

# **In The Marketplace There Is Only Service - Facilitating Customers' Value Creation**

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# What is *SERVICE*?

**Service is to facilitate and support another party's practices (processes, activities; physical, mental) in a way that helps this other party achieve its goals in life or business.**

**NB. This is not services as activities, such as maintenance, personal service, etc.**

# The first thing to understand about customers?

## IN THE MARKETPLACE THERE IS ONLY SERVICE!

**There are those who need assistance to facilitate their processes, and there are those who have the resources and capabilities required to offer such assistance.**

***Customers look for firms that instead of offering them resources only, concentrate on offering them the support required by them, so that their business or life processes are facilitated.***

**Consequently, in the marketplace there should be only service businesses**

# Two case examples:

## 1. Kone lift maintenance and repair

**At the time Kone's service customers were dissatisfied and cancelled service contracts to a considerable degree.**

**When asked why, they said this:**

- **"no problems with the actual repair and maintenance: you do it well"**
- **"the way the maintenance people behave is often irritating"**
- **"we cannot communicate with them"**
- **"frequently we don't understand their way of working"**
- **"it is often difficult to get in touch with you"**
- **"it is often difficult for us to adapt to your systems"**
- **"timetables that are not kept is a problem for us, and irritate us"**
- **"it is often cumbersome to get problems that sometimes occur attended to"**
- **"lack of flexibility in your systems often causes inconveniences for us"**
- **"we don't know how much we can trust you"**

# The conclusion

**Although the firm offered services, it was operating in a product-oriented way, focusing on the outcome only**

***i.e. it operated as a product business***

**NB. Kone as a firm with intelligent leadership quickly solved the problem, and has since developed their service orientation much further.**

# Two case examples:

## 2. Genelec sound recording equipment

**Ilpo Matikainen, founder and chair of Genelec Oy (based in Iisalmi), when asked about the reason for the firm's success:**

**"There is no secret. If the customers are satisfied with the firm's products, *and with its way of operating*, you will be successful"**

(Interview in *Ekonomi* 7.10.2010)

**What would Genelec's customers say about their supplier?**

- we like your way of approaching us
- we like your way of facilitating our processes
- etc.
  
- and we appreciate your high-quality products as well

# *The conclusion*

**Although the firm offers products, it is operating in a service-oriented way, focusing on the processes (and making sure that the products meet customer requirements)**

**i.e. it operates as a service business**

# *Learnings: 1. What does it take to be a service business*

**The type of resources needed in facilitating and supporting customers' processes – products, service activities, information ... – is not important.**

**It is the perspective taken that matters.**

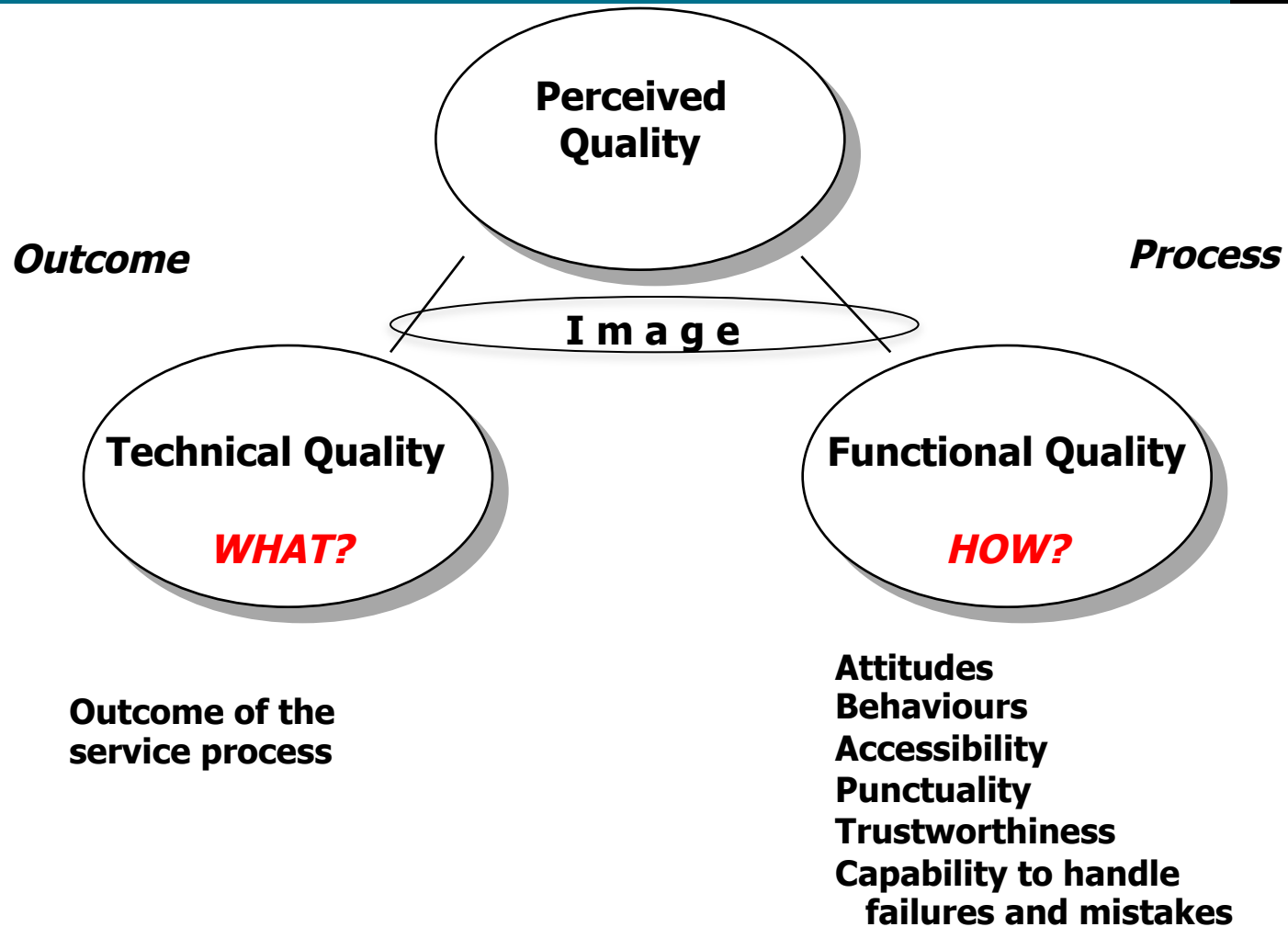
**How a firm positions itself in the marketplace is the key question.**

**Consequently, any firm can be a service business.**

**Being a service business is a *strategic choice*.**

**- and a function of the dominating *mental model* in the organization ("*culture*")**

# Learnings: 2. How is service experienced?



**Outcome of the service process**

**Attitudes  
Behaviours  
Accessibility  
Punctuality  
Trustworthiness  
Capability to handle failures and mistakes**

# *Learnings: 3. Focus of innovation*

- 1. The Outcome of the service processes:  
Can we achieve something novel?**
- 2. The Process:  
Can we do it in a novel way?**
- 3. The Business model:  
Can we create a new business?**

## **Sources of Process innovations:**

- 1. Products and hardware that are **servicized** (e.g. easy to use, maintain, upgrade ...)**
- 1. **Hidden services** that are turned into real service (e.g. invoicing, handling complaints, documentation ...)**
- 3. Existing service activities that are made **supportive** to customer processes (e.g. deliveries, installing, training, call centres, FYI ...)**
- 4. A **servicescape** that is made customer focussed (e.g. environment, websites, computer and mobile interfaces, systems, self-service ...)**

# *Learnings: 4. The logic of being a service business (service logic)*

**Depending of the perspective taken, the service logic takes different meanings:**

## ***From a user perspective (User service logic)***

**User service logic means that users of resources provided use these resources, together with other resources required, and apply skills held by them, in a self-service process – “as service” – in order to create value for themselves (“value-in-use”)**

## ***From a provider perspective (provider service logic)***

**Provider service logic means that a supplier gears its practices (processes, activities and competencies) towards facilitating and supporting its customer’s corresponding practices, so that value is created in those practices, and ultimately in the the customer’s business process/life process**

# Regarding *VALUE* there is an agreement in the literature

**In the contemporary management and marketing literature, there is an almost complete agreement that value is**

- created by the customer during usage as ***Value-in-Use***
- **determined by the customer alone**, based on experiences with resources (goods, services, information, etc.) used

**In contrast to a previously dominating view that value**

- is created (and determined) by the firm (supplier, service provider),
- and exchanged for money with the customer as ***Value-in-Exchange***

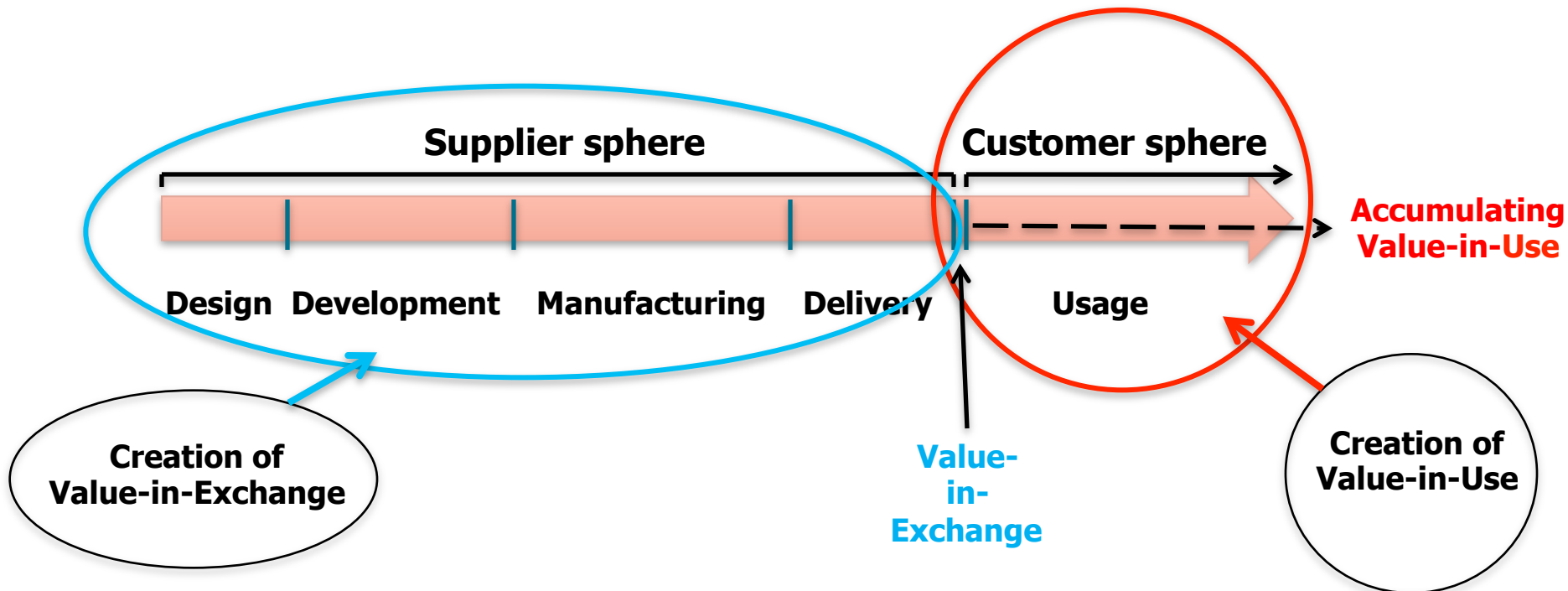
# Creation of value for the customer: from value-in-exchange to value in - use

Traditionally in marketing and management (based on *labour theory*):

**Value-in-Exchange:** Value embedded in production output (e.g. in goods), which is exchanged for money or money's worth

Contemporary (and originally honoured; based on *utility theory*):

**Value-in-Use:** Value emerges during customers' use of resources (e.g. use of goods, services)



# *But the treatment of VALUE CREATION in the literature is a mess*

To sort this mess out: Take value as Value-in-Use as the starting point,  
Following the critical S-D logic literature (Service logic):

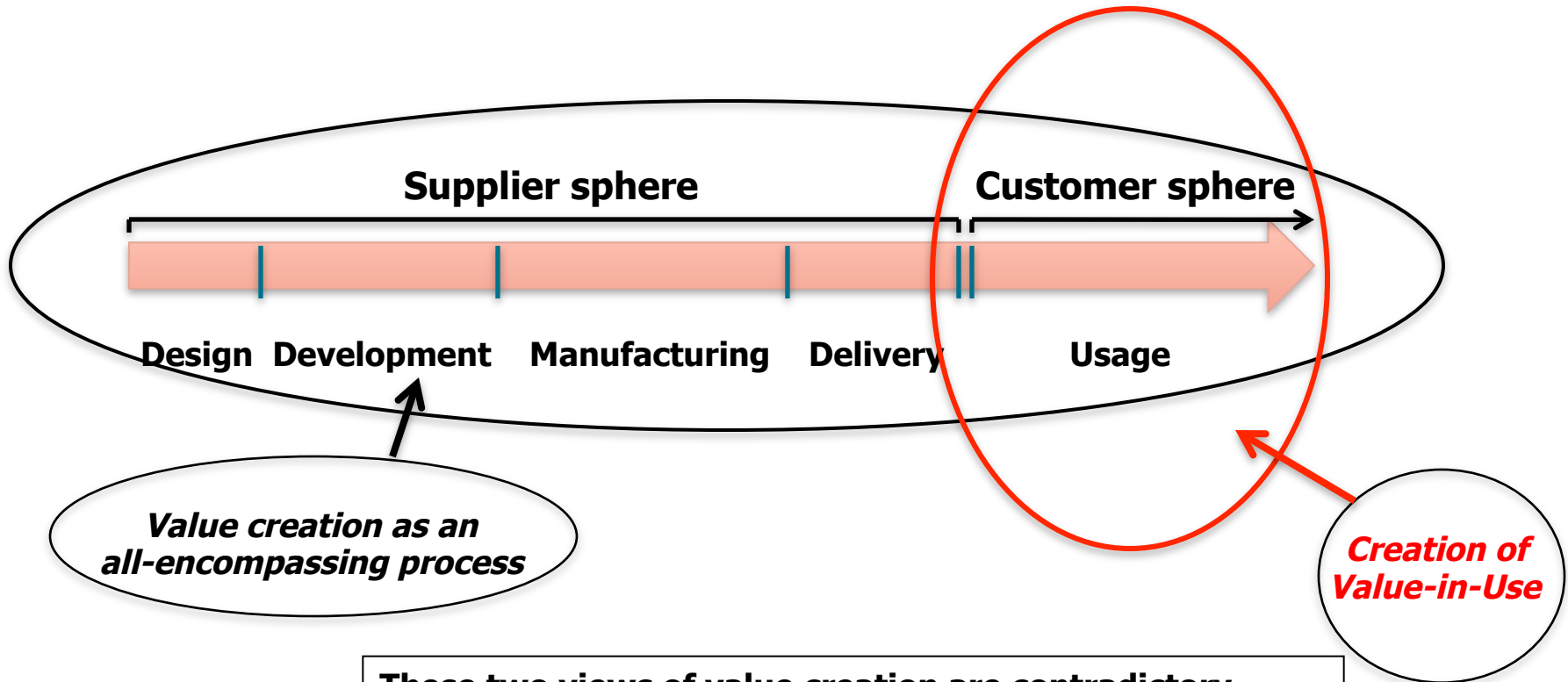
- Value creation **relates to the customer sphere.**  
**Definition:** *Value is created by customers during their usage of resources available ( goods, service activities, information, etc.)*
- During **direct interactions, the firm may** get access to the customer sphere and **co-create value** with the customer

*(“customers create value for themselves”; “firms cannot create value”;  
“firms can become value co-creators”; Grönroos, 2008; Grönroos and  
Ravald, 2011)*

Meaning: Value creation is a clearly specified process, i.e. ***the customer’s creation of value in use.***

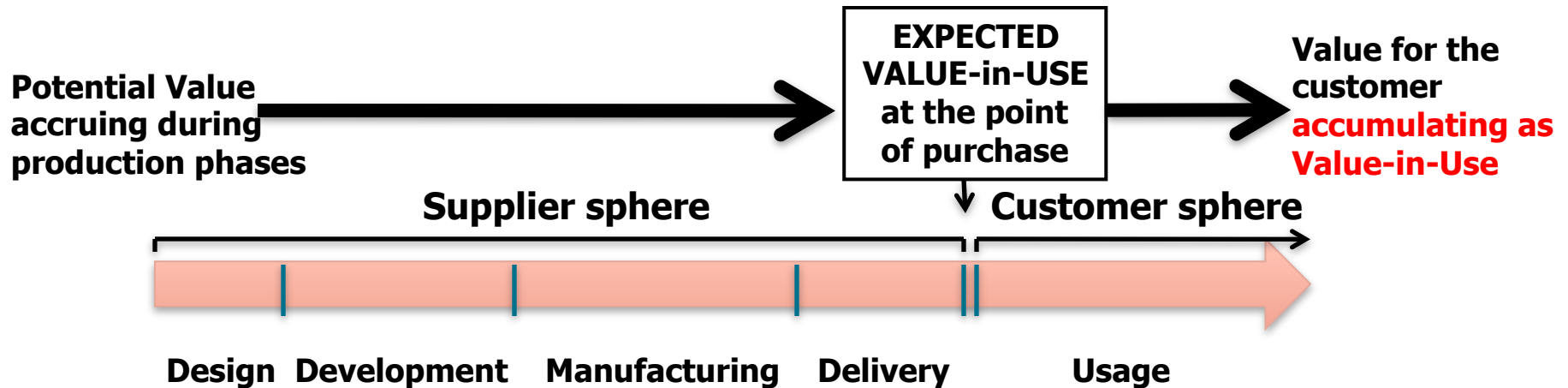
Other processes may influence and even engage with this process.  
Roles, scope and content of the actors (firm, customer) can be identified and specified.

