

## CUSTOMER-DOMINANT SERVICE LOGIC

Kristina Heinonen and Tore Strandvik

CERS Centre for Relationship Marketing and Service Management, Department of Marketing, Hanken School of Economics, Helsinki, Finland

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### ABSTRACT

Different theoretical perspectives in service research emphasize distinct aspects, and thereby create different views; this chapter discusses implications of adopting a customer-dominant perspective of service business. Thus, it describes customer-dominant logic, stressing the customer's primary role and the difference between customer and provider logics. This perspective results in different theoretical and practical implications than those derived from other service perspectives. Customer logic is a central concept, as customer-dominant business logic as a management approach is based on understanding customers' logics. Customer logic holistically captures the mental model and sensemaking behind customers' choices and activities. It is a coordinating concept in which the patterns of customers' overt and covert activities, experiences and goals are integrated. *Service business* is here used in a generic sense to include any type of service provision, commercial or non-commercial, directed toward any type of customer, including single consumers or business customers, as well as groups and collectives. For service research, the message is to recognize the different interpretations of service that arise from changing the focus from provider to customer, and more specifically to scrutinize established concepts and models and innovate new ones to fit the customer's reality. Service practitioners are advised to gain an understanding of current and evolving customer logics in order to gain and maintain a competitive advantage by being able to support customers in achieving their goals. The chapter also elaborates on related current topics in service research and the contribution of customer-dominant logic to these academic, societal, and business challenges.

Keywords: Customer, business logic, mental models, idiosyncratic sensemaking, service management

# CUSTOMER-DOMINANT SERVICE LOGIC

## Introduction

*Customer-dominant logic* (C-DL) was developed as an organizational perspective a decade ago, in response to an increasing need for organizations to focus on the customer (cf. Heinonen & Strandvik, 2015; Heinonen & Strandvik, 2018; Heinonen et al., 2010; Heinonen, Strandvik, & Voima, 2013; Strandvik & Heinonen, 2015). This perspective is an alternative to other perspectives on service, such as the *service-dominant logic* (S-DL) and *service logic* that are also presented in this book. The C-DL perspective applies to customers in different sectors, industries, and contexts irrespective of the label used (e.g., *consumer*, *citizen*, *client*, *buyer*, *shopper*, *patient*, *guest*, or *beneficiary*). The term *customer* includes individuals, groups of individuals, companies, and organizations who buy, use, and consume different market offerings from private, public, and not-for-profit organizations. Similarly, *service provider* is used herein to refer not only to commercial settings, but also to all types of non-commercial settings like public service, NGOs, municipalities, political parties, cultures, and institutions.

C-DL has been applied in studies related to service management, marketing, and consumer research, and its conceptual underpinnings have been scrutinized in connection with constructs such as customer value (Heinonen et al., 2013), service experience (Lipkin, 2016; Tynan, McKechnie, & Hartley, 2014), customer-to-customer interactions (Rihova, Buhalis, Moital, & Gouthro, 2013), service recovery (Cheung & To, 2016), brand communication (Strandvik & Heinonen, 2013), consumer engagement (Heinonen, 2018), and customer activity (Mickelsson, 2013). The C-DL concept has been used to describe various empirical contexts (e.g., tourism, Rihova et al., 2013; retail banking, Medberg & Heinonen, 2014; online communities / social media, Heinonen, 2011; Heinonen, Campbell & Lord Ferguson 2019; healthcare, Seppänen, Huiskonen, Koivuniemi, & Karppinen, 2017; business-

to-business services, Strandvik, Heinonen, & Vollmer, 2018; and airline travel, Xu, Yap, & Hyde, 2016).

The notion of customer primacy was expressed by Drucker (1974, p. 61), who argued that all businesses start with customers: “It is the customer who determines what a business is.” All markets and industries are faced with challenges emerging from technological developments, increasing international competition, environmental sustainability concerns, and aspirations for global good. To be competitive in the face of these challenges, there is a need to focus on understanding who the customer is and why they do what they do (Drucker, 1974). This is the starting point of customer-dominant logic: C-DL is a management perspective grounded in understanding customer logics. The purpose of this chapter is to discuss theoretical and practical implications of adopting a customer-dominant perspective of service business, by stressing the primary role of customers in markets and the difference between providers’ and customers’ logics. The contribution of the C-DL approach to current academic, societal, and business challenges is also discussed.

This chapter is structured into three sections. The first section outlines the setting for C-DL, including foundational characteristics. The second section presents C-DL as a service management approach, employing key concepts and arguments. The third section digs into implications of applying C-DL to current service research and practice, and identifies possibilities for further development. Differences from other service perspectives are also discussed in the third section. Finally, three cornerstones of C-DL are presented: dominant logics, the primacy of customers, and customer logic.

### **Dominant Logics Determine Attention, Focus, and Action**

To provide a background on C-DL, some aspects of the evolution of marketing thought are briefly presented, because marketing perspectives in academic research have evolved in

response to changing business environments. These perspectives, that can be seen as mental sensemaking constructions determine what factors are focused on and acted upon. However, all aspects of a perspective are not always expressed; there are also implicit understandings that comprise a perspective. Several marketing perspectives exist simultaneously among researchers and practitioners, which can provide both complementary and opposite explanations. Different perspectives may use the same concepts with different interpretations, or they might have different concepts for similar phenomena, adding to the conceptual diversity in marketing theorizing.

#### *Academic marketing perspectives*

Numerous perspectives, often called *schools of thought*, have emerged in the history of marketing, such as the *marketing management perspective*, *service marketing*, *relationship marketing*, *consumer culture theory* and the *Industrial Marketing and Purchasing (IMP)* approach, to name a few, (Fisk, Brown, & Bitner, 1993; Grönroos, 1982; Gummesson & Grönroos, 2012; Möller, 2013; Sheth & Parvatiyar, 1995). Marketing perspectives are characterized by their dominant aspects and their differences from other perspectives. The increased importance of services inspired theorizing about service offerings in contrast to physical products (Fisk et al., 1993). One major development in this vein was that all companies can be seen as service companies and can apply a service perspective to their businesses (Grönroos, 1982). This argument suggests that attention should shift from the outcome to the process of providing service. Service-dominant logic (Vargo & Lusch, 2004) was initially contrasted with *goods-dominant logic*, a term used to characterize the classic marketing mix approach. Relationship marketing, in turn, emphasizes customer relationships in contrast to a focus on transactions and one-time service encounters. The emergence of the IMP perspective in business-to-business marketing was based on the perceived need to refocus from an emphasis on transactions to an emphasis on interactions, relationships, and networks (Ford,

2011; Möller, 2013). A similar view emphasizing systems has been proposed in S-DL (Ford, 2011), changing the focus from dyads to systems of interactions (Vargo & Lusch, 2008). Such shifts in focus and scope, as well as in foundational assumptions, can lead to new concepts, models, and insights.

Heinonen and Strandvik (2015) summarized different marketing perspectives based on the focus and scope of each service perspective. They argued that a shift has occurred over time from a provider focus, through the current interaction focus, toward a customer focus. The scope of this perspective refers to shifts from considering transactions/encounters through relationships toward systems representing increasing contextual complexity. The resulting framework demonstrates key characteristics and differences between marketing perspectives. The traditional marketing perspective is a logical reference point in mapping the evolution of marketing thought, as it represents a combination of provider focus and transaction scope (Heinonen & Strandvik, 2015; Heinonen & Strandvik, 2018). Each shift from this reference point has represented some form of paradigm shift that has required the development of new concepts and a change of underlying ontological assumptions.

The initial shift from considering service encounters not only from the provider's point of view but also from the point of view of customer interactions led to the concept of perceived service quality (Grönroos, 1982). Likewise, the shift from managing separate service encounters to managing customer relationships resulted in a new stream of research and new business practice (Sheth & Parvatiyar, 1995). Currently, there is a strong interest in systems/network perspectives, which represent a shift from focusing on separate relationships to analyzing networks or systems of relationships based on interactions (Vargo & Lusch, 2017). In service research, this has resulted in employing concepts including: value-in-use, co-creation, engagement, and service systems (Chandler & Lusch, 2015; Maglio & Spohrer, 2008; Vargo & Lusch, 2016; Vargo, Maglio, & Akaka, 2008). The next step, shifting from a provider

or interaction focus to a customer focus, as suggested here by C-DL, results in new interpretations of extant concepts and models, and creates a need for new conceptualizations.

It should be noted that all marketing perspectives have a view on customers, but employing a customer focus, as described here, means giving customers the primary role, which goes beyond what has been called “customer orientation” in the provider-dominant perspectives. Customer orientation commonly refers to collecting and disseminating information about customer needs and wants (e.g. Shapiro 1988; Kohli & Jaworski 1990, Narver & Slater 1990; Slater & Narver 1998) in order to engage customers, hence considering the customer as an object. By changing the perspective to give the customer the primary role, the issue becomes how customers prefer to engage providers into their businesses and lives. Customers are hence seen as the drivers of potential business for a provider, but not as objects for providers’ “marketing” activities. The traditional focus on needs and wants is replaced by understanding customers’ logics and contexts.

In service research, there are currently several service perspectives with somewhat different dominant features. The differences between have been discussed in a number of articles (c.f. Grönroos & Gummerus, 2014); further analysis is beyond the scope of this chapter. C-DL evolved in response to service logic (Grönroos, 2006) and service-dominant logic (Vargo & Lusch, 2004), and shares some aspects of other perspectives, but has a different focus and scope. C-DL is not focused on the service (system) or interaction, but on the customer, demonstrating a contrast between providers and customers as the actors in markets. Service can be considered from the provider’s and/or the customer’s point of view; C-DL proposes that the customer point of view should dominate, and it is focused holistically on customers’ lives. This is in contrast to S-DL, that is focused on systems of generic actors (Vargo & Lusch, 2008) and the service logic that is focused on the interaction between the provider and the customer (Grönroos, 2006). Such differences in stance between perspectives become visible in the

interpretation and use of concepts (e.g., service, value, experience, and customers) as well as in suggestions and implications for research and practice. Questions that arise based on a customer-dominant perspective include: how do customers choose, engage, and combine service providers? What is the function and meaning of customer relationships from the customer point of view? What role do corporate brand images play for the customer? How do customer experiences of a good or service relate to their other activities, resources, and aspirations? These questions would not be in the foreground if not for a customer focus.

### *Marketing perspectives in business practice*

Managers act according to their understanding of the business landscape and this mental model becomes their perceived reality (Normann, 2001). Marketing perspectives also play a significant role in practice and are represented by individual managers' mental models and sensemaking as demonstrated, for example, in a retail bank setting (Strandvik, Holmlund, & Lähteenmäki, 2018). Research on managerial cognition demonstrates the role of framing as it relates to individual managers, top management teams, and organizations. Although managers do not adopt pure theoretical marketing perspectives as such, they consciously or subconsciously include such influences in their mental models or theories-in-use of their business and markets. An emphasis on the mental models of individuals resonates with dominant logics research on an organizational level, and institutions research on an industry and societal level (Vargo & Lusch, 2016). The impact of theories-in-use was highlighted by Rydén, Ringberg, and Wilke (2015), who empirically identified four different archetypical mental models of how managers consider social media in marketing as manifestations of different underlying paradigm-level mindsets. The dominant feature of each model was designated by different provider-consumer roles: "business-to-consumers," "business-from-consumers," "business-with-consumers," and "business-for-consumers." These were accompanied by corresponding marketing strategies, respectively: "sell and promote," "listen

and learn,” “connect and collaborate,” and “empower and engage.” In the first two, customers are passive and the provider is active. The third model stresses the significance of interaction with customers. In the fourth model, the provider is a part of an organic whole, together with customers. Interestingly, this empirically derived categorization of theoretical marketing thought corresponds largely to the map of marketing perspectives suggested by Heinonen and Strandvik (2015). As these examples indicate, the key issue is that managers’ mental models influence what they see and do in their business practice on a strategic level. Dominant logics matter in theory and practice.

### **Without Customers There is no Business**

The primacy of the customer is evident when considering that no company or organization can exist without customers, users, or supporters. As said in the introduction, the term *customer*, as employed in the label *customer-dominant logic*, is used in an inclusive manner covering all kinds of customers irrespective of the label used.

The reason for considering the customer role as the driving force in markets is anchored in the view that customers have a choice. Even in cases where customers do not have an explicit choice or do not recognize themselves as potential customers, such as when customers are vulnerable or are the recipients of public services (Bone, Christensen, & Williams, 2014; Fisk et al., 2018), customers should be a primary concern (even if this is in practice not always the case). The customer’s choice, which from the provider’s perspective represents competition, is a significant issue for service business, but has not been explored sufficiently in service research. The C-DL perspective considers competition not from the provider’s point of view, but from the viewpoint of customers and what they perceive as alternatives based on their idiosyncratic logics. These logics represent holistic and evolutionary representations of each individual customer’s sensemaking and mental models.

