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PERSPECTIVES ON CUSTOMER-INTEGRATION FACILITIES, TRANSFORMATION AND USE (CI-TFU) FRAMEWORK, VALUE CREATION AND SERVICE-DOMINANT (SD) LOGIC: CRITICAL INSIGHTS

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ABSTRACT

This study primarily aimed at investigating the concept of Customer-Integration Facilities, Transformation and Use (CI-TFU) framework as opposed to Service Dominant (SD) logic. Furthermore, it evaluates the applicability of these two perspectives in marketing products and services through citing examples as justifications of its applicability. It also assess the strengths and weaknesses between these two paradigms. This study utilized secondary data in its analysis and basically it utilized the published research article of Vargo and Lusch's titled "Service-dominant logic: reactions, reflections and refinements" in 2006. Further analysis revealed that SD logic emphasized more on collaborative efforts not only between the producers and customers but all the actors in the social network exchange. It strongly posits that, products are only considered input and serviceability are far more important. In contrast, CI-FTU was found to deal mostly on co-production or customer integration in production processes but do not take into consideration serviceability, hence; it is an extension of the Goods Dominant (GD) logic. In conclusion, there is irreconcilable difference between the SD logic and CI-FTU considering that their fundamental premises are totally different. The concept of value creation is also perceived differently between these two paradigms and while SD logic focused on many social actors, CI-FTU emphasized on only one actor, an evidenced that these two are different from each other.

Keywords: Service Dominant, Customer-Integration Facilities, Transformation and Use, Goods Dominant, Co-production

1. INTRODUCTION

Undoubtedly, most of the businesses and enterprises have utilized the most used concept of goods-dominant (G-D) logic in their business conduct and it is visible in manufacturing companies where production of goods are evident. The fundamental concept governing the G-D logic primarily rests on the inclusion of perceived benefits to the product itself which in other words, it is inherent with the product features where the benefits are added to the price which will be forfeited as the product is sold and delivered to the customers. But this is not always the case considering that, changes in market structure and changing demands of goods and services forced the marketers to shift from the G-D logic into new accepted logic, the service-dominant (S-D) logic where the focus is on the premise that, products are just considered as input and the most important consideration is rather based on the so called "value creation or co-creation of value" that should be achieved by both the customers and producers in the course of business exchanges. This concept has established a distinction between the G-D logic and the S-D logic that has led to the development of the new logic or framework called the Customer-Integration Facilities, Transformation and Use (CI-FTU). Taking into consideration the new logics,



the paper intends to provide a detailed discussion on the difference between the S-D logic and the CI-FTU when applied to marketing the goods and services.

1.1. Research Objective

This paper focuses on critical investigation on Vargo's discussions and arguments on the S-D logic concepts as opposed to the CI-FTU based on the basic tenets between these two paradigms. Secondly, examining the strengths and weaknesses between the two in order to establish a concrete justification on the legitimacy of the S-D logic and the CI-FTU. Lastly, arguments developed from the critique would contribute to the body of knowledge and for further researches on the profound basis on pursuing the S-D logic beyond the conceptual framework for applications in the modern world and in marketing products and services.

2. ARGUMENTS ON S-D LOGIC, CI-FTU AND VALUE CREATION

Vargo and Lusch's (2006) publication entitled "Service-dominant logic: reactions, reflections and refinements" that was published in 2006 emphasized that the S-D logic is a collaborative efforts not only between the producers and customers but all the actors in the social network exchange. This logic assumes that in an exchange or in the sale of the products, the primary aim is to achieve co-creation of value between the manufacturer and the customer which can be evident as the customer uses it at his/her advantage thereby considering the product as useless unless it is used by customers. As opposed to the G-D logic, the idea or the fundamental premise that value is embedded in the product itself and the price will become inversely different is contrasted with the S-D logic which assumes that products are only considered input to the latter. The service-for-service of exchange is the vital consideration in S-D logic as well as the presumption that all markets are service-based markets. The emphasis on co-creation of value and the multidirectional nature of the S-D logic makes the S-D an interesting and somehow rational in the context where it does not only considers the customers but all actors in the exchange as collaborators and are significant for the exchange to take place. It agrees with the Vargo's foundational premise that S-D logic considers "All integrators and social actors are resource integrators" which can be considered as an advantage of this logic.

To demonstrate the S-D logic through an example, consider a car manufacturing company that produces cars to the customers. While the CI-FTU emphasized the application of skills and knowledge in the production of output, the S-D logic rather focus on the service as the focal point of exchange such that the car is just considered as the input for the exchange and it is rather the use of the car and its benefits are important for the S-D logic. The way the customers view its benefits upon the use of the car to their convenience is the key for customer satisfaction or the value is determined based on beneficial application and not in the car itself. In addition, the tangible product is just a mechanism for the service provision where the customer is viewed as the co-creator of value in which case all actors are resource integrators in the process. Another identifiable strength that can be affirmed in utilizing the S-D logic is that, the distinction between the customers, employees and the organizations (all actors) ceases as they have become co-creators of value. This has been also affirmed in the study of Yang (2003) in his network analysis through inframarginal analysis in economics that provided the details on the network effect from the division of labor that produces the same impact of the S-D's value co-creation and resource integrations. Moreover, the same framework concretize the strengths on this logic as can be found in the study of Ballantyne and Varey (2006) claiming that the participation of all the networks in an exchange through communication allows the co-creation of value to promote trust, learning and adaptation as its likely results. In other words, it is valid to assume that the advantage of the S-D logic can be best described in this evidence-based and well-supported strength.

However, the S-D logic fails to view that customer integration also plays big role in creating and producing products that are far better when the producers and customers shared together in producing the product output which can be done through shared inventiveness, co-design, or shared production of related goods that becomes the basic assumptions of the so-called Customer Integration-Facilities, Transformation and Use (CI-FTU). Another weakness that is evident in the S-D logic is its profound basis or the valid justification that would independently consider the S-D logic as totally different and not linked with the G-D logic. The view that it service-to-service exchanges lacks validity and basis to say that it is not anchored on the G-D lexicon as the reality takes into consideration the traditional view as part of the S-D logic development (Achrol and Kotler, 2006). Hence, there is still no justifiable reason to affirm that there is no relationship between the S-D logic and G-D logic.

Another point that can be hard to reconcile with the S-D logic is the assumption that all economies are service-based which may connote the lack of importance on the product itself. Consider for example, it is a fundamental concept that a product should at least have good quality, affordable prices, and customized as the case maybe. In this manner, it becomes attractive and sellable to customers



and it has potentials and possibilities over other products. Using this logic, value is created with the product itself that must be considered in the S-D logic for reasons that product and service should go together to arrive at better results. Considering also that when products have superior quality for example it will establish a good impression to the customers that drives them to have positive influence on the use of the product. In other words, if customers have good impression of the product, it follows that they will have good experiences in using it. This concept is not considered with the S-D logic.

3. CI-FTU FRAMEWORK & VALUE CREATION, ITS STRENGTHS AND WEAKNESSES

Conversely, the CI-FTU popularized the framework of co-production and is regarded as the extension and the elaboration of the G-D logic where it practically ignores the concept of co-creation of value in opposition to the S-D logic where co-creation of value is the key to exchange; hence it is considered a sub-set of “co-production” (Vargo and Lusch, 2008b). Arguably, it values the customer integration as an integral part of the production of the firm’s output thus; customer participation is the key to value creation such that the product is measured by how the customer participates in the production process. So, it does not ignore the fundamental premise of the G-D logic where output is important source of value creation. As a matter of fact, this framework poses problems and challenges posed by the S-D logic or it questions the validity and adequacy of the S-D logic indicating that, it cannot simply ignore the G-D logic but rather considers it as part of value creation. It also presupposes that customers’ ideas are vital and sharing of resources are main considerations for a successful transformation of its management controlled resources to be integral part of the output of the firm.

More importantly, the CI-FTU framework as proposed by Moeller practically do not deviate from the fundamental foundation of the G-D logic but rather re-enforce them by just adding the principle of customer integration or the customer’s say in the production of the firm’s output. Hence, the difference it poses from the G-D logic is that, under the G-D logic, customers do not have participation in the production of the product and thus, the value creation is embedded in the products which also form part of the price of such goods. On the other hand, with the CI-FTU framework, the customers are part of the production process such that they will know exactly how the products are produced and their resources can also forms part or as integrated in the production process.

Examining closely the concept or the framework CI-FTU on the perspective on Vargo’s (2008b) publication on “Customer Integration and Value Creation”, Moeller’s claims that Vargo’s argument on the concepts of S-D logic is a general concept as it did not deal much on the importance of the co-production the primary tenets of the CI-FTU but rather focus on the co-creation of value. Although, it was explained in the paper the two areas of the value creation, he dwells too much on the co-creation of value concept over the co-production concept. Allowing the customers to share in the development, idea generation and resources in order to develop or produce a product can be considered the strengths of the CI-FTU framework considering that customers are well aware of how the product are processed and assured of the quality of its output and also it allows customized products and services. At some point, customers are instrumental in the successful production of the output and the likelihood of buying and minimizing product returns and defects are ensured. Other strengths that can be drawn from the customer integration is that, any problems or situations that are undesirable during the production process will be made known between the producers and the customers resulting into value added activity that further improves the product, quality, serviceability, and safety of the product use. Also, application of knowledge, skills and resources that can be shared by producers and customers allow product attractiveness and customization at the convenience of the customers and at their preferences.

Logically, the idea that value is created only through exchange of services which the S-D logic claims seems cannot be totally adopted in the modern days considering that, the potency of the G-D logic is still relative and operational nowadays and many companies still considers it as primary means of business exchange. While it is a valid logic that value creation is always uniquely determined by the beneficiary according to Vargo’s point of view, the need to consider the product itself possesses big role in satisfying the needs of the customers which usually refers to product quality, cost and timely delivery. In other words, it is impliedly associated with the product and not only the benefits that it can give through product’s use. In fact, S-D logic is still a collaborative work in progress as it is still subject to extensive reviews and arguments.

However, CI-FTU claims to be unidirectional process may render this framework its weaknesses considering that the focus centers on the production of output which is an extension of the G-D logic. It fails to carefully integrate the after-sale service or the benefits it can give through the beneficial use of such product which is strongly evident in the S-D logic. Although, it was specifically mentioned in the work of Vargo the limitations that the CI-FTU provides, it can be clearly pointed out that it favorably supports the value-in-exchange concept rather than the value-in-use or the value-in-context. Moreover, it enlarges the idea that value creation can only be achieved through customer participation or customer integration that considers it one actor only. It must also be taken into consideration that services or that the company should also take part on the responsibilities they have to take after the products are



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sold, things that S-D logic takes into consideration. To illustrate, in companies where the business is on designing buildings or interior designs, the customers are involved specially in sharing the ideas or the design on how it looks like or even in the materials to be used where the customers can suggest the type of materials or can provide the materials to be used. In other words, it is a customized product that customers are aware of its results during the process. However, after the products are generated, the CI-FTU tends not to take care once the product is utilized or use. Thus, it can be safely assumed that it fundamentally founded on the G-D logic and cannot be separated with the G-D logic (Vargo and Lusch, 2004; Vargo and Lusch, 2006b).

Another considerable argument that makes the CI-FTU a questionable framework is the perceived omission on the contextual network of value creation which considers value as determined by beneficiary uniquely and phenomenological. This means that this logic is limited and for some reasons is focused only on one actor. The essence of collaboration is practically ignored in this framework which therefore dictates that this logic requires further exploration and researches for more reliable evidences. It also gives way to other interpretation on value creation in other context. Moeller's ideas and propositions on this framework may not also consider the full description what value creation is but instead gives way to other frameworks that can further enhanced this logic. For instance, Gummesson (2006) counters the CI-FTU framework by introducing his idea of which lies on the contextual nature of exchange and value creation through "many-to-many" marketing. This just proves that there is lacking in the CI-FTU framework as it does not fully define the essence of value creation. Moreover, there is not much literatures and body of knowledge that affirms the CI-FTU framework that well supports its validity and justifications. For this reason, the lack of concrete evidence of this logic limits the potential impact of this framework to businesses and its applicability.

4. CONCLUSION

In summary, this paper examines the work of Vargo that provides the details on the customer integration and value creation and the S-D logic of which it also tackles the G-D logic in some aspects. Results found out to be not absolute in terms of the legitimacy of the S-D logic as it is still subject to further validations and justifications. This is also true with the CI-FTU framework that although it has advantages but it is also a unidirectional concept that only focuses on the customer integration and thus, it is limited to customer participation as its value creation. Hence, value creation can be expressed in many ways and not only paradoxically limited to one actor. Moreover, further studies may seem rational and needed to study in wider perspective the S-D logic considering that its assumption of service-for-service exchange is still cannot be reconciled with the G-D and CI-FTU of which these two have somehow gained worldwide views and are fundamentally proven paradigms. Hence, to express that S-D logic is inseparable with the G-D and CI-FTU frameworks should consider strong linkage with many theories and frameworks as there are also many paradigms and concepts that defines value creation and not only limited on Vargo's definition of value creation. Different logics may suggest different views and context to define value creation, S-D logic and CI-FTU.

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