# Value creation as everything (cf. S-D logic) vs. creation of Value-in-Use?



**These two views of value creation are contradictory.  
In the same model value cannot be created in two ways!**

*Defining value as customers' creation of value-in-use enables theoretical and managerial implications far beyond what is possible according to a view that "everything is value creation"*



**Conclusion:** Potential Value that customers pay money for is **a function of expected Value-in-Use** (and not of value-in-exchange)

The service provider is a **VALUE FACILITATOR**

# Production and Value Creation: the roles of the Service Provider and Customer, respectively

## From a production perspective:

Joint production process: the **Customer** participates as **co-producer of resources and processes with the provider**

(Figliar & Langeard, 1975; Grönroos, 1978)

PRODUCTION

INTER-  
ACTION

THE CUSTOMER'S  
VALUE CREATION

**Value Facilitation**

(Grönroos, 2008)

## From a value creation perspective:

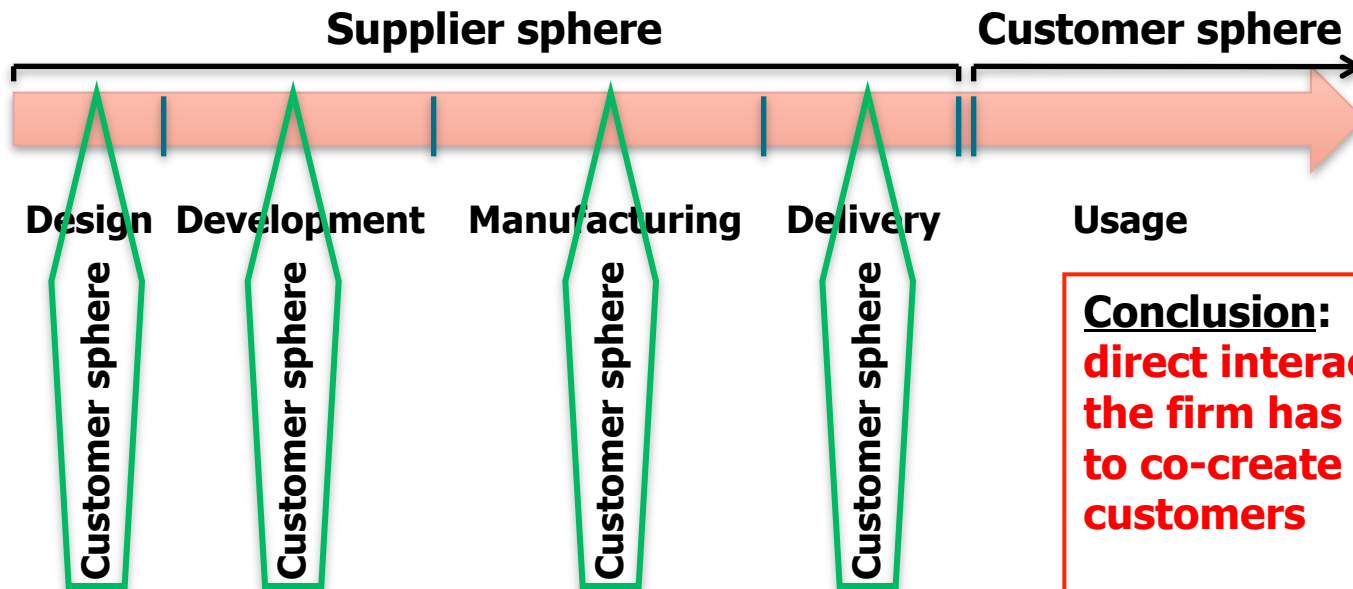
Joint value creation process: the **Provider** participates as **co-creator of value (value-in-use) with the customer**