Markets are, from this perspective, constituted and driven by customer logics. This view can be seen as an alternative to extant understandings that markets should be constructed and shaped by providers or systems of providers (cf. Storbacka & Nenonen, 2011). The existence of the provider and its offered service is motivated by a need to provide cost-effective service with a transformative purpose. For example, many public services are not sufficiently based on supporting customers in their everyday activities, and by designing a service based on customer logics it may be easier to facilitate customers in their aspirations to be better off. Also, the activities and aspirations of non-customers (i.e., individuals who are not currently purchasing or using a specific offering), represent another area in which providers should focus. Understanding customer, potential customer, and non-customer logics is needed to truly enable service outreach to all potential customers – empowered as well as vulnerable – in commercial, public, and base-of-the-pyramid contexts. The following section elaborates on the customer logic notion from the viewpoint of a customer-dominant approach.

### **Customer Logic as a Holistic Driving Force**

The concept of the *customer* represents, in itself, a key issue warranting further elaboration in terms of different customer roles and contexts, configurations of customer actors, and different aggregation levels. Such a focus on customer ecosystems provide insight into the portfolio of service providers used by the customer on one hand and the constellation of non-business actors in the customer's context on the other hand. These issues are discussed next.

#### *Idiosyncratic sensemaking*

Customer logic captures holistically the mental model and sensemaking behind customers' choices and activities. It is a “coordinating concept in which the patterns of customers' overt and covert activities, experiences and goals are integrated” (Heinonen & Strandvik, 2015, p. 475). It represents “the identity of the customer” and how a customer's

“different activities, experiences and resources are linked to each other, thereby forming a system of their own” (Heinonen & Strandvik, 2018, p. 5). Each customer has an individual logic based on a variety of factors, such as values, tasks, knowledge, capabilities, and traditions as well as future-oriented elements such as ambitions, aspirations, goals, dreams, and visions. Customer logic that is both cognitive and emotional drives customer perceptions and experiences. The logic is revealed in customer activities and decisions, what customers pay attention to, and what interpretations they make. It is essential to understand what customers decide to buy (or support or use) and what they decide not to buy, as well as their reasons for these decisions. These issues are not sufficiently on the agenda in other service perspectives.

Although the phenomenological approach included in some service perspectives recognizes the influence of subjective experiences (Husserl, 1970), service perspectives do not explicitly account for internal consistency and holistic patterns in thoughts and behaviors of individual customers. As a consequence, logics and the diversity of logics are not generally recognized in these perspectives. Customer logics cannot be identified based solely on socio-economic segmentation criteria or external characteristics, but rather require an approach that identifies patterns or uses in-depth methods to understand customer reasoning and interpretations. Service providers have a major challenge in understanding customer logics, because they have their own perspectives and framing, both of which color their views of what would be “logical.”

Customers and providers have different (albeit sometimes overlapping) perspectives, aspirations, and logics. Thus, there is a need to explore the differences, rather than assume there is a common interest that could override them. Because of diversity and heterogeneity in markets (Thomas, Price & Schau et al 2012), it is evident that different logics exist and the provider’s main task is therefore to understand customer logics and align offerings and activities accordingly. It is important to recognize that there are several different customer

logics; of course, a provider cannot bend its own activities to support all of them. On a higher systemic level, in value chains of provider-customer relationships, the contrast between provider logic and customer logic could be applied, giving a new view of value systems. In contrast to assumptions in the extant marketing literature, C-DL asserts that providers might influence, but cannot control, customer logics through tactics such as promotional activities or offering designs. It can be argued that customers are largely influenced in three ways: through their own experiences (including changes in their resources), through outside influence by other customers and providers, and through the impact of the larger social and institutional context in which they live.

#### *Customer logics – Individuals and aggregates*

Customers perform different roles that may be divided among individuals or groups representing the customer. Shugan (2004, p.25) comments that S-DL provides insight into the issue of different roles and units: “For example, who is the customer of a hospital? Is it the patient who receives the service, the insurer who pays for the service, the admitting physician who refers the patient, the government regulator who specifies the service, or the employer who chooses the health-care provider?” Although this may not be an inclusive list of customer roles and may not be relevant in all contexts, it points to the need to elaborate the *customer* concept in theory and in practice. For instance, the question as to who is the customer could be posed in a business-to-business context: is it the company, a representative of the customer company, a unit within the customer company, a team of individuals in different roles involved with the provider, or all of these? The same question applies in regard to a consumer visiting a supermarket: is the customer this one consumer, all of the individuals constituting the household, or only some of them? In service research, the customer is often considered to be the visible actor that has direct contact with the provider. It may be more sensible to posit that the visible actor is a special case and usually there are other individuals involved. The emphasis

on customers and idiosyncratic sensemaking does not mean that this focus is on individuals only. Rather, the focus is on idiosyncratic customer logic in any customer unit, ranging from individuals, groups of individuals, and organizations to groups of organizations.

The concept of a 'customer' may refer to any unit acting as a customer, whether it is a consumer (single person buying for own usage), a collective of consumers (a family or a group of people buying for own usage), a company or any type of organization or a group of them (buying for business usage), a region or a country (buying for governmental usage). Additionally, the one acquiring/purchasing something may be someone else than the one using it, further indicating the complexity of the notion of 'customer'. The main issue is the emphasis on the unit making choices regarding what to acquire/purchase (and for whose usage) to achieve its own goals.

The focus is as much on a single consumer, company, or organization as it is on the idiosyncratic logic of a group of consumers, companies, or organizations. The logic of a group of consumers resembles the research on shared meanings in marketplace cultures (Arnould & Thompson, 2005; Muniz & O'Guinn 2001; Cova 1997 ). However, unlike these studies, in the C-DL stream of research, the individual and collective identities and logics of customers are equally prevalent and important (Heinonen, Campbell and Lord Ferguson 2019). All experiences, activities, and value conceptions have an individual and collective characteristic, and the customer balances the influence of these factors (Heinonen et al., 2018). Although each customer applies his or her own logic, this does not mean that there are, in practice, an unlimited number of logics. Rather, it can be expected that contextual, social, cultural, and psychological factors influence and shape these idiosyncratic logics, resulting in a finite and reasonable number of clusters of logics from a service management point of view.

In addition to focusing on customer logics and applying systemic and relationship perspectives, service providers also need to consider the *customer's ecosystem*. In contrast to

the service ecosystem notion focused on service-for-service exchange where customers are a part of a provider-driven service (cf. Vargo, Maglio & Akaka 2008; Chandler & Lusch 2014; Vargo & Lusch 2017) the customer ecosystem implies that selected service providers are a part of a customer's (life) system. The service system notion and customer ecosystem notion are hence completely separate entities. Customer ecosystems are systems of actors, resources and elements that are relevant to customers and linked to each other through different kinds of relationships. They consequently affect customers' choices, usage, and evaluations of service (Heinonen & Strandvik, 2015). This concept involves a shift from provider-driven coordination and co-creation in service ecosystems to customer orchestration of value formation in customer ecosystems. Therefore it entails several implications for researchers and practitioners regarding how customers, configurations of value units, the scope of value formation, and relevant actor systems are conceptualized.

### **Characteristics of Customer-Dominant Logic**

The three propositions covered so far are: (1) "Dominant logics determine attention, focus, and action," (2) "Without customers there is no business," and (3) "Customer logic is a holistic driving force"; these are cornerstones that characterize and differentiate C-DL. Dominant logics play a triple role, in the sense that they represent different paradigms or schools of thought in service research, managerial mental models in service business, and customers' mental models used to make sense of service alternatives in markets. The proposition that customers are necessary for business might sound like a truism, but in fact is surprisingly frequently overlooked both in practice (witness, for example, unsuccessful start-ups and innovations) and in theory (e.g., by focusing on the service provider and service itself rather than on customers). Introducing customer logic as a concept highlights the need to see the bigger picture beyond conceptualizations like needs, wants, expectations, and practices.

Customer logic is grounded in customers' own contexts and experiences, which are not wholly influenced by service providers.

In C-DL, it is assumed that customer choices of services and providers are driven by idiosyncratic logic based on the customer's past, present, and future contexts. It can therefore be expected that there are a number of different customer logics, and that the value formation of service is embedded in the customer's context. It is certainly different from how value is formed for the service provider. For the service provider, value is formed through the provision of service, considering the restrictions that arise (e.g., insufficient capabilities, resources, and/or customer insights, and productivity/profitability requirements). Whereas a service provider focuses on the service provided, a customer considers how the service fits into his or her business or life. In *resource integration*, the logics meet (and sometimes clash). Providers can improve business value creation by understanding customer logics and creating business models and service offerings that are aligned with selected customer logics. Providers are becoming embedded in customers' lives, as opposed to customers being involved in companies' offerings. Sometimes the logics are too different from each other and it is not possible to create a business model that would enable a win-win situation.

The focus of C-DL is on seeing customers as the dominant actors and the nexus of service and value creation, whereas other perspectives continue to emphasize actions and processes dominated by a (system of) service provider(s). There is a dual meaning conveyed by the term *dominant*. The first meaning is the conventional one of seeing a perspective as a dominant logic, or according to Prahalad and Bettis (1986, p. 491): "a mind set or world view or conceptualization of the business and the administrative tools to accomplish goals and make decisions in that business. It is stored as a shared cognitive map (or a set of schemas) among the dominant coalition." Secondly, the term is meant to communicate the primary position of the customer in the marketplace in a more specific sense. That is, the basic premise of C-DL is

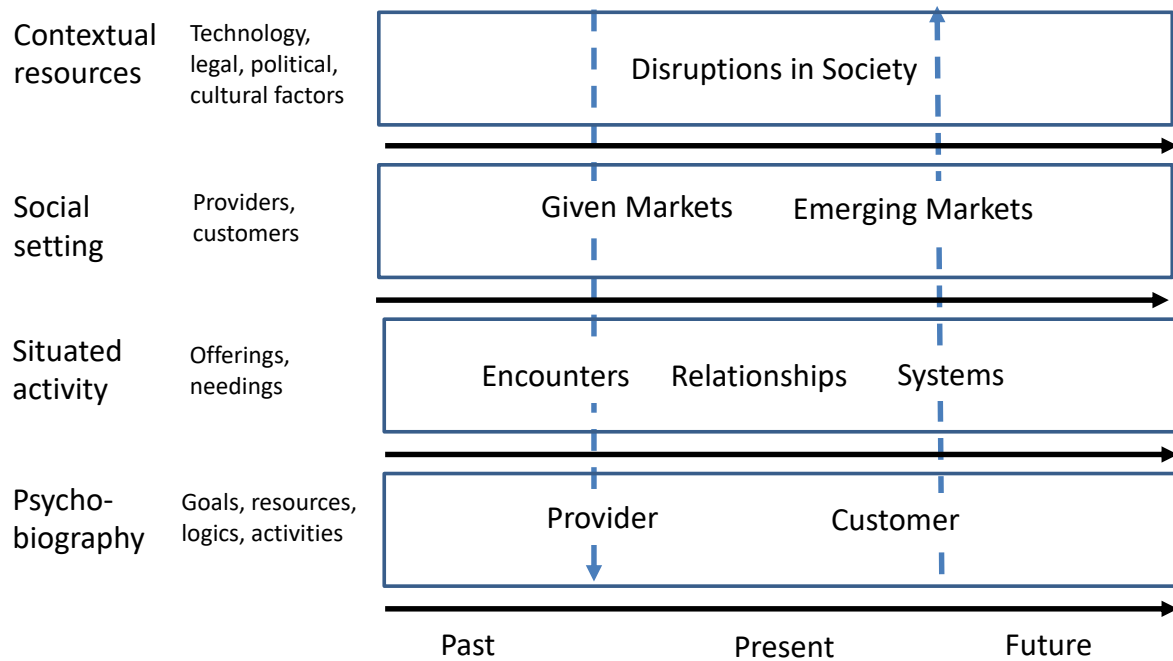
“positioning customer insight in the foreground in place of the type of offering...or the system of providers” (Heinonen & Strandvik, 2015, p. 473). Thus, the primacy of the customer is the key issue; the disruptive changes transforming the business environment and markets of any industry represent a critical argument for emphasizing the customer. Heinonen and Strandvik (2018, p. 1) further state that “the most dramatic consequence is not the possibilities created for companies but rather the challenges that emerge as a result of customer behavior undergoing fundamental changes. Technology transformation has paved the way for empowered customers who are increasingly influencing businesses and markets, and the challenge for practitioners and researchers alike is to make sense of the role of these customers in such business environments.” In summary, customer behavior is changing: in many service categories, customers have more available alternatives as to which providers to engage. As a result, providers are facing challenges to being seen, chosen, and sustained as customer partners.

To understand how customers and societies are changing, it is important to understand the broader contextual setting of service. Layder’s (2018) view on domains of social reality can be utilized to depict the ontological setting of service perspectives. Layder distinguishes between four interrelated social processes representing different social domains: *psychobiography*, *situated activity*, *social settings*, and *contextual resources*. He points out that each of these has its own properties and dimensions of power, time, and space. Social domains are intertwined, and social behavior is the result of influences from all domains. These domains represent different layers of social reality. Psychobiography refers to factors such as personal characteristics, motives, experiences, emotions, and relationships that evolve throughout a person’s life. Situated activity refers to encounters and interactions in which people influence each other. These situated activities may be brief or regularly repeated over time, planned or emergent, significant or trivial, and are shaped by influences from the other domains. Social settings are formally or informally organized settings like families, business networks,

organizations, religious groups, and other arenas in which everyday activities take place. The domain of contextual resources is a macro-level construct and contains society-wide contexts, including for example, institutions, cultural values, and politics.

