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Customer Integration—A Key to an Implementation Perspective of Service Provision

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A paradigm shift in marketing seems to be underway. Inspired by Vargo and Lusch's (2004a) proposal of service dominant logic, customer integration is proposed as a key component of marketing. Three stages of service provision are identified: facilities, transformation, and usage. The stages differ in terms of resource origin (company or customer), autonomy of decision-making (integrative or autonomous), and value (potential value, value-in-transformation, and value-in-use). These perspectives, which are synthesized in the study framework, shed light on the process of service provision and direct or indirect knowledge application (Vargo and Lusch 2004a). The author aims to show that in the context of the proposed framework, customer integration is vital to the implementation of service provision.

Keywords: *customer integration; service dominant logic; marketing implementation; service provision*

Due to the emergence of marketing in the industrial revolution, the conceptualization of market offerings and value creation has been oriented toward manufactured goods. During that time, marketing's primary focus was on the ownership transfer of standardized goods. These goods were produced autonomously and speculatively for the mass market—a market dominated by sellers. Thus, non-ownership has been overlooked (Lovelock and Gummesson 2004) because value was believed to be embedded in goods. Marketing often focused only on the distribution and exchange of goods or commodities (Vargo and Lusch 2004a).

Services marketing emerged in the 1970s (Fisk, Brown, and Bitner 1993) by separating itself from goods-focused marketing (Shostack 1977). It began delineating itself as an area of research by primarily focusing on personal services (Bowen 2000) or low-tech, high-touch services (Fisk, Brown, and Bitner 1993). During this period, the dichotomous view of manufactured tangible goods and interactive intangible services was not a matter of controversy.

Since that time, similarity has been observed between the two because goods and services have fundamentally changed in character. Due to technological development and changing market conditions, the feasibility of and need for customizing goods has increased significantly. As a result, much speculative production of goods has been replaced by customer-induced production. Currently, customers can, for example, "design" sport shoes and bags from Nike or Timberland. They can choose different colors for various diverse elements of these goods or further individualize them by tagging the design with a personal ID. Another example is books. Since the invention of letterpress printing, books have been standardized goods. However, modern technology has opened up the possibility of customers' personalizing books by naming and providing other information about the main characters of a book (e.g., http://www.personalizedbook.com).

Due to the intensity of competition and advancements in technology, individual customers are being given greater consideration and product offerings are becoming ever more customized. Hence, some goods have morphed into offerings that resemble services (Grönroos 2006). Rust (2004) asserts that technological advancement is behind the shift of perceiving goods as service. The growing perception that goods and services are similar is caused by increasing co-production (Anderson, Fornell, and Rust 1997; Bitner et al. 1997; Grönroos 1992; Kellogg, Youngdahl, and Bowen 1997). As far as

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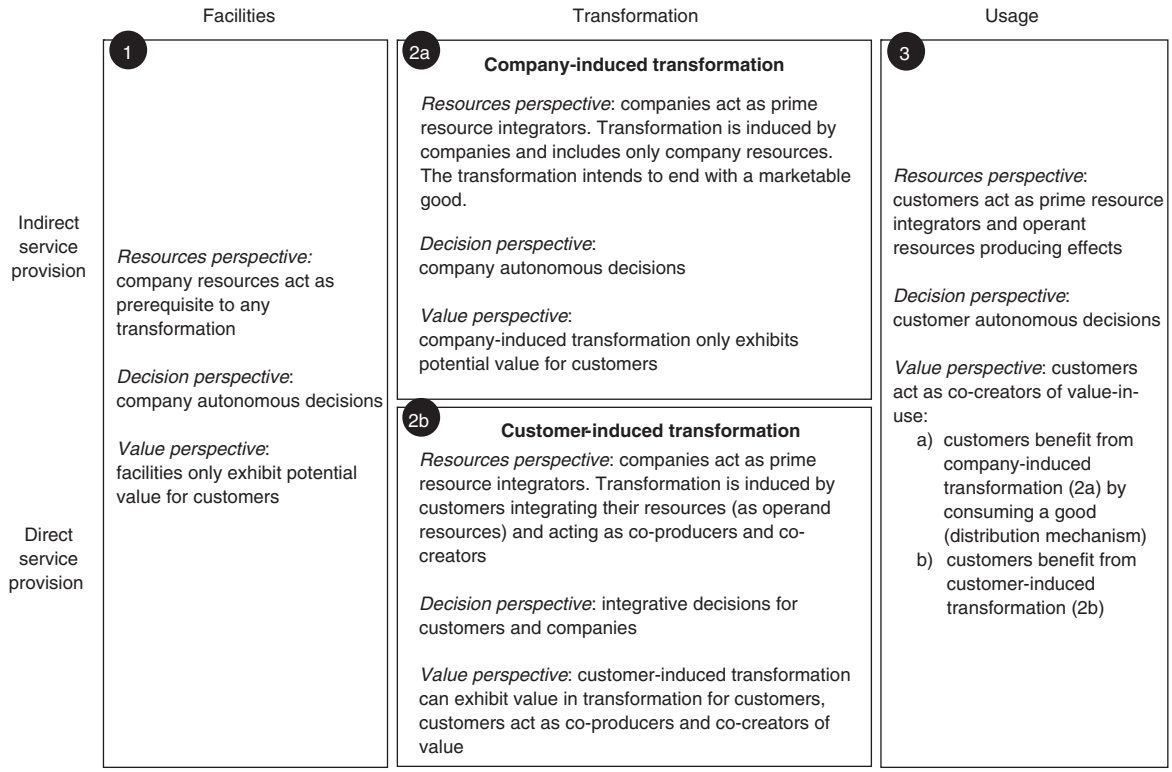
Figure 1
FTU Framework: Stages of Service Provision



this study is concerned, the prerequisite for customization and co-production is customer integration.

The contributions of Vargo and Lusch (2004a, 2004b) and Lovelock and Gummesson (2004) regarding a *paradigm shift* toward a new service dominant logic (SDL) in marketing have been widