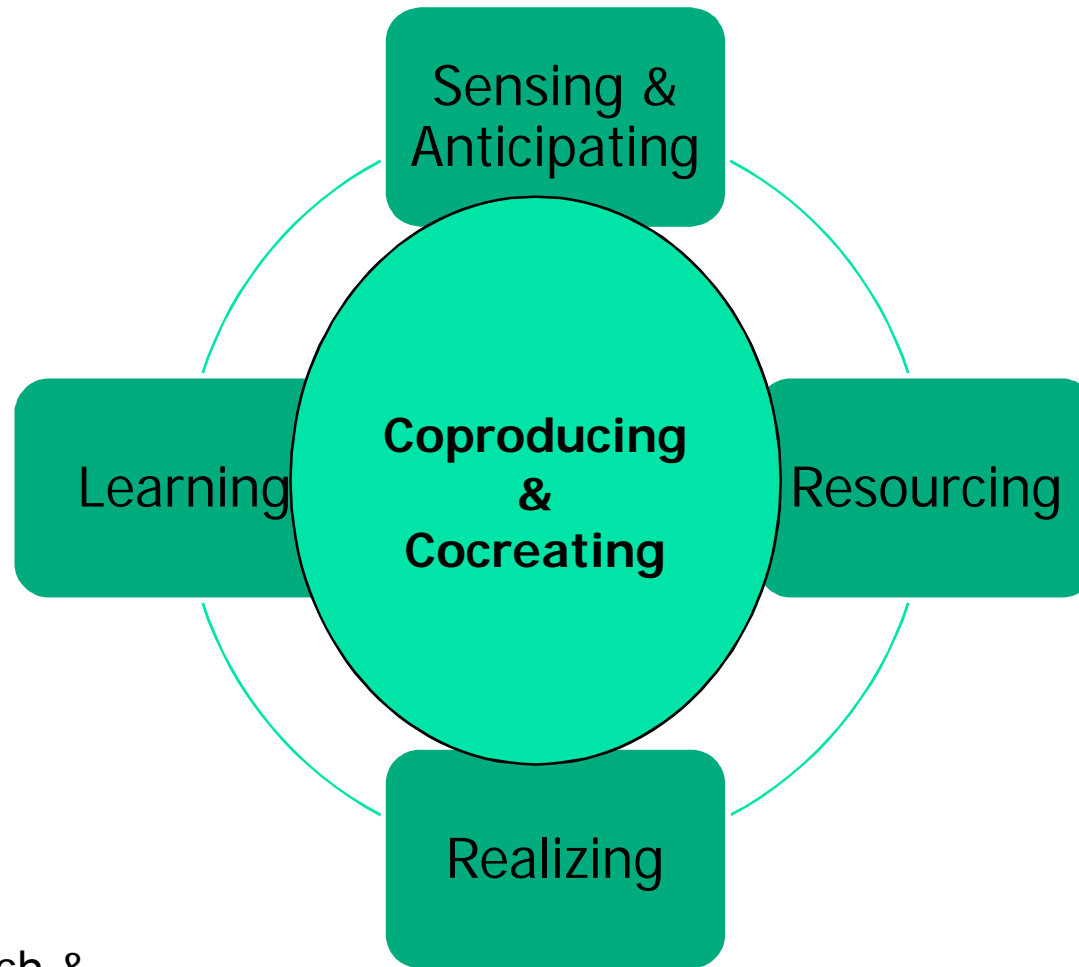
Source: Robert Lusch & Frederick Webster

S-D Logic

Thank You!

For More Information on S-D Logic visit:

sdlogic.net

We encourage your comments and input. Will also post:
- Working papers
- Teaching material
- Related Links

Steve Vargo: svargo@sdlogic.net Bob Lusch: rlusch@sdlogic.net