Layder's four social domains are used here to identify and structure key issues that drive service business decisions. Figure 1 depicts the four domains with changes resulting in challenges for service business. Both historical and future factors influence the present, but Layder (2018) suggests that the pace of change varies across different social domains. Taking a critical realist position, he argues that the classic *agency versus structure* debate in the social sciences can be resolved by considering different domains as separate but intertwined. Following this stance, C-DL's emphasis on customer idiosyncratic logic does not contradict the potential influence of other social domains, but it also does not assume that customers are dominated by their context. Different streams of research may differentially emphasize different domains: C-DL places more emphasis on the self-domain (psychobiography) in relation to situated activity, whereas for example S-DL approaches situated activity from a social setting domain perspective. This difference has consequences for what are considered interesting and relevant research issues from the perspective of each theoretical framework.

**Figure 1. Changes and challenges for service businesses**



As indicated in Figure 1, the foundation of this model is based on distinct differences between provider and customer logic, as manifested by goals, resources, and activities. The situated activity incorporates separate encounters as well as connected interactions in relationships and systems. These are manifested through offerings as proposed by providers, as well as *needings*, which are representations of customer goals and aspirations. A *needing* is different from the concept of *needs* or *wants*, and represents a customer's understanding of how a provider should contribute to his or her goals; it may also consider goodness-of-fit with other providers available (Strandvik et al., 2012). The social setting, from a C-DL perspective, involves an interplay between given and emerging markets as conceived by providers and customers. Finally, the contextual resources, in the C-DL view, refer to disruptions in society represented by legal, political, and cultural factors.

Although C-DL emphasizes the domain of self, all social domains are interrelated and represent important issues for researchers and managers to consider. The two main actors in a

market, the service provider and the customer, can both be considered on the psychobiography/self level to have an agency-based trajectory, but they also are embedded in a structure of the situated activities, social setting and context domains influencing them while also continuously changing. For example, the banking industry has significantly been affected by digitization as well as changes in regulations, which has changed the social setting (competition) and has affected situated activities (communication and interaction between the bank and its customers), and has forced banks to reconsider their business models and offerings. Customers have as a result of these changes in different domains adopted new logics, strategies and practices for handling their financial affairs sometimes to the surprise of traditional banks following their traditional beliefs about customer behavior.

### **Customer-Dominant Logic in Business Practice**

Theoretical marketing perspectives have real and practical implications for societies and markets. The key issue is to focus on relevant and significant organizational and societal challenges “as opposed to trying to predict the next big theory...”(Corley & Gioia, 2011, p. 24). Because the C-DL perspective is grounded in the everyday realities of individuals in different markets, it provides solid insights into the dynamics of societies and markets. There are indications that customers’ power and roles will become larger in the future due to the development of information technology and increasingly dynamic markets (Lemon and Verhoef 2016). Customers will, in practice, have more opportunities and tools to acquire information and compare offerings. At the same time, providers’ influence on customers may weaken, because customers are active subjects and not passive objects for marketing activities any longer. This is also the case in settings where agency may not reside with the focal customer, but a representative of the customer (cf. Caic et al., 2018). Thus, markets are constituted and driven by customer logics manifested in customer activities and provider choices.

Many service marketing perspectives emphasize how providers – or systems, networks, or society as a whole – influence and control the customer, i.e. that customers are to be embedded in providers' contexts. C-DL departs from this view and suggests that rather than being interested in service as such, customers strive to achieve their goals by engaging service providers and being involved in societal agendas. The difference in the starting point is significant. Rather than focusing on how customers can be involved in service ecosystems, the emphasis is now on aspects of customer internal and surrounding environments, which are important to achieving customer goals and aspirations. This seemingly trivial shift in focus results in a number of central questions to reflect on: how can providers be involved in customers' lives? To what extent are customers controlled or influenced by service providers and contextual factors like technology, society, environment, and social setting? To what extent are they free to act in an autonomous manner? What are the implications of seeing customers as subjects in their own contexts, rather than as recipients and beneficiaries of different stakeholders' service-related activities? What is the practical consequence of going beyond investigating value co-creation between stakeholders in a service system, and instead exploring customers' value formation within their own customer ecosystem? This dichotomy of orchestration and autonomy is especially evident in technology-based environments as exemplified by the three scenarios of the collaborative economy (Fehrer et al., 2018).

C-DL as a perspective on marketing emphasizes the mental models or mind sets of individual managers and organizations. At an aggregate level, mind sets have been conceptualized as “institutions” (Vargo and Lusch 2016). C-DL assumes that provider logic is different than customer logics, simply because customers and providers have different goals, aspirations, and resources. Managers and organizations follow idiosyncratic provider logic; as a consequence, it is essential for them to understand the business logic employed by themselves, their managers and other companies (cf. Rydén et al., 2015, Strandvik et al., 2018). Such logic directs a

provider's attention and the framing of threats, opportunities, and actions. Similar to the extant research in strategic management and managerial sensemaking, it is evident that the logic a provider uses is challenging to capture and change (Jaworski, 2018). A provider's logic can be seen as based on its understanding of how to best achieve its goals, considering its resources and capabilities, and this logic becomes evident in its business model, strategies, offerings, and operations. In C-DL, it is assumed that the better the provider understands customer logics, the more potential it has to perform well. Importantly, provider and customer logics are not necessarily aligned. The difference in logics complicates the achievement of reciprocal cooperation and coordination.

The foundation of the customer-dominant perspective is based on a holistic view of customers embedded in their own context (and not that of the service system) and the notion of customer logic representing their subjective reasoning about employing service providers. Customers' configuration of service providers in use is usually less known to service providers, and represents a baseline for their experienced value formation. The key issue to consider when applying C-DL is the transition from an atomistic service-for-service focused provider-dominant view on customers to a holistic customer-dominant view on how customers orchestrate their lives in which providers merely play a part. Figure 2 presents the contrast between the customer and provider logics. It should be noted that the figure is a schematic representation, and in practice there are a number of different provider logics as well as customer logics.

**Figure 2. Differences between provider and customer logics**

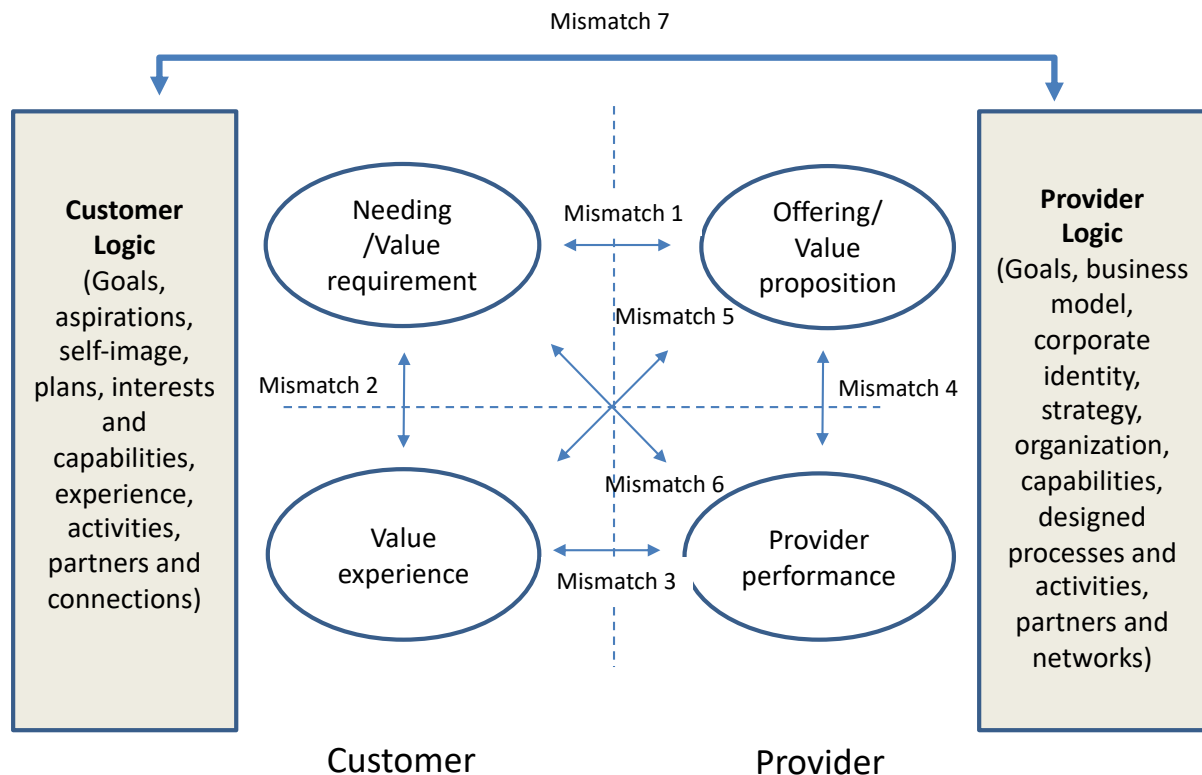


Figure 2 illustrates the contrast between provider and customer logics. It provides essentially a holistic view on how logics can be seen to influence customers' and providers' actions and reactions in markets: the influence on intentions and plans (needing/value requirement and offering/value proposition) and activities and outcomes (value experience and provider performance). Several mismatches may emerge, depicted as mismatch 1 to mismatch 7. It is proposed that providers can benefit from understanding customer logics; reducing Mismatch 7 might reduce the other specified mismatches. Another suggested implication of the model is that conflict and avoidance are as likely as coordination, co-creation and attraction. Provider and customer logics are largely hidden to the other party, and interpretations are often based on what is visible. For the provider, it may take effort to understand different customer logics. It is also proposed that both provider and customer logics materialize in structures and established activity patterns, which make them resistant to change.

Based on customer logic, which shapes past experiences and future aspirations, a needing or value requirement arises (Strandvik, Holmlund, & Edvardsson, 2012). The needing concept on the customer side mirrors the service offering on the provider side, and it is activated for the customer when needed. The needing is emergent and dynamically updated based on service offerings and provider performance in the marketplace.

Service offerings need to be designed and optimized for profitability and productivity reasons, and this leads to compromises in terms of features. The *value proposition* of an offering is an idealized representation of what will be performed in practice. Mismatch 1 in Figure 2 represents the mismatch between customer requirements and this proposed value of service. In this case the service promise does not fit the customer, but might be designed for other customers. Mismatch 3 indicates the difference between the provider view of the service performance and the customer interpretation thereof. There might be different standards of evaluation between the customer and provider or different foci. Mismatch 2 occurs when the customer's experienced value in use is not fulfilled. This may be caused by a combination of the other mismatches as indicated by the arrows. Mismatch 4 depicts the difference between the designed service offering and actual service performance; Mismatch 2 is only visible to the customer and Mismatch 4 is only visible to the service provider. Mismatch 5 depicts the disappointment experienced by a customer when the service offering communicated is not fulfilled as promised. Finally, Mismatch 6 may occur, for example, when customers evaluate service providers in relation to their requirements, based on providers' actual performance rather than on what is promised in marketing communication. The figure provides a diagnostic tool, similar to the Gap model of service quality (Parasuraman, Zeithaml, and Berry 1985), for an increased understanding of the complexity of achieving fit between customers and providers in value creation, and explicates the anatomy of interactions, co-creation and resource integration.

To date, there is limited explicit research on customer logics and related concepts, such as customer ecosystems and customer activities, and thus there are many opportunities to contribute to a better understanding of how customers avoid, choose, retain, or switch providers. As customers are not necessarily individuals, but often represent collectives (families, companies, or organizations), the customer logic concept becomes even more multifaceted. However, more is known about provider logics than about customer logics; for example, the schools of thought in the marketing and service domains tend to take an idealistic, often normative, perspective on service business.

### **Implications of C-DL for Current and Future Service Research**

This last section describes implications of applying a customer-dominant approach to service research and application. C-DL is discussed in relation to some current societal and market challenges debated in service research. This chapter suggests that the perspective used determines what elements researchers and managers pay attention to, and what they consider to be key challenges. The implications discussed herein are based on shifting the focus of different phenomena from a provider-dominant view to a customer-dominant view.

#### *Value Co-Creation*

Value co-creation – that is, the collaboration between different stakeholders in order to create value – has emerged as a key phenomenon in service research and value creation (Prahalad & Ramaswamy, 2000; 2004). Although it was originally depicted as a perspective on the collaboration between a customer and a company, it has shifted toward incorporating multiple stakeholders in a system (Bryson, Sancino, Benington, & Sørensen, 2017; Čaić, Odekerken-Schröder, & Mahr, 2018; Payne, Storbacka, & Frow, 2008; Vargo et al., 2008; 2016). In addition to this shift, the common denominator in many co-creation studies is the assumption that value is based on shared logics and created in coordinated interactions between

the customer and the service provider(s). Customers have been suggested as participants in co-creation to varying degrees. For example, McColl-Kennedy, Vargo, Dagger, Sweeney, and van Kasteren (2012) identified five co-creation practice styles of customers and showed how customers engage in different value co-creation activities, depending on their co-creation style. This model, although focused on interactions and the assumption that co-creation is the key issue of value creation, indicates that customers do, in fact, have differing preferences towards levels of co-creation.

Customer-dominant logic provides another perspective on value creation, which is value formation. It is conceptualized with elements (designated by the questions who, what, how, when, and where) embedded in the customer's context and lifeworld (Heinonen et al., 2013). An implicit understanding of *formation* as a synonym of *emergence* is that the value experience is constantly changing. Value formation captures the idea of value experiences in customer lives. The "splintered society" introduced by Fletcher (2006) stresses a fragmented customer reality where the market is atomized and uncontrollable, paralleling the focus in C-DL on idiosyncratic customer logics.

A customer-dominant approach to value has several implications. Whereas the predominant focus on interactions and co-creation implies a provider agency and that the provider can orchestrate value creation, the C-DL assumes that it is not "always deliberately and mutually created" (Heinonen et al., 2013, p. 105). Moreover, instead of value being orchestrated by a service provider, including interactions and touch points, the customer-dominant approach recognizes value formation accumulates in the customer's own lifeworld (Heinonen et al., 2010). Therefore, the temporal and contextual perspective on value formation is farther-reaching than traditionally assumed, and it involves multiple points of reference, not just the touchpoints designed by the service provider. Value formation also emerges as a social and experiential phenomenon through mental – and, for the provider, invisible – processes. It

is, therefore, not an isolated event, but rather linked with other customers' realities (Heinonen et al., 2013). Value formation is thus always partially collective and shared (Arantola-Hattab, 2013).

The term *co-creation* is predominantly used in a broad and nonspecific way, assuming that all interactions offer different opportunities for mutual and harmonious value co-creation. Yet the nuances and challenges of value creation, such as the differences in deliberate collaboration, potential collaboration, and non-conscious influence, are not explicitly emphasized. The C-DL perspective provides analytical reasons to distinguish between mutually intentional co-creation, provider-driven value creation, customer-driven value creation, and spontaneous value creation (Grönroos, Strandvik, & Heinonen, 2015). Co-creation is consequently a special case of value creation. Furthermore, C-DL assumes that the value experience is fundamentally idiosyncratic and relative. This means that what is a benefit and what is a sacrifice is customer-specific and cannot be determined beforehand by the provider.

### *Customer Engagement*

Customer engagement – customer connection to and investment in an object – has recently received increasing interest within both academic research and business practice. It has been explored from different perspectives and contexts, such as online communities, social media, work, big data, brands, and co-creation (Brodie, Ilic, Juric, & Hollebeek, 2013; Dessart, Veloutsou, & Morgan-Thomas, 2015; Jaakkola & Alexander, 2014; Kahn, 1990; Kunz et al., 2017). Customer engagement is frequently seen from the perspective of cognitive, emotional, or behavioral dimensions (Brodie et al., 2011). A customer-dominant approach to engagement shifts and broadens the focus of engagement in several ways, particularly in relation to the object of engagement.

Although customer engagement addresses customer experiences and perceptions, it can be argued that engagement research is not sufficiently customer-centric, as it revolves around customer reactions to provider-defined aspects, with the object of engagement being frequently a provider's offerings or brands (Heinonen, 2018; Kunz et al., 2017). For instance, in a conceptual study by Brodie et al. (2011), the focal engagement object was described as a course/module, brand, product, and organization. A systemic approach to engagement, such as engagement in actor networks, revolves around customer service experiences (Li, Juric, & Brodie, 2018) or uses a service ecosystem as the primary unit of analysis (Alexander, Jaakkola, & Hollebeek, 2018). A customer-dominant approach, in contrast, suggests a change in the unit of analysis, from the service point of view to aspects of customer lives that create strong cognitive, emotional, or behavioral reactions. Therefore, instead of a provider-defined object, the object of a customer-dominant approach to engagement is a customer-defined target, such as customer areas of interest, activities, or lifestyles. Such an emphasis would be focused on broader aspects of customers' lives, such as their aspirations and goals in life, as opposed to merely focusing on their relationship to an offering or brand. Additionally, C-DL would rephrase the engagement issue; rather than being a question of how providers can engage customers in provider activities, it becomes a question of how customers choose to engage with the providers in their activities.

### *Transformative Service, Social Inclusion and Societal Welfare*

*Transformative service research* (TSR) has emerged as an important area investigating how service can advance societal well-being; this research is focused on uplifting changes that improve individual and societal wellbeing (Anderson and Ostrom, 2015, Anderson et al., 2013). TSR indicates three key research areas: (1) destruction of value and negative service, (2) the role of collectives and social phenomena in well-being, and (3) the influence of customer activities (co-production and co-creation) on their well-being (Anderson & Ostrom, 2015).

Additionally, TSR research focuses on global challenges (e.g., poverty, vulnerable customers, minorities, food waste, and social inclusion) (Baron, Patterson, Maull, & Warnaby, 2017; Bone et al., 2014; Fisk et al., 2016, 2018; Loomba, 2017; Reynoso, Valdés, & Cabrera, 2015).

A customer-dominant approach can contribute to the nascent research on the transformative nature of service and its influence on societal welfare. By adopting the C-DL, researchers and practitioners can contribute to the alleviation of issues related to social inclusion, customer well-being, and societal welfare (Fisk et al., 2018, Rosenbaum et al., 2011). Specifically, C-DL can provide a foundation for understanding different types of customers through the concept of *customer logic* and the idiosyncratic sensemaking. Moreover, C-DL acknowledges the primary role of customer tasks, activities, experiences and how these enable customers to achieve life goals. The key issue is focusing on how service can support this achievement; therefore, C-DL can contribute to understanding of how well-being is achieved through service and the customer ecosystem. In other words, C-DL provides a broader context regarding how customers engage in and perform daily activities, to achieve life goals and aspirations.