(Grönroos, 2008; Grönroos & Ravald, 2011)

(Grönroos, 2011)

# Direct interactions between service providers and customers are fundamental for value co-creation

## WHERE CAN DIRECT INTERACTIONS OCCUR?



**Conclusion:** Where ever direct interactions occur, the firm has opportunities to co-create value with its customers

E.g. The customer co-designs a solution, in the same process the firm may co-create value with the customer

# *In summary:*

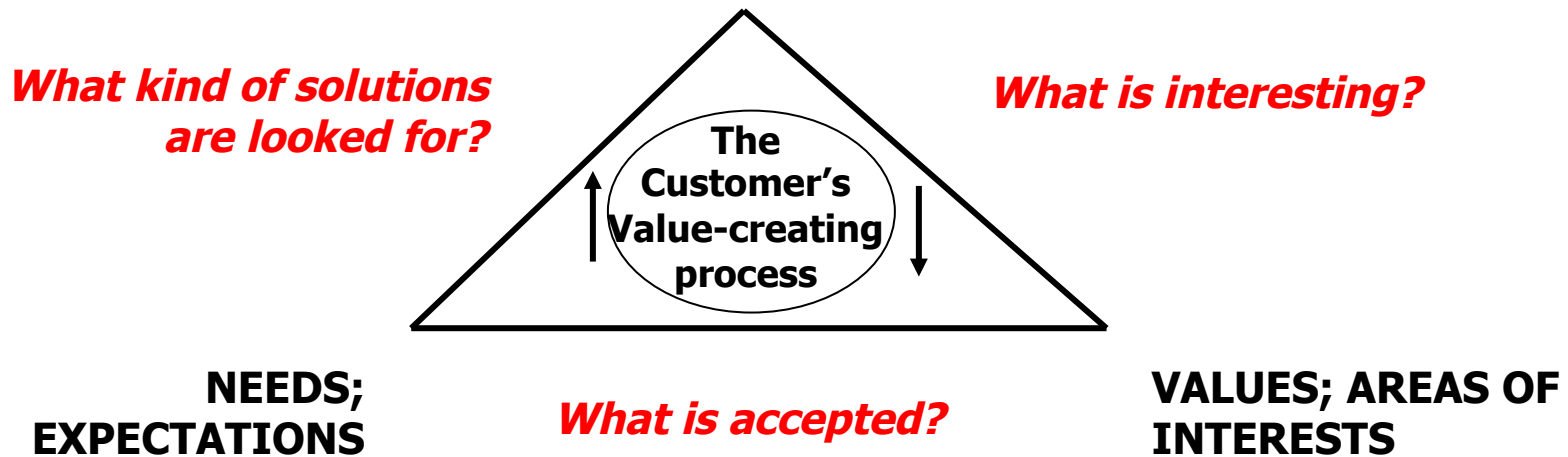
**Ground rule: *The customer creates value as value-in-use, the firm facilitates the customer's value creation***

- 1. The Customer is always **THE VALUE CREATOR** (of value-in-use)**
- 2. The Firm is fundamentally **A VALUE FACILITATOR****
- 3. During direct interactions, the Firm can **CO-CREATE VALUE TOGETHER WITH ITS CUSTOMERS****

*(Grönroos, 2008; 2011)*

# Understanding customers: the customer's gameplan

## EVERYDAY PRACTICES



To understand the customer: *Where to start?*

Normally, what do we know least about?

How/where can we get necessary insights?

# *It's much about mental models guiding everyday activities in an organization*

The focus differs between service-focussed and product-focussed firms:

**PRODUCT-FOCUSSED** firms  
focus on **PRODUCTS** and **OUTPUTS**  
and on selling **PRODUCTS** (*outputs  
from the firm's processes*)

**SERVICE-FOCUSSED** firms  
focus on **CUSTOMER RELATIONSHIPS** and  
**PROCESSES** and on selling **SOLUTIONS** that  
solves customers' everyday problems (specific  
and mundane) as *inputs to the customers'  
processes*

**Remember: A SOLUTION has to be a solution to a customer problem;  
otherwise it is only a bundle of tangible and intangible  
elements offered as product (output)**

# *Thank you*

## Major sources:

- Grönroos, Christian (2007): *Service Management and Marketing*. 3<sup>rd</sup> edition. Chichester: John Wiley & Sons (suomeksi: *Palvelujen johtaminen ja markkinointi*. Espoo: WSOYPro/Ekonomis-sarja, 2009)
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