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How Can Service Dominant Logic Help Small Enterprises to Improve Their Operations?

The Case of Kestohitsaus Oy

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Abstract

This thesis aims to study how Service Dominant Logic (S-D logic) can help small enterprises to improve their operations. Our case company for this thesis is “Kestohitsaus Oy”, which is a small Finnish business to business firm. The case company has been analyzed by applying the theoretical framework of S-D logic as a focal point while other related concepts such as value creation and value co-creation, value in use and value in context, businesses as networks and service systems have also been explored. The main research questions are as follows:

- Is our case company “Kestohitsaus” currently operating according to a Goods Dominant Logic (G-D logic) or according to a Service Dominant Logic (S-D logic)?
- How can S-D logic be used to improve business relationships and networks for small enterprises?
- What implications does S-D logic set on our case company and other small enterprises to make a shift from G-D logic?

We chose a qualitative research method for our thesis and focused on conducting exploratory research. Interviews with company personnel and observations have been used as data collection methods in this thesis. Additional data has been collected by studying company documents, company web page, inventory lists, financial statements etc.

Our findings and analysis suggest that the case company is partially using S-D logic in its operations but without being aware of the concept. Based on our analysis we recommend Kestohitsaus to develop its supply chain and sales networks according to S-D logic. Furthermore, as general implications for other small enterprises who aspire to become more S-D logic-like, we suggest a focus on strategic planning, S-D logic realization, operant resources and business networks and relations.
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1. Introduction

Service centric approaches have gained much acceptance and appreciation in the last few years. This has been discussed comprehensively by many academics and authors in their research works. Eventually it started to get accepted at corporations’ level and many businesses have re-aligned their business models based on service. Before a company can model itself as a service based company, it needs to fully understand this new concept and also make sure to familiarize its employees about the model and service dominant logic as a framework and how it differs with previously followed goods dominant logic.

Vargo and Lusch (2004, 2008) distinguish the S-D logic from G-D logic; G-D logic sees services as units of output whereas S-D logic sees service as a process. In addition, G-D logic and S-D logic view the concept of value and ‘value creation’ from different angles. G-D logic sees value as perishable and closely linked with the product itself – it is embedded in units of output (Vargo & Lusch 2004), created in relative isolation from their customers (Schau et al. 2009) and finishes with the use of the product itself. Whereas S-D logic holds that value is co-created (Ramirez 1999), realized in use (Akesson & Skalen 2011) and customer oriented and relational i.e. measured in the customer’s social context (Edvardsson et al. 2010).

The aim of this research is to study how S-D logic can be used to improve operations and business relationships/networks in small enterprises. Our focus has been small enterprises because there has not been much previous research on practical implementation of S-D logic on small enterprises. We will also study the implications of different S-D logic principles when it comes to the case organization and if it is viable to make certain changes at operational level in the organization. The key contribution of this thesis revolves around the implications it sets out on small enterprises who aspire to be more S-D logic like by making a shift from G-D logic framework.
Therefore, we have decided to make a case study of a small Finnish importing and industrial marketing company Kestohitsaus Oy. Currently the company is not intentionally working according to S-D logic and our objective is to find out what they are doing at the moment and if and how their operations could be improved by using service dominant logic.

Main research problem:

- How can service dominant logic help small enterprises to improve their operations?

Additional research questions:

- Is our case company “Kestohitsaus” currently operating according to a goods dominant logic or according to a service dominant logic?
- How can S-D logic be used to improve business relationships and networks for small enterprises?
- What implications does S-D logic set on our case company and other small enterprises to make a shift from G-D logic?

First, we review theory on service dominant logic and its related areas like value co-creation, value in context, businesses as networks and service systems. We explore different academic works done in the field and try to analyse differences between goods dominant logic and service dominant logic.

In the empirical part, we conduct a qualitative case study research using triangulation method with the help of company documents (financial statements, inventory lists, company web-page etc.), semi-structured in-depth interviews, observations and discussions with the company personnel. After conducting the research, we analyse the findings and results in relation to the theoretical part and discuss it from different perspectives. In the last parts of this thesis, we come up with recommendations and suggestions for the company for future development.
and also make general implications for other small enterprises who aspire to be S-D logic based.

2. Literature Review
In this part of the thesis main theoretical concept of service dominant logic has been explained. We start with reviewing main differences between goods dominant logic and service dominant logic, this helps us to answer one of our research questions pertaining current situation at our case company Kestohitsaus. In later parts, we explain the related concepts such as businesses as networks, service systems, and value in use and value in context to have a deep understanding of the concept. Furthermore, the link is been drawn between S-D logic and small enterprises by explaining the significance of S-D logic on small enterprises’ operations.

2.1 Goods Dominant Logic vs Service Dominant Logic

2.1.1 Goods Dominant Logic
Historically goods dominant logic has been the focal point of businesses. This business concept relies heavily on goods/products. Vargo and Lusch (2008) explain G-D logic as goods centric approach and concentrating on economic exchange which is fundamentally concerned with units of output that are embedded with value during the manufacturing. They further claim that this production ideally takes place in isolation from the customer and results in standardized, inventoriable goods.

G-D logic is related to the production and manufacturing of goods, Ng et al. (2012) explain it as traditional thinking or the dominant logic within manufacturing firms based upon tangible units of production, be it materials or equipment, products or services. According to this logic, the concept of value is
closely linked with the product itself and value is embedded in units of output (Vargo & Lusch 2004). So the value is transferred to the customer with the product itself i.e. when the customer buys the product from the firm and this “exchangeable value” is used and destroyed with the consumption of the product (Ramirez 1999).

According to Vargo et al (2010) the traditional G-D logic provides a view of economic exchange and value creation that focuses on the production and distribution of tangible goods and considers services as special types of goods with undesirable qualities (e.g. intangible, perishable products) or add-ons to tangible products (e.g. post sale service). There is no separate attention on service from the firms and they are more concerned in improving the product by increasing its attributes, functions etc.

The process of value creation usually involves only the firm manufacturing products or in some cases tangible inputs from suppliers etc. Customers do not have much involvement (usually no involvement) in the whole production (value-creation) process – as the value is produced in relative isolation from their customers (Schau et al. 2009). Their main role is to consume the product and ‘destroy’ the value created by the firm.

The main type of resources used by firms operating according to G-D logic is “operand resources”. Operand resources are resources on which an operation or action is performed (Vargo & Lusch 2004) e.g. land, animal life, minerals, products such as cars, trucks, books, tables, drilling machines and other natural resources etc.

\[ \text{2.1.2 Service Dominant Logic} \]

Arguably, the establishment of many of the sub-disciplines of marketing such as business-to-business marketing, services marketing and international marketing, is a response to the limitations and lack of robustness of G-D logic as a
foundation for understanding value creation and exchange (Vargo & Lusch, 2008).

Service-Dominant logic is a concept developed by Stephen Vargo and Robert Lusch in 2004; it is based on the assumptions that “all economies are service economies” and “service is the fundamental basis of exchange”. It is related to the co-creation view of value.

The most critical distinction between G-D logic and S-D logic is found in the conceptualization of service; as explained earlier, G-D logic sees services as unit of output (and somewhat inferior to goods) while on the other hand S-D logic sees service as a process of doing something for another party (Vargo & Lusch, 2008). According to the traditional G-D logic, value is embedded in an organization’s offering of products whereas, S-D logic holds that value is co-created with customers and realized in use (Akesson & Skalen 2011).

The whole concept of value changes with this logic as the focus is towards value co-creation, and the usage of value (or destruction) does not diminish with the consumption of the product itself but customers keep on creating value by using the firm’s offerings. Therefore the locus of value creation, then, moves from the producer to a collaborative process of co-creation between parties (Vargo & Lusch 2008). Edvardsson et al. (2010) argue that value co-creation is shaped by social forces and is reproduced in social structures and can be asymmetric for the actors involved.

Moreover, the use of resources in both these frameworks is fundamentally different, according to Vargo et al (2008) the crux of the difference between S-D logic and G-D logic lies in the basis of exchange. Akesson and Skalen (2011) further explain that in G-D logic framework, organizations primarily use “operand” resources (such as natural resources, materials, machinery etc) while on the other hand in S-D logic framework, organizations’ focus is more towards
“operant” resources (such as knowledge and skills of its people). But this is only to highlight the main difference of approach between two frameworks.

In focusing on the integration of operand and operant resources to support the activities and interactions through which a service occurs, S-D logic posits both providers and customers as essentially being resource integrators (Vargo & Lusch 2006; Vargo 2008) acting in networks embedded in service systems (Edvardsson et al, 2010). We talk about these business networks and service systems in more detail later in this thesis.

Initially Vargo and Lusch came up with eight foundational premises of S-D logic and later in 2008 they updated the premises and added two new ones. The premises are listed below in the table (Vargo and Lusch, 2004; Vargo et al., 2008).

<table>
<thead>
<tr>
<th>Premise number</th>
<th>Foundational premise</th>
</tr>
</thead>
<tbody>
<tr>
<td>FP1</td>
<td>Service is the fundamental basis of exchange.</td>
</tr>
<tr>
<td>FP2</td>
<td>Indirect exchange masks the fundamental basis of exchange.</td>
</tr>
<tr>
<td>FP3</td>
<td>Goods are a distribution mechanism for service provision.</td>
</tr>
<tr>
<td>FP4</td>
<td>Operant resources are the fundamental source of competitive advantage.</td>
</tr>
<tr>
<td>FP5</td>
<td>All economies are service economies.</td>
</tr>
<tr>
<td>FP6</td>
<td>The customer is always a co-creator of value.</td>
</tr>
<tr>
<td>FP7</td>
<td>The enterprise cannot deliver value, but only offer value propositions.</td>
</tr>
<tr>
<td>FP8</td>
<td>A service-centered view is inherently customer oriented and relational.</td>
</tr>
<tr>
<td>FP9</td>
<td>All social and economic actors are resource integrators.</td>
</tr>
<tr>
<td>FP10</td>
<td>Value is always uniquely and phenomenological determined by the beneficiary.</td>
</tr>
</tbody>
</table>
As Vargo and Akaka (2009) advocate that this view (S-D logic) suggests that market exchange is the process of parties using their specialized knowledge for each other’s benefit - that is for mutual service provision.

According to S-D logic, value results from the beneficial application of operant resources, which are sometimes transmitted through operand resources or goods (Vargo & Lusch, 2004; Vargo et al 2008). So both operant and operand resources are required in value creation. Vargo et al (2008) further notes that value is co-created through the combined efforts of different players involved e.g. employees, customers, other stakeholders, tangible resources etc. related to any given market exchange (Vargo & Akaka 2009) but is always determined by the beneficiary of that value i.e. customer. They further explain value co-creation by suggesting the firm’s role in value creation, the proposition of value and provision of service are intermediary to the value co-creation process.

The table from Vargo et al (2008) below explains the difference of value creation (or co-creation) in S-D logic and G-D logic.

**Table 2: Difference of Value Creation in G-D logic and S-D logic**

<table>
<thead>
<tr>
<th></th>
<th>G-D logic</th>
<th>S-D logic</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Value driver</strong></td>
<td>Value-in-exchange</td>
<td>Value-in-use or value-in-context</td>
</tr>
<tr>
<td><strong>Creator of value</strong></td>
<td>Firm, often with input from firms in a supply chain</td>
<td>Firm, network partners, and customers</td>
</tr>
<tr>
<td><strong>Process of value creation</strong></td>
<td>Firms embed value in “‘goods’” or “‘services’”, value is ‘added’ by enhancing or increasing attributes</td>
<td>Firms propose value through market offerings; customers continue value-creation process through use</td>
</tr>
<tr>
<td><strong>Purpose of value</strong></td>
<td>Increase wealth for the firm</td>
<td>Increase adaptability, survivability, and system wellbeing through service (applied knowledge and skills) of others</td>
</tr>
<tr>
<td>Measurement of value</td>
<td>The amount of nominal value, price received in exchange</td>
<td>The adaptability and survivability of the beneficiary system</td>
</tr>
<tr>
<td>----------------------</td>
<td>--------------------------------------------------------</td>
<td>----------------------------------------------------------</td>
</tr>
<tr>
<td>Resources used</td>
<td>Primarily operand resources</td>
<td>Primarily operant resources, sometimes transferred by embedding them in operand resources-goods</td>
</tr>
<tr>
<td>Role of firm</td>
<td>Produce and distribute value</td>
<td>Propose and co-create value, provide service</td>
</tr>
<tr>
<td>Role of goods</td>
<td>Units of output, operand resources that are embedded with value</td>
<td>Vehicle for operant resources enables access to benefits of firm competences</td>
</tr>
<tr>
<td>Role of customers</td>
<td>To ‘use up’ or ‘destroy’ value created by the firm</td>
<td>Co-create value through the integration of firm provided resources with other private and public resources</td>
</tr>
</tbody>
</table>

### 2.2 Businesses as Networks

The traditional business marketing management school was mostly concerned about developing the best possible marketing mix, i.e. the four P’s (product, place, price and promotion). The marketing management concepts which were originally developed for consumer marketing were adopted fairly straightforward into business marketing (in 1960’s). The early research (in 1970’s) on business marketing was mainly interested in the organizational buying behaviour and how the exchange between the buyer and the seller functioned. The weakness of this approach was that it was too focused on the short-term exchange largely ignoring the buyer-seller relationships. In the 1980’s the research on business marketing started to focus more on buyer-seller relationships and nowadays, they are an integral part of business marketing research. (Möller & Wilson 1995)

G-D logic, as explained earlier, relies too heavily on goods and there is no significant importance given to business relationships. Suppliers, customers, other third parties involved with a firm are not being involved substantially in creating
value for a firm, as the concept of value co-creation does not exist in this production based philosophy.

According to Möller and Wilson (1995) exchange relationships can be classified on a scale from simple market transaction via short-term dyadic relationships and long-term relational exchange to networks. Market transaction is the most simple and short-term form of exchange; the goal is simply to conduct the transaction according to the current market forces. The main difference between market transaction and short-term dyadic relationship is that the dyadic relationship is a bit more complex and according to Möller and Wilson (1995) “can be composed of social, economic, legal, technical, informational and procedural relations”.

However the real interest in this research is the long-term relational exchange and especially the networks. The common nominator for these two methods is that both are concerned about creating something that lasts longer than one business deal or contract. They involve extensive cross-organizational interactions and the relationships between different parties can be very complex. The main point with the networks perspective is that many companies that have long-term relationships with each other are linked together, i.e. they form a common network. (Möller & Wilson 1995)

The time-scale on which companies have started forming extensive business relationships and networks has more or less followed that of the business marketing research. Especially in Europe and Japan the development started in the late 1970’s and 1980’s; for example the Just In Time (JIT) supplier relationships initiated by the Japanese companies are a good example of this development. As the history demonstrates, relationships and networks have been important in business marketing a long time before service dominant logic was introduced, but S-D logic has added a new level and a different point of view on how business relationships work. (Möller & Wilson 1995)
2.3 Service Systems, Value in Use and Value in Context

A business network consists of various service systems which interact with each other. According to Vargo et al. (2008) “We can consider individuals, groups, organizations, firms and governments to be service systems if they can take action, apply resources, and work with others in mutually beneficial ways.” From a specific company’s point of view this means that the company itself is a service system, and so is every single supplier and customer they have. The result of this is a complex network of service systems interacting with each other in order to create value and benefits for everyone involved.

The value co-creation between service systems is based on service-for-service exchange and resource integration. Providers present a value proposition, which is evaluated and then accepted, refused or ignored based on the buyers’ needs and competing value propositions. The service offered can be provided directly by the selling company, or indirectly via a good that the buyer will use to perform the service; i.e. typically operant resources are the key to value creation, but sometimes operand resources are used as a tool to provide the service. According to goods dominant logic, the value would be created when the exchange takes place, whereas according to service dominant logic, the value is only created when the buyer has integrated the service into his operations and the value in use determines its worth to them (Vargo et al. 2008). Consequently, this sets different implications on small enterprises aspiring to be more service minded. The shift from production based model to value co-creation model can help a small enterprise to improve its operations by integrating itself with service systems involved.

Besides value in use, the value creation within and between service systems can be considered from value-in-context point of view. Even though the environment cannot be controlled as such, it can be used to create or add value. According to Vargo et al. (2008) “resources such as time, weather, laws which are often considered incontrollable by the individuals and organizations are integrated-if
not relied on- in the value creation process by all service systems (e.g. customers, 
firms, families, countries)”. That is to say, the value in use is always dependent on 
the context; the same product might be invaluable in a certain environment, 
whereas if the conditions change it might become worthless.

2.4 Small Enterprises
The majority of industrial marketing literature concentrates on large enterprises 
and assumes that companies have quite a lot of resources and expertise from 
different fields at their disposal. However for small enterprises the situation is 
different; often the entrepreneurs are “self-made men” who know their own 
industry well, but lack wider knowledge on business administration and 
management. The resources are scarce and the organizations often do not have 
expertise on finance, human resources, marketing, logistics etc. (Karami 2007). 
Thus, the way that small enterprises operate, (such as this thesis on Kestohitsaus 
suggests) is quite different from large organizations with various departments and 
managers who are specialized in their own respective fields.

Hsieh et al. (2010) argue that S-D logic can help small enterprises to improve 
their cooperation and customer satisfaction. In order to compete with large 
competitors, small enterprises have to focus on cooperation and sharing of risk 
and knowledge, thus making the most of their own expertise and specialization 
and using synergy to compensate for the resources that are lacking. Additional 
reason that favors S-D logic in small enterprises is that they are often more 
flexible than large competitors and this enables a better adaption to individual 
customer needs which is one of the cornerstones of S-D logic. (Hsieh et al. 2010)

Hsieh et al. (2010) argue that evaluation of cooperation and networks in S-D logic 
oriented small enterprise should always involve the customers’ viewpoint and 
feedback. This is a major differentiation factor compared to G-D logic where the 
focus is merely on resource acquisition and usage. In order to engage in S-D logic
based cooperation and measurement of customer satisfaction, small enterprises are required to have knowledge on capabilities and resources of the company itself and its partners and the environment i.e. successful implementation of S-D logic in small enterprises requires a clear view on internal and external factors and a long-term strategy. (Hsieh et al. 2010)

Karami (2007) has studied strategy formulation in entrepreneurial firms in his research and he claims that the success of small entrepreneurial firms is normally based on long-term plans and constant strategic planning and evaluation of the strategy. According to Karami (2007), most of the small business owners are more engaged in day-to-day planning of their business, instead of following a long term strategy. A problem that Karami mentions is that many small businesses develop a strategy at the start-up phase, but later on due to lack of time, resources and capabilities there is no actual implementation, evaluation and development of the initial strategy.

Another point that Karami (2007) makes in his research is that the environmental scanning in small companies varies a lot. Once again the amount and quality of scanning depends on the resources and the capabilities of the personnel and often the scanning process is a mixture of informal and formal processes and there are often problems with collecting and analyzing the data. However the studies show that knowing the environment and using the knowledge as a tool in strategy formulation is one of the common nominators for successful small enterprises.

The general consensus on small and medium enterprises’ research is that the niche strategy is most suited for majority of small enterprises. It is better to use those limited resources in the right and less competed niches, instead of trying to compete with large rivals for every customer. That is why the environmental scanning and strategic planning are one of the keys to success for SMEs. (Karami 2007)
This is the framework inside which the small enterprises normally have to operate in and it is what distinguishes them from the large competitors who have more resources at their disposal.

3. Research Methodology
Choosing the right type of research methodology is imperative to conducting successful thesis. Our research problem revolves around finding out how S-D logic can help small companies in improving their operations and how it can be used to build and to improve business to business relationships. We have decided to carry out our research using qualitative research methodology exploring single case study design for this thesis. Since our focus is to find out the implications S-D logic sets on small enterprises, we have chosen to conduct our research on small Finnish firm “Kestohitsaus” as a case study.

Ghauri and Gronhaug (2005) stress that the focal point of qualitative research methodology is to gain insights and to construct theory. Qualitative research is a research strategy that usually emphasizes words rather than quantification in the collection and analysis of data and it draws on the relationship between theory and research (Bryman & Bell 2007). In this research, our primary sources of information are the company and the people working for it. Eriksson & Kovalainen (2008) suggest that most qualitative business researches use organizations and people as source of information. On the other hand qualitative research gives us flexibility when it comes to participants’ behaviour, observations and we can come up with emergent theory by going into more depth as Bryman and Bell (2007) argue that most qualitative researchers claim that their contextual approach and prolonged involvement yields rich deep data.


3.1 Research Plan
Research strategy and research design are often part of a research plan. Research strategy provides an overall picture of the research i.e. if it is an explanation to a problem or if it is more oriented towards finding a solution and exploring different options (answering “how” questions). It also helps in identifying the focus of the study. Research design helps provide an overall plan and methods of data collection. According to Philliber et al. (1980) research design gives a roadmap of any research while answering following areas of research question; relevant data, how to collect it and eventually how to analyze it.

In this research, we have focused on exploratory research by exploring “how” questions which have been mentioned before in earlier parts and the intention has been to focus on a case-study. Yin (2009) explains analytical generalization as the approach which uses a previously developed theory as a template and compares this with the empirical results of the case study. One of our objectives was to be able to generalize the findings and recommendations from this case study to other small enterprises (analytical generalization) following the guidelines provided by Yin (2009) and we have been successful in doing that to some extent. In the latter parts of this thesis we give general recommendations for other small enterprises who aspire to be more S-D logic oriented.

3.2 Data Collection
We have chosen case-study method for this thesis, as mentioned above. Ghauri and Gronhaug (2005) define case study as a description of a management/organization situation involving data collection through multiple sources. The main sources of data collection we have used in this thesis are interviews with company personnel, observations, company documents & reports, company web-page and in addition some time was spent in the company premises making informal discussions with company personnel.
Case study research focuses on one specific issue but highlights it more deeply than most of the other methods. Kothari (2004) implies the same by terming this a method of study which uses depth rather than breadth. This required us to collect data very carefully and evaluate it even more carefully using previous theories and knowledge available. Kothari (2004) further argues that under this method the approach is qualitative and not quantitative. Mere quantitative information is not collected; as such, case study deepens our perception and gives us a clear insight. This method is beneficial in many ways including improvement in overall experience of research and analyzing abilities in general.

Interview is an interactive way of collecting data. There are many different kinds of interviews, each with its own advantages and disadvantages, which the researcher must consider carefully when deciding whether it is appropriate to use interviewing in a particular research design (Bechhofer & Paterson 2000). The basic purpose of choosing interviews as our research technique is because we wanted to find out how people attached to the organization respond to service dominant logic and if they have been aware of it consciously or unconsciously. Eriksson and Kovalainen (2008) suggest that common reason for the use of interviews in business research is that they are an efficient and practical way of collecting information that cannot be found in a published form.

We could have either used structured or semi-structured interviews as a technique to collect data. We have used semi-structured interviews for this thesis, as we believe that has given us enough space and flexibility to find out more information and reach towards the answer of our research questions. The questions asked during the interviews were in Finnish language as we expected the respondents to be able to give detailed responses in a much better manner if asked in Finnish. As Philliber et al. (1980) stresses that it is important to have a friendly and neutral manner that expresses acceptance without being either overly sympathetic or critical, moreover, the use of familiar language tends to set respondents at ease.
We divided these interview questions into four different themes: background questions, customer relationships, supply chain and service dominant logic. The aim has been to get an insight into company’s background, current operations, and current status of business relations vis-à-vis its customers and suppliers in order to place us in a better position to recommend changes and shift from its existing ways of working. The interviews were recorded and some notes of the important issues were made at the same time. Also informal discussions with the personnel have been used as an additional source of information.

Along with the interviews and discussions we also used observation method to aid our research. Since one of our main interests was to find out about the current situation at the company from the personnel involved, we believe observation method has complemented our interview technique. Sanjeev (2010) describes this method as more relevant to descriptive research and describes its advantage as the information obtained is more pertinent to the current happenings; not complicated by either the past happening or future intentions. After finishing the interviews we translated the answers of the interview questions in English language.

We have used triangulation method for comparing different data we have collected through various methods. According to Altrichter et al. (2008) triangulation is an important method for contrasting and comparing different versions of the same situation, as it also gives more detailed and balanced picture. Using different methods and types of data (i.e. company documents, webpage information, interviews, observations etc) in this thesis, has given our data more credibility and reliability. We were able to compare it from different angles and perspectives and there were situations where different views agreed to each other and also where they did not. Altrichter et al. (2008) further explain that this method (triangulation) breaks the hierarchy of credibility and reliability, as it compares different accounts, and that helps in coming out with contradictions and discrepancies which emerge from different accounts but also in situations where
different perspectives agree with one another, the data and its interpretation are considered more reliable and credible.

**3.3 Data Analysis**

Data analysis is definitely one of the most important parts of any research. It involves handling, processing and analyzing of the data which has been collected. The data collected is usually in the form of words and consists of observations and interviews which makes it a complicated task for a researcher to process and analyze it according to original research plans. Miles and Huberman (1994) describe data collected through qualitative research as unstructured and unwieldy since a high proportion of this data is text based consisting of interview transcriptions, other notes including observations and informal chats. It is the researchers’ role to dissect the information gathered into relevant data by using the methods and prior knowledge and theories available.

We have been critical of the data/information collected and put it under different thematically based headings, the triangulation method has been a great help in this regard. There has been an emphasis on theoretical frameworks described in earlier parts of this thesis, as Yin (2009) suggests that the most preferred strategy while analyzing a case study data is to follow the theoretical propositions. He further claims this method of analysis as extremely useful in guiding case study analysis. Further in our analysis/discussion part, we continued with the themes while discussing the collected information from the company along with overall concept of S-D logic, businesses as networks, value in use etc. In latter parts of discussion, we have analyzed our data by evaluating and comparing with Vargo and Lusch’s (2008) ten foundational premises of S-D logic. Furthermore, analytical generalization (Yin 2009) method has been used to formulate general implications for other small enterprises who aspire to be more service minded, learning from this case study.
3.4 Limitations

The empirical research for this thesis has been qualitative one with special emphasis on case study methodology using interviews, observations, company reports, inventory lists etc. as data collection methods. One of the most common concerns regarding the use of case-study method is that they do not provide much basis for scientific generalization (Yin 2009). It focuses more on analytical generalization which is primarily derived from the comparison between qualitative empirical data and previous theoretical frameworks. Additionally this thesis only takes into account an internal point of view of the firm and there has not been much external opinion.

4. Empirical Part

The empirical part of this research was conducted by thoroughly going through the operations and strategies of the case company Kestohitsaus and by interviewing the CEO/owner and the sales person for the Central and Northern part of Finland. While doing the research we spent three weeks in Finland, during which time the interviews were conducted, observations made and informal discussions with the company personnel took place. Some time was also spent in the company premises and available marketing material, marketing strategies and even financial statements were studied carefully.

The aim of the empirical research was to get a clear view on how the company is operating in relation to its customers and suppliers, whether they are currently G-D logic or S-D logic focused, if S-D logic would be a suitable approach for them, how it could improve the operations and networks and how it should be implemented in practice.

The structure of this part of the thesis is based on the interview themes; however besides the interviews we have used triangulation method with various sources of data to complement the results. In addition to interviews, informal discussions
with the company personnel have been an important source of data in the following chapters.

**Case Company: Kestohitsaus Oy**

Kestohitsaus is a small Finnish business to business company that imports and markets welding, soldering, sanding/grinding and protective equipment and tools for industrial users. The company was founded in 1983 and their headquarters are located in Lohja, currently they employ four people and their turnover in 2011 was about Seven Hundred and Fifty Thousand Euros (Eur 750,000). Kestohitsaus imports some goods from abroad and other suppliers are located in Finland.

### 4.1 Background Questions

In order to get an idea of the case company’s internal situation and the external environment they operate in, we designed the first part of the interview with some background questions.

#### 4.1.1 SWOT Analysis

First of all the respondents were asked to identify the internal strengths and weaknesses and external opportunities and threats of Kestohitsaus. Both respondents considered personal service and customer service in general to be company’s main strength. They mentioned that Kestohitsaus is flexible and is able to react quickly into customers’ requests. Other strengths included long-term personal relationships that they have been able to develop with the customers and the fact that their customers come from various different industries both in private and public sector. As for the weaknesses both respondents mentioned that current lack of sales force is their main weakness. Few years ago Kestohitsaus had the owner and five sales people travelling all around the country, whereas now there is only one sales person in central and northern part of country and the owner takes care of the customers in the south. The owner mentioned that the size of Kestohitsaus sometimes means that they lose out in price competition to larger
competitors. The sales person considered current supply chain and large number of suppliers as another weakness.

For the opportunities both respondents agreed that expanding the sales area and capturing back old customers is the most important one. This could be done by either hiring more sales representatives or by finding retailers from around the country. Another possibility would be to start an online shop or at least to improve the current website and to utilize communication technology better. The sales person mentioned supply chain again and considered that one opportunity would be to cut down the number of suppliers and try to cooperate more closely with the remaining ones. Respondents could not think of many threats, but the main one was the competition and especially ending up in price competition with large competitors. The owner also mentioned that losing contracts with current suppliers could be a threat and sales person mentioned the general insecure economic situation as a minor threat.

While studying the documents and observing the company operations, we came to the conclusion that Kestohitsaus’ main strengths are indeed the personal relationships and the expertise they have developed over long period of time. One of the company’s founding ideas which is also mentioned on their website is “adding value with service” (Kestohitsaud 2012). In addition the owner of the company explained that Kestohitsaus’ vision is to “find best solutions to individual customer needs”. The personal selling that they use as a main marketing strategy means that the relationships with the customers become strong and there is an individualised feeling regarding the service they offer.

The fact that their customer base comes from many different industries improves their position in the economic fluctuations. If one industry is doing bad Kestohitsaus can still manage with their customers from other fields, especially public sector is a fairly steady customer regardless of the economic changes.
As for the weaknesses, according to our own observations and studying of the documents we believe that the supply chain problems are the major one. Currently their inventories are quite large and there is a lot of capital invested on goods that do not circulate much. Based on their financial statements we have concluded that the rise in inventories threatens the company’s equity ratio and there is an increasing need for outside financing. Thus the development of the supply chain is very important for the future of the company and it is something they need to focus on. The whole flow of goods and the inventory situation needs to be considered or it can threaten the profitability of the company.

Another weakness the respondents mentioned and we agree with is the lack of sales force. Company sales representatives used to cover nearly the whole country, whereas now there are only two sales people and they cannot effectively take care of all the potential customers.

Opportunities were very much connected to the weaknesses of the company. Adding more sales people, increasing the geographical coverage and thus getting back old customers would be one way to improve. Other possibility that became obvious during our research was the use of modern technology and communications. Even with the tools that the company has in their possession currently, they could improve the efficiency of operations and also communication with the customers and suppliers. For example their website is not updated very often and it lacks current information.

Another important point is about price competition - somewhat old fashioned way of doing business and neglecting technological developments can lead into losing out to competitors and those are the other threats they need to consider.

4.1.2 Competition

The next three background questions were about the competition. First respondents were asked how the competition in the market is and has the situation changed recently, next they had to consider Kestohitsaus’ competences and
weaknesses compared to competitors and finally to think how they could stand out from the competition in the future.

The owner said that competition is fierce and has been the same for a long time, the sales person who has longer experience in the industry, explained that the fierceness of competition has not changed much, but nowadays there are less small competitors, and more big ones. Both agreed that personal customer service and flexibility are their main competences against the big competitors. Long-term personal relationships, personal visits at the customers’ premises and expertise are and will be their main tools for standing out from the competition.

For the competition part we have trusted the judgement of the company personnel who deal with the competitors daily. However we did some online research regarding main competitors and as the sales person mentioned, the trend seems to be towards larger companies taking over a bigger share of the market. Multinational chains such as Würth (2012) and Ahlsell (2012) have made heavy investments in Finland and as a result especially the price competition in some fields is fierce.

4.2 Customer Relationships
The next part consisted of nine questions regarding customer relationships. The aim of these questions was to find out who Kestohitsaus’ main customers are, how they work and cooperate with them and how things could be developed further. According to respondents, company’s main customers include engineering/machine workshops, schools, earthmoving, harvesting and drilling contractors, sawmills and garages. In addition they have smaller individual customers from various different industrial fields.

4.2.1 Strategic Planning
Currently Kestohitsaus does not have a system to follow profitability of its customers. They do not make statistics about the customers and the only
information they have regarding profitability is in sales peoples’ minds. Kestohitsaus uses software which would allow doing more comprehensive customer relationship management (CRM), but the information they have is not utilized for CRM as such. Neither have they done any segmenting of their current and potential market or used different marketing strategies for different segments. As for the potential future customers, the owner considered them to be in the same industries as the current customers. The sales person mentioned mining industry as one growing field, which could have customer potential.

We were quite surprised to find out about the lack of strategic planning and segmentation regarding marketing at Kestohitsaus. We do not know what has been the situation earlier, but it seems that during the past few years they have not done much intentional planning or implementation of a marketing strategy. The strategy they have, has been done some years ago mostly by an outside consulting agency; however it is not developed or evaluated constantly. Most of their everyday marketing work is done intuitively and is based on the previous experience of the personnel.

### 4.2.2 Customer Loyalty and Cooperation

The next four questions were about customer loyalty and cooperation with the customers. According to both respondents most Kestohitsaus customers are very loyal. Respondents consider the main reasons for customer loyalty to be personal relationships built with the customers over a long period of time, reliability, problem solving ability and personal visits at the customers’ premises. The fact that customers have a personal salesman, who they can always reach, helps to give them a sense of high quality and more individual service compared to big competitors. Kestohitsaus tries to cooperate with all of its customers and “finding best solutions to individual customer needs” is one of the main ideas in its business strategy. Kestohitsaus has also constantly modified its product portfolio according to customer needs and sales people who visit customers all the time are an invaluable asset in that sense, they allow company to do continuous market
research. Kestohitsaus does not intentionally or strategically try to cooperate more closely with certain customers, but due to close personal relationships the cooperation has gotten deeper with some of them. In order to cooperate better with the customers in the future, Kestohitsaus would need even more information about the customer organizations and especially about their future plans and needs.

Based on the documents and observations we firmly believe that customer loyalty in Kestohitsaus is based on the strengths of the company, i.e. personal relationships and individualised customer service. Customers know the sales personnel over a long period of time and it is easy to get in touch with them whenever they have a need for that, even during evenings or weekends. As for the cooperation it seems that this, like most other things in the company is done intuitively without much strategic planning. As the sales person mentioned, the cooperation with some customers has gotten deeper due to what could be even called friendship between the customer and the sales person. But when it comes to segmenting the market and aiming to intentionally build closer cooperation with the most profitable customers there have not been any efforts made so far.

### 4.3 Supply Chain

The next six questions were about Kestohitsaus’ current supply chain and how the respondents thought it should be developed. The respondents were first asked if they are happy with the company’s current supply chain and why is that. The owner claimed to be happy with the number and the quality of suppliers and said that the suppliers normally react quickly to requests and delivery times are usually good. The sales person however said that the company has too many suppliers and there should be more focus on the buying process, some of the prices could be negotiated lower and sometimes delivery times are too long. In total Kestohitsaus has around one hundred suppliers, even though all of them are not used very
actively. Most supplier relationships are long-term but contracts are not reviewed nor are the suppliers changed very often.

Regarding choosing suppliers both respondents agreed that the main selection criteria are quality and price of products, delivery times and reliability. Both also said that Kestohitsaus should try to improve cooperation and be in closer contact with its suppliers. Closer cooperation and good personal relationships could help with delivery times and pricing and improve the flow of information and communication between Kestohitsaus and its suppliers.

As for the inventories of the company, the owner explained that he is happy with the current situation and that in order to be able to make quick deliveries there is a need for fairly large inventories. The sales person believed that some changes should be made regarding inventories. In his opinion the products that are needed constantly should be always available from the storage, whereas for the products that are rarely sold the aim should be to find suppliers who can deliver directly to customers instead of keeping all the products in stock at Kestohitsaus. In general his opinion was that the flow of goods needs to be improved by developing the supply chain.

This was the part where the respondents’ views differed mostly from each other. The owner seemed fairly satisfied with the way things are currently, whereas the sales person saw a lot of room for improvement. Based on our observations we tend to agree that there is a need for re-evaluating at some parts of the supply chain. The owner is constantly travelling and meeting customers, so he does not have much time to concentrate on the buying process and negotiations. Consequently some of the purchasing is done by the office personnel, who have no previous experience or expertise on buying. As mentioned before, the supply chain and inventory issues are threats to Kestohitsaus’ equity ratio and in long-term to the profitability of the company.
4.4 Service Dominant Logic

The last part of the interview was about service dominant logic, the respondents were asked to give their opinions on the concept, to consider if Kestohitsaus is currently G-D logic or S-D logic focused and how implementing S-D logic could improve its operations and what kind of challenges it would impose on the company.

Neither of the respondents was previously aware of the concept of service dominant logic. In fact there was not much literature available on the topic in Finnish and as the interviews had to be conducted in Finnish there was a need to translate and compile a brief summary about S-D logic and to explain it to the respondents. The first opinion from both was that the concept sounds interesting, but very theoretical. In their opinion many of the things that S-D logic is based on are a part of everyday business life, but it could still add some new dimensions to Kestohitsaus’ operations.

When reflecting the concept to previous parts of the interview they concluded that Kestohitsaus uses many parts of S-D logic without being aware of the concept. Their competitive advantage is based on operant resources, i.e. customer service and expertise instead of operand resources (superior products compared to competitors). One of Kestohitsaus’ founding ideas is to “find best solutions to individual customer needs”, which is basically what S-D logic is all about. Regarding value creation, as Kestohitsaus has customers from various different industries they have realised that the value in use is what determines the value of the product to the customer. They have a selection of products designed to suit different types of requirements and they are able to make different value propositions based on the specific customer needs.

The company operations in regard to its customers are built somewhat along the lines of S-D logic, but naturally there are things that could be improved. Currently the customer relationships have been developed without much systematic planning or strategic choices and that’s something that S-D logic could improve.
Whereas the customer relationships are S-D logic based, the supply chain is not. Even though the owner is satisfied with the supply chain, also he admitted that there are things to be developed. The sales person claimed that the biggest problems the company has are in its supply chain and flow of goods. This is something that S-D logic principles could improve, Kestohitsaus should choose fewer suppliers and aim to build closer cooperation with them, which in turn would lead to less logistical waste and improve the efficiency of the company.

The respondents concluded that in order to implement S-D logic, the concept would first need to be understood thoroughly in the context of the industry that Kestohitsaus operates in. To successfully operate according to S-D logic principles the company would have to focus more attention to its network of suppliers and customers and to try and understand the whole supply chain and flow of goods better and to get even more information about customer needs and future plans.

5. Discussion and Analysis
During our empirical research we acquired a lot of information on how Kestohitsaus operates internally and in relation to their customers and suppliers. In this part we analyse our findings based on our research problem and questions, the literature review and theory on service dominant logic. In the following paragraphs we go through Vargo’s and Lusch’s (2008) ten foundational premises of S-D logic one by one and analyse whether Kestohitsaus is currently operating according to them and what kind of implications the premises have regarding the company operations.

FP1: Service is the fundamental basis of exchange
The explanation that Vargo and Lusch (2008) give to the first premise is that: “The application of operant resources (knowledge and skills), i.e. ‘service’ as defined in S-D logic is the basis for all exchange.”
This seems to be true in the case of Kestohitsaus; the way they do business and compete is based on operant resources. Even though they are selling goods, the reason customers buy from Kestohitsaus instead of the competitors seems to be the way they apply operant resources, i.e. the knowledge and expertise of the personnel. Also other operant resources such as personal relationships and ease of contacting the personal sales representatives are a source of Kestohitsaus’ competitive advantage.

As our research has been made internally in the company and excludes customers’ opinions we have not been able to prove this point from the customers’ point of view. However the empirical research has shown Kestohitsaus’ customers are very loyal and sales people have close personal relationships with the customers. Thus we can assume that their competitive advantage is indeed based on the operant resources.

In addition the principal of service exchange is seen in the way Kestohitsaus gets feedback from its customers. As the sales people travel around the country and meet customers, they get constant direct feedback and do real time market research. In a way this is the service exchange that Vargo and Lusch (2008) talk about; in exchange for service from Kestohitsaus the customers provide them with valuable knowledge that the company can use to improve its operations.

**FP2: Indirect exchange masks the fundamental basis of exchange**

The second premise means that as the process of exchange is such a complicated procedure, often the fundamental basis (i.e. service for service) is not apparent and is masked behind the more visible components of the process (e.g. goods, money and institutions). (Vargo & Lusch, 2008)

When we look at the Kestohitsaus operations from the surface this seems to be the case. If their business model is simplified, they buy a product from a supplier and then sell it to a customer with a profit. In this model the only components involved are money and goods, service is not apparent in any way. However as
we mentioned before, when digging deeper under the surface it becomes apparent that their business is based on the operant resources and service, i.e. the “indirect exchange masks the fundamental basis of exchange”. (Vargo & Lusch, 2008)

**FP3: Goods are a distribution mechanism for service provision**

The third premise is linked to value-in-use theory, which we also talk about in our report. Due to our research design and focus on the case company’s internal issues this premise was not researched as such in our empirical part; however some general conclusions regarding FP3 and Kestohitsaus can be made.

The basic idea of this premise is that the good itself has no value, but the value is created when it is used. This may seem like quite an obvious statement and this is what happens in our case company too. All the products that Kestohitsaus sells do not hold value as such, but only become valuable depending on what they are used for and what kind of service they provide to the customer. This is especially true in our case, due to the fact that nearly all the products Kestohitsaus sell are used as part of the customers’ own value creation (i.e. production or manufacturing) process.

There is also another way to look at this premise from Kestohitsaus’ point of view. One can think that even though the competitive advantage is based on service provision and operant resources, that advantage could not be realised without the physical goods. In order to take advantage of the personal relationships and expertise (i.e. to provide the service), the sales people need to have the right kind of goods they can use as a distribution mechanism for the service provision.

**FP4: Operant resources are the fundamental source of competitive advantage**

One of the main principles of S-D logic is that instead of operand resources (e.g. superior products) the competitive advantage is normally based on operant resources (e.g. knowledge and skills) (Vargo & Lusch, 2008).
As we have previously mentioned in our thesis, this premise is definitely true in the case of Kestohitsaus. Naturally the products they sell have to be high quality, but they are not unique and it would be possible to buy them from competitors. The company does not have own manufacturing which means that product development as such is not even an option to gain competitive advantage. Thus in order to gain that advantage over competitors Kestohitsaus has had to concentrate on developing their operant resources. All of this has been done way before the concept of S-D logic was first introduced and as we mentioned in the empirical part, to this day the personnel were not aware of S-D logic.

However one thing that contradicts with the development of operant resources is the decrease in the amount of sales people during the past five years. There may have been several reasons for why the sales people are not working for Kestohitsaus anymore, but it is something they need to think about if they are to develop the operant resources further which would benefit the company in long term considering their ambitions to grow further in different markets.

**FP5: All economies are service economies**

The fifth premise is more on a general level and cannot be applied specifically on our case company. However as mentioned previously, many businesses which on the surface seem to be about simply exchanging goods for money have a service dimension underneath the surface.

**FP6: A customer is always a co-creator of value**

Vargo and Lusch (2008) claim that value is always created in an interactional process between the company and the customer. For analysing the premise in relation to our research we need to ask the question “does customer co-create value with Kestohitsaus”? 

In our case company, the sales person and the customer are in close contact with each other due to the personal selling strategy. The sales person regularly visits the customers’ premises and (according to the vision of the company) the aim is
together try to find the best solutions to whatever needs the customers might have. During this interaction process the sales person also collects valuable information regarding the company’s portfolio of products, pricing etc. and this in turn helps Kestohitsaus to improve its value propositions.

The company has a rather numerous number of suppliers with different product lines to cater different customers in various industries. So it uses large base of suppliers to furnish varying needs. This makes us think that the company is integrated with its business networks in relation to its customers. It has various suppliers, different product lines and different models of goods, varying needs of its customers and when it comes to ‘value creation’ and ‘process of value creation’ (Vargo et al 2008) the company does not just do it by providing goods to the customers rather it is connected to its business partners which have input in creating value. And since most of the customers are long-term based; this is also one of the on-going goals of the company so that results in customers continuing with value creation while they use the products and the company benefits when the same customers come back to it for more orders.

Furthermore the company needs to understand S-D logic as a shift in doing business, as Vargo & Lusch (2008) emphasizes S-D logic represents a shift in logic of exchange, not just a shift in type of product. It is basically a mind-set and an organizing frame work, rather than just a theory. Kestohitsaus needs to re-evaluate some of its ways of doing business especially how they perceive purpose of value and the ways to measure it i.e. it is not only about receiving certain price for selling a certain product.

**FP7: Enterprise cannot deliver value, only offer value propositions**

The seventh premise is closely connected to the sixth one. As we explained in the theoretical part of this thesis, according to S-D logic the selling company cannot deliver value to the customers as such. Instead they make a value proposition which the buyer then evaluates according to his needs, compares against competing value propositions and either accepts or refuses.
Making value propositions is an important part of Kestohitsaus’ everyday operations. Most of their products do not have fixed selling prices and different types of value propositions are made according to the type of the customer and their expected needs. Thus they integrate resources to cater for the individual customer needs. Due to a large variety of industries that their customers represent, Kestohitsaus needs to be able to provide various types of service. It is crucial for the sales person to know what kind of a value proposition to present to which customer. For example an earthmoving contractor who is fixing his equipment needs a premium welding product and is probably willing to pay a premium price for it. Whereas a school that is buying some welding equipment for students is more likely to expect a completely different value proposition based on its own needs and selection criteria.

Therefore it seems that the ability to make right kind of value propositions to the right customers is the cornerstone of Kestohitsaus’ profitability. Even though the company has been quite successful in this, we believe they would benefit from doing market segmentation and strategic planning. Currently all the information regarding what kind of value propositions to make is based on the intuition and the expertise of the current sales people. Especially if the company is to expand and to employ more sales personnel it would be crucial to have that same information available to everyone. This would require implementing a customer relationship management system and consequently development of a more detailed marketing strategy, which would be also evaluated and developed constantly.

**FP8: A service-centred view is inherently customer oriented and relational**

According to Vargo and Lusch (2008) “because service is defined in terms of customer-determined benefit and co-created it is inherently customer oriented and relational”. This premise is very closely connected to the FP7 and value
propositions. In order to offer the right kind of value propositions the first step is to understand the customer orientation and the relativity of customer needs.

The focus of our thesis sets limitations on studying this premise; however based on the business model of Kestohitsaus we can make some assumptions regarding FP8.

As we have explained before the way that Kestohitsaus competes with its bigger customers is by offering individual service, by focusing on personal relationships between the customer and the sales person and by “finding best solutions to individual customer needs”. This kind of strategy makes the business inherently customer oriented and relational. The fact that all customers are different is recognised by Kestohitsaus and it is apparent in the way they aim to deal with the customers.

**FP9: All social and economic actors are resource integrators**

FP9 is one of the two premises that were added later by Vargo and Lusch. This premise is all about how the different actors (i.e. service systems) interact with each other. (Vargo & Lusch, 2008)

Service systems are essential extension to the overall concept of S-D logic and in order to have S-D logic understanding it is imperative to understand service systems and businesses as networks. Simply put, service systems engage in exchange with other service systems to enhance adaptability and survivability – thus co-creating value (Vargo et al. 2008). A company will have more service systems if it has wide spread operations and bigger size and similarly smaller companies will have fewer service systems. Kestohitsaus being a rather small company has few service systems. The individuals working for the company (mostly sales representatives) can be considered as a service system individually or as a group as Vargo et al. (2008) points out service systems can be individuals or groups of individuals. Other systems in this case company are different suppliers and customers.
These different systems form a bigger network which connects all these service systems and at the heart of it is our case company Kestohitsaus. The company pays particular attention to its customers since the sales representatives are connected with their customers mostly, they see them regularly travelling around which helps them to have an updated feedback from them and specific changes in their demands. So there is a strong bond between these service systems and since sales force of the company has their own customer base, usually there is not much exchange about customers’ information between different sales representatives. This is something which should be more highlighted in future as we feel that sharing such particular knowledge and success stories will help the company representative to break into more B2B customers in long term.

Shifting our focus towards other service systems, different suppliers connected to Kestohitsaus form these systems. Kestohitsaus is not connected to all its suppliers very strongly or at least the way service centred S-D logic enterprise should be. Firstly, it has way too many suppliers in its list which makes it hard for them to be connected to all. So the company needs to trim down its suppliers list and have fewer suppliers than they have now, it is good to have several suppliers but having too many for a smaller company like Kestohitsaus makes business operations more complicated. Secondly, there is not much knowledge and skills sharing between the company and its suppliers. The company should also pay more attention towards this in future by thoroughly including suppliers within the whole business networks, this would make them share different practices, knowledge about eventual customers, skills & competences, ever changing customers’ needs etc.

**FP10: Value is always uniquely and phenomenologically determined by the beneficiary**

As we have explained in the theoretical part of this paper, according to S-D logic it is the beneficiary (i.e. the customer) alone who can determine the value of an offering. As the FP7 states an enterprise can only offer value propositions which
the customer then evaluates according to his own criteria. This premise has implications to the concepts of value-in-use and value-in-context which we have explained in the theoretical part, this mainly depends upon the way good or service is used by the customer.

As Vargo et al (2008) explain an S-D logic company can only offer propositions, and then it depends on the customer if it suits him or not and how he uses it. In this thesis, the case company Kestohitsaus has different offerings for different customers as we explained earlier. Since the company caters different customers from varying industries, it has to take care of them by offering them different product lines. For example the use of products which it sells to schools is mainly different than the product and its usage for an industrial customer (e.g. a drilling company) and also the circumstances these companies operate and use the product determine the benefit of the offerings.

6. Implications

6.1 General Implications
In this part we shift our focus towards general implications for other small companies to benefit from this case company in order to implement S-D logic in practice. The method of analytical generalization (Yin 2009) has been implemented on the collected information from the case company while comparing it with theoretical concepts.

We answer one of the research questions i.e. how can S-D logic improve the business relationships/networks in a small enterprise? Of course the scope of S-D logic differs with the size of the enterprise and the nature of its business but we feel there are some common grounds and general implications these companies can benefit from. Additionally these general implications will assist small enterprises in making a move from production based model (i.e. G-D logic) to value co-creation model (i.e. S-D logic).
**Strategic planning**

The main issue with our case company and with many other small enterprises seems to be the lack of strategic planning. As we have explained in the theoretical part of the thesis, many small enterprises lack the resources and expertise to implement, to evaluate and to develop a strategic approach to their operations. The owner and the personnel are experts in their own fields, but often lack the knowledge on issues such as finance, human resources, marketing and logistics. However research suggests that long term strategic planning is one of the key nominators for successful small enterprises. (Karami, 2007)

Hsieh et al. (2010) who studied S-D logic in small enterprises emphasized the importance of having a clear view on internal and external factors and developing a way of evaluating and building networks and cooperation with other service systems. To be able to do this process effectively a company needs a business strategy that is constantly evaluated and improved according to internal and external changes.

Kestohitsaus is currently not engaged in strategic planning. They have come up with a business plan and a strategy initially, but in company’s daily operations the plan is not visible.

Another point that Karami (2007) made about small enterprises is that the level of environmental scanning varies and is normally a mixture of formal and informal processes. As we have explained in the empirical part of the research, at Kestohitsaus the process is very informal. There is no segmenting or formal market research done and neither does Kestohitsaus have any type of customer relationship management system. As a result the valuable information that the sales people informally, but constantly gather from the customers is not used to full extent. If the environmental scanning was more formal and planned it could serve as a basis for the development of their marketing strategy and also be used to continuously evaluate and to develop the strategy. Also as Hsieh et al. (2010) argue, in order to evaluate its networks correctly a small S-D logic based
company needs to have a system for evaluating its environment and cooperation with other service systems.

Kestohitsaus should have a clear idea on who are their most important customers, what kind of service do they need and what is the best way to provide it to them. If S-D logic is to be implemented successfully into all company operations there needs to be a constant strategy that is implemented and communicated throughout the organization.

Currently most of Kestohitsaus’ marketing work is done intuitively and is based on the previous experience of the personnel. When there are only two sales people in the organization the current approach may well work. They have a long experience on the industry and they know what the customers expect, i.e. they are able to make the right kind of value propositions to right customers. However, if the company is to hire more sales people and to expand the sales area, the knowledge should be shared also to the new employees. Also one of the cornerstones of service dominant logic is to know the customers’ expectations and to be able to “pick the fights you can win”. Making random value propositions to random potential customers is not going to work in the long run. In order to take full advantage of the limited resources and especially to expand its operations Kestohitsaus will need to do more strategic planning.

The same logic can be expanded to small enterprises in general and especially to the ones who use personal selling as their main marketing tool. As Karami (2007) mentioned, many entrepreneurs are more concentrated on the day-to-day management instead of coming up with long term plans and objectives. However sometimes it would be helpful to stop and think what the company is doing, how it is utilizing its resources, could things be developed further and should the limited resources be used for something else instead.

It would be logical to assume that similar to our case company Kestohitsaus; many other companies use some parts of S-D logic and some parts of G-D logic
in their approach to doing business. If a company decides to implement S-D logic into all of its operations the same environmental scanning and strategy development process needs to be done. The key for successful implementation of S-D logic is to know the internal resources, the external environment and especially the customer expectations.

**S-D logic Realization**

In order to shift to S-D logic first of all the company needs to understand the service centric concept in whole and how it is different than manufacturing mindset or G-D logic. The concept underlines the basic fact that is service being the foundation of any business and tangible products are only the means of exchanging value with the customer. It needs to be understood that value in general, value co-creation and value in context in particular are totally different in these two frameworks.

The whole concept of value (involves value creation, value co-creation, value-in-use etc) differs in G-D logic and S-D logic philosophies and this is one of the main things for any company to understand. Value is not only when a customer buys the product and pays for it, rather it is a macro concept which starts way before the buying process and goes way beyond the actual sale. And the realization of this underlying concept is the most necessary for any S-D logic aspiring enterprise.

So the company can start up with evaluating its current operations against S-D logic by pointing out what and how is it doing currently and comparing it with how it should be done under S-D logic and service focused approach. And this would not only help it in getting to know if it is currently S-D logic or not but it can also benefit by pointing out the gaps in its current operations from where it would like to go under S-D logic philosophy.
Operant Resources

Resources play an important part in any organization; it can either be operand resources (e.g. superior goods etc.) or operant resources (e.g. competence, knowledge etc.). S-D logic philosophy insists on the importance of operant resources by calling them means of competitive advantage for an organization. As we found out in our research, the case company has developed its operant resources over the period of time and this has been done by focusing on personal relationship with customers and sales representatives having deep knowledge about the different needs of their customers.

This is a lesson to be learnt by any other small company which would like to implement S-D logic in its way of doing business. In today’s fast moving world, any product can be copied and reproduced by the competitors but what gives an edge to a company is its strength in intangible resources which could be its employees or special skills or knowledge about the market and the customers. All in all the focus in S-D logic is more towards operant resources rather on operand and this has been obviously an advantage for our case company and imitating this mindset will benefit other small enterprises as well.

Focus on Business Networks and Relations

Having good relationship with different stakeholders involved is one of the main propositions of S-D logic. An enterprise usually has several service systems and these systems create a business network. In our thesis, we found out about different service systems and business relationships our case company has with these systems.

As we mentioned previously Hsieh et al. (2010) argue that S-D logic can help small enterprises to improve their cooperation and customer satisfaction. To compete with large competitors, small enterprises can create synergy; focus on their own expertise and to share knowledge and risks. Hsieh et al. (2010) also emphasize the importance of customer feedback and claim that in order to
successfully implement S-D logic into small enterprise there is a need to integrate the customer as an integral part of the business network.

Since Kestohitsaus is a small company being primarily connected with customers and suppliers, these are the ones who create these service systems. There is much to learn for other small enterprises from these relationships. When it comes to customers, the company is rather well connected as we explained in earlier parts of this thesis. A company which aspires to be S-D logic oriented should keep this in mind and have a strong relationship with its customers; this can be done in several ways.

Most of the customers like to be strongly connected with the company and by doing this, a company gains insight into its customers and that helps it to identify and fulfill their needs accordingly. This can be achieved by meeting the customers on regular intervals, getting first hand feedback on company operations and service offerings etc. Sharing knowledge about its customers inside the company with other personnel helps the whole company by getting to know more. This reinforces our earlier suggestions regarding focus on operant resources rather on operand. Customer is the one who uses the product or service and determines the value of it, as Vargo and Lusch (2008) implies service is basically customer determined benefit and relational. If customers are involved more in the whole process that gives another dimension to company’s services, they need to be involved in value creation process and this can be achieved by keeping track of their buying patterns, ever-changing needs, focus groups with customers etc.

Moving our attention from customers to suppliers now, we have seen how this has been affecting Kestohitsaus in a bad way since it does not have an effective, flexible supply chain which results in delay and unwanted inventory. This can be improved if a company does not have so many suppliers (it is good to have several but not too many) and more importantly only those suppliers with which the company has strong relations. Having few and flexible suppliers can help these S-D logic aspiring companies to deal with customer needs more rapidly and
amicably. If the company involves the suppliers in value creation process; that is done by treating the suppliers as business partners or service systems and building strong long term relations with them.

6.2 Managerial Implications
Besides the general implications and recommendations we have come up with two specific managerial implications for Kestohitsaus regarding the development of the company operations and applying the service dominant logic. As our empirical research has established, Kestohitsaus is fairly S-D logic oriented when it comes to working with their customers, but there is a lot of room for development in the way they work with the suppliers. Besides supply chain management we believe that the company needs to develop its sales network and geographical coverage.

Supply Chain Management
Based on our research we have concluded that supply chain management is the focal point for development in Kestohitsaus. The owner was fairly satisfied with the current situation, but admitted that there are things to be improved, the sales person believed the current supply chain to be one of the main weaknesses of the company.

Our own observations and the company financial statements revealed that unless the inventories are reduced and the flow of goods improved, supply chain issues will threaten Kestohitsaus’ equity ratio and could even threaten the existence of the company in the future. We also went through the most recent inventory list of the company and noticed that there are certain products in the stock that are stored in excessive amounts and do not circulate. This means that there is a lot of capital invested in unnecessary and difficult to sell goods and by improving the flow of goods, that capital could be used to improve and to develop the company operations.
This is something where the S-D logic and networking approach could help. To a certain extent Kestohitsaus uses networking approach with the suppliers; according to Möller and Wilson’s (1995) definitions their supplier relationships are either short-term dyadic relationships or long-term relational exchange. The aim of Kestohitsaus is to have long-term relationships with the suppliers and mostly they have done that. However the problem is that there is no constant and continuous evaluation and development of these relationships. Instead they have negotiated the prices and conditions with each supplier and then started a transaction based relationship. As both respondents said, there is sometimes a lack of communication between Kestohitsaus and the suppliers and the relationship does not develop further from the initial phase.

In our opinion the main reason for this problem is the excessive number of suppliers. With the resources that Kestohitsaus has at its disposal, it is nigh on impossible to maintain network relationships with almost one hundred suppliers and eventually things become transaction based. Thus our recommendation is to make a complete re-evaluation of the suppliers and the product portfolio of the company. The products that need to be in stock all the time and circulate fast should have a different supplier strategy as compared to those that are rarely needed by customers and stay in stock for a long time. As we have mentioned currently the company has excessive inventories for certain goods, whereas for other goods the inventories should perhaps be even larger.

To rectify the situation we suggest that for the quickly circulating goods Kestohitsaus evaluates the current suppliers and looks for competing offerings. Whatever the result of the evaluation is, Kestohitsaus should pick between ten to twenty trusted suppliers for these products. They should start developing a closer and deeper relationship with the trusted suppliers according to the principles of service dominant logic. Instead of simple transactions the aim should be in sharing knowledge and building a sustainable network that benefits both parties involved, i.e. value co-creation. With the resources they have, we believe this
would be an ideal number of suppliers for the fast circulating products; based on the discussions with the personnel and some online research we also believe that this strategy would be possible to implement.

On the other hand the strategy for goods that are sold more rarely and are currently held in stock in large amounts should be changed completely. It is understandable that an industrial marketing company such as Kestohitsaus needs a large portfolio of different types of products and over time the number of suppliers and inventories keeps getting bigger and bigger. However in the long run the situation becomes unbearable and the amount of capital needed for the inventories deteriorates the company’s financial situation and maintaining contact with all the suppliers is impossible. From many of the current suppliers they need to make much bigger orders that are needed by the customers at that time and as a result the inventories keep growing.

Thus our suggestion for Kestohitsaus is to make a clear division between the products that will be kept in stock and those that will not. We have made some online research and discussed with the company personnel and as a conclusion we suggest that a vast part of the current suppliers should be dropped. In order to keep the product portfolio on the level that the customers expect and to deliver those products that are needed more rarely, Kestohitsaus should start using large technical wholesalers who can provide nearly anything that is needed by the customers. Some of these wholesalers can deliver directly to the customers and others will at least deliver smaller quantities of goods than the current suppliers. This approach would dramatically decrease the logistical waste and the amount of outside capital needed and eventually improve the equity ratio of the company. One example we found in our research is a Swedish technical wholesaler Luna/Toolstore (Luna, 2012). This wholesaler can provide 100,000 articles of tools and machines for industrial use, their delivery time to Finland is maximum two days and it is possible to order even one piece of goods at a time.
Naturally there is a disadvantage to this approach. The profit margins per product sold will not be as high as when ordering from the current suppliers; however in the long-run the advantages outweigh the disadvantage. Even though the profit margins decrease, it would eventually improve the company’s financial position. We have discussed this new approach with the company personnel and made some price comparisons and they agreed that a change to this direction is needed.

Thus our suggestion regarding the supply chain management of Kestohitsaus is to prioritize, to evaluate and to come up with a new strategy. Adopting the approach we suggest will allow them to concentrate the limited resources in building closer S-D logic based relationships with the chosen ten to twenty main suppliers and to improve the efficiency of the company. However adopting this strategy requires some careful strategic planning, which leads to our next suggestion.

**Expanding Sales Area**

Our second recommendation is expanding the sales area of Kestohitsaus. This is something that both respondents talked about in the interviews and based on our observations we also came to the conclusion that it is one of the main opportunities for Kestohitsaus.

As we mentioned in the empirical part, the company sales representatives used to cover nearly the whole country, whereas now there are only two sales people who cannot effectively take care of all the potential customers. If own sales force isn’t a viable option for the whole country, maybe networking approach and looking for retailers could be one solution.

In our view even getting back some of the old sales people might be worth considering. They had established a customer base and good relationships in their own areas and those could be a valuable asset especially if Kestohitsaus is to utilise business strategy based on S-D logic in the future. For whatever reasons the old sales people have left, losing those important operant resources is a serious
problem not only for Kestohitsaus, but also for any other small enterprise that relies heavily on its operant resources.

7. Conclusion
The aim of this research was to study how service dominant logic can help small enterprises to improve their operations and business relations. In order to gain insight into the topic we made a case study on a small Finnish importing and industrial marketing company Kestohitsaus Oy. The study was mostly based on theory on service dominant logic, service systems and business networks; based on the theories reviewed we created a research plan for our case study. Our findings and analysis suggest that the case company is partially using S-D logic in its operations, but without being aware of the concept, and that is probably one of the main reasons for company’s success in fierce competition with the big rivals. However, there are areas to be developed further and strategically implementing S-D logic to all company operations could provide substantial benefits. Even though all small enterprises are different, we believe that for most adopting S-D logic; concentrating on business networks and operant resources would improve the competitive position.

In the later parts of this thesis, we have come up with recommendations and general implications for other small firms who aspire to shift their business model from G-D logic to S-D logic. We also mention couple of managerial implications specific for our case company Kestohitsaus i.e. improvements in supply chain and expanding sales area. We believe these general and managerial implications are our main contribution to the business community.

The general implications part is our key contribution for other small firms, since previous research lacks an account of how small firms can shift business focus from G-D logic to S-D logic. Strategic planning, use of operant resources and focus on business networks and relations are the key concepts for small enterprises to improve their operations according to S-D logic. S-D logic posits
both providers (suppliers) and customers as essentially being resource integrators (Vargo 2008); this is one of the key realizations a firm needs to make while making a transformation towards S-D logic. Firms working under production model (G-D logic) usually do not focus much towards external actors (i.e. customers, employees, competitors, suppliers etc) involved in business networks – this is one of the key changes we suggest in this thesis for such firms working on a small scale to change, since these external actors play an integral role co-creating value for a firm.

The managerial implications are very specific to our case company since we highlight the most important areas for Kestohitsaus to improve. The company’s supply chain management is in a dire need to be revamped. The number of suppliers needs to be cut down while the relationships with them demand a huge improvement. On the other hand, expanding the sales area will benefit the firm to reach more markets within the country and by taking the right steps; the company will have more chances of capturing new customers.

Our research is primarily based on case-study design using qualitative method, this is our main limitation as it makes it impossible to generalize our results statistically, however we use this research on our case company to generalize some of our findings (analytically) for other small firms. Consequently, future studies in this topic should include some quantitative research to get a different view on S-D logic and small enterprises, though relying on quantitative research too heavily would not be recommendable. In addition to that, future studies should also include external actors involved with the firm, primarily suppliers and customers. It would be interesting to get their feedback and see how they respond to a firm’s operations and proposed changes. This is something we did not do in this thesis since we were focused on firm’s operations and internal situation.
References


Appendix

Background questions:

1. What are the internal strengths/weaknesses and external opportunities/threats of Kestohitsaus?
2. How fierce is the competition in the market and has the situation changed recently?
3. Who are the worst competitors and how do you see competences/weaknesses of Kestohitsaus compared to them?
4. How do you think that Kestohitsaus could stand out from the competition in the future?

Customer relationships:

5. Who are your most important and biggest customers currently?
6. Does Kestohitsaus follow the profitability of each customer? If so, are there big differences between them?
7. Do you have some kind of a customer relationship management system and if so how does it work in practice?
8. Who are your most potential customers in the future?
9. Have you segmented your current or potential customers and do you have different marketing strategies for different segments?
10. How loyal is your current customer base and what are the main reasons for customer loyalty in your opinion?
11. Does Kestohitsaus cooperate closely with its customers? If so, how do you cooperate? If not, why is the relationship distant?
12. Do you aim to cooperate more closely with certain customers? If so, how do you choose those customers?
13. How could Kestohitsaus improve cooperation with its customers?

Supply chain:

14. Are you satisfied with Kestohitsaus’ current supply chain? Why?
15. Do you think Kestohitsaus has too many/not enough suppliers?
16. Does Kestohitsaus try to build long term relationships with the suppliers or do you change suppliers often? Do you have a different approach for different supplies (transaction/collaboration)?
17. What are the important attributes for Kestohitsaus when choosing suppliers?
18. Should Kestohitsaus try to build closer relationships with their suppliers?
19. What do you think of the inventories of Kestohitsaus? Should they be more or less?

**Service dominant logic:**

20. Are you aware of the goods dominant logic and service dominant logic? (if not, a brief explanation about G-D logic and S-D logic will be given to the interviewees)
21. What do you think of G-D logic and S-D logic in general? Do you think Kestohitsaus is using one of them at the moment and why?
22. Do you think S-D logic would be suitable for Kestohitsaus and could it improve the operations in some way regarding things we discussed earlier?
23. What kind of competences would S-D logic require from Kestohitsaus and do you think it would be possible to implement it in practice? What kind of problems could it create?
24. How would implementation of S-D logic change the way Kestohitsaus is operating?
25. How do you see S-D logic as a tool for building business relationships and networks and how could it work in practice?

Finally a chance to comment freely on all the topics discussed before and to conclude the interview.