#### *Digital Transformation, Big Data and Automation*

Connectivity, transparency, and unpredictability are transforming the business landscape (Porter & Heppelman 2014; Kunz et al 2017). Digital transformation and disruptive technologies (e.g., artificial intelligence, machine learning, robotics, automation, and big data) are driving this transformation (e.g. Wuenderlich et al 2015; Wirtz et al 2018). The sheer volume, variety, velocity, and veracity of data provide the opportunity to create substantial value for both customers and companies (Wedel & Kannan, 2016). Disruptive technologies provide opportunities for companies to connect with customers, engage in continuous dialogue, create more efficient activities and synergies between processes, and learn about market realities (e.g. Bohnsack and Pinkse, 2017; Broekhuizen, Bakker and Postma, 2018; Caro and

Sadr, 2018). Disruptive technologies and the associated business transformation has implications for customers in terms of more alternatives and opportunities, informed decisions, support in the execution of different activities, and better connections and networks to relevant entities (Di Pietro, Edvardsson, Reynoso, Renzi, Toni, and Guglielmetti Mugion, 2018; Govindarajan and Ramamurti, 2018; Wunderlich et al., 2015).

Researchers are interested in exploring how service interactions and processes change with technology, such as envisioning “service robots in the frontline” (Wirtz et al., 2018), human-robot interactions in elderly care (Čaić et al., 2018), and automation of service operations (Breidbach et al., 2018). In practice, a major challenge seems to be initiating change in mental models to utilize the possibilities provided by digitization (Holmlund et al., 2017, Rydén et al., 2015). Industries (e.g. finance) with strong institutional logic are experiencing radical changes in their markets that may require business model innovations. For example, a study on online interest communities identified four different value formation profiles based on the underlying customer logics and thereby indicated the shift to the customer domain and the continuous interplay of individual and collective experiences (Heinonen, Campbell & Lord Ferguson 2019). C-DL can contribute to the need to understand how technologies are embedded in customer lives, how they can potentially provide support in performing everyday tasks and activities, and their role in achieving life goals.

### *Market Dynamics*

The dynamism of markets and marketing phenomena such as customer experiences and value is increasingly important and has received some research attention. Most markets and providers are going through major transformations due to the emergence of disruptive technologies and changes in political, social, and institutional structures (Holmlund et al., 2015; Nenonen et al., 2014; Strandvik et al., 2018). Although market dynamism, transformation, and disruption are increasingly evident, the research on these issues from a customer perspective is

still emerging; for instance, despite the abundant research on customer value, existing research has predominantly taken a static view of this issue, focusing on elements, antecedents, and consequences of value (creation). Indeed, most approaches in marketing are based on models and concepts that describe structures and stable states (Blocker, 2012) rather than change. This is logical when considering that providers are restricted by their mental models, resources and structures. Providers cannot, therefore, easily change their strategies, business models, or service offerings, as these were carefully created to fulfill the goals of the company based on its specific capabilities and there is an investment in these past choices. More research is needed to understand how and why value emerges and changes (Beverland & Lockshin, 2003; Eggert, Kleinaltenkamp, & Kashyap, 2019; Corsaro & Snehota, 2010). We argue that adaptation to changes or disruptions in the market place is facilitated by applying a customer-dominant perspective.

C-DL asserts that marketing phenomena should be considered from perspectives that emphasize change, emergence, flow, and development. Accordingly, models and concepts need to include directions, goals, aspirations, frustrations, and disappointments, which describe sensations in a constant state of flux. Such changes have implications for markets and relationships between providers and customers. Although the primary focus of market dynamics is typically on managers, regulators, and organisations (Mele et al., 2018), it is increasingly important to recognize customers in such a dynamic environment. C-DL can provide a customer perspective on market dynamics, directing the interest of managers and researchers toward changes in customer perceptions, experiences, or evaluations. Managers might consider for example how value emerges, how it grows, and how it declines or even dissolves completely. Thus, the focus is on change itself and on the forces creating change. As society and business environments are changing, it is both theoretically and practically relevant to study how customer behavior is changing.

The dynamism discussed above also relates to customer logic. In situations of change, caused by customer-internal, market-related or society-related factors the most significant challenge for service providers is to understand customers' reasoning, i.e. logics. Although idiosyncratic customer logic is semi-stable, idiosyncratic logic can change in different ways, as customers are influenced by different sources. For instance, customers come from different backgrounds and have different aspirations, leading to a continuous emergence of new logics and new logic clusters. Moreover, disruptive changes in the market place may be caused by the introduction of new societal-level ideas about environment protection, causing customer logics to change for some customers, leading to abandonment of meat consumption. In other, less dramatic situations, customers may become more critical towards and informed about service providers based on information in social communities. This extends the market scripting literature addressing markets as manager's social constructions (Storbacka and Nenonen 2011). Markets are, in this literature, seen as configurations of mental models and as a consequence business models and practices. This literature tends to apply a systems and co-creation perspective drawing also on S-DL (Storbacka and Nenonen 2015). C-DL adds to the literature by suggesting that the success of market scripting, that is conscious activities by the focal market actor (typically a provider) to change mental models may be conditioned by customers' mental models, e.g. their logics. We argue that customer logics are evolving, but cannot be shaped by a single provider or service category alone; customer logics are related to the holistic context taken into consideration by the customer, including the past, present, and future. Markets would hence be defined, emerge and dissolve based on what customers are ready to buy (and pay for in commercial settings).

### **Concluding Remarks**

Almost all markets and service categories are faced with increased dynamism and a need for transformation. The transformative capacity of service relates to the ability to align

business practices with rapidly changing market demands. Although multiple sources contribute to such transformation, in this chapter it is argued that the most substantial changes emanate from improved customer ability to influence markets and market-related activities. As a result, businesses need to prioritize customers as the primary stakeholders in markets.

This chapter focuses on customers in the broad sense, and it is argued that all organizations have customers, regardless of their label. C-DL thus has relevance to, and is applicable to, any commercial or non-commercial setting in which a provider or system of providers serves customers for some purpose. By explicitly emphasizing customers, C-DL can provide a fresh lens to alleviate issues related to transformative service.

Highlighting the primacy of customers involves focusing on understanding customers holistically. This refers to an interest in customers' idiosyncratic sensemaking, as well as in the drivers and restrictors of individual behaviors, cognitions, and emotions. This chapter recognizes that customer individual and subjective logics are distinct from provider logics, and also asserts that, at both the individual and aggregate levels, customers choose which providers to involve in the process of achieving life goals and tasks. The distinction between customer and provider logics constitutes the key element of customer-dominant logic and reveals theoretical and practical challenges that would otherwise remain overlooked. For researchers, the key challenge is to move away from emphasizing interactions and touchpoints to exploring customers' tasks, activities and goals. For practitioners, the focus on customer logic highlights the importance of understanding issues that are important for customers which may be small details for the provider. It also indicates the need for providers to involve themselves in customers' lifeworlds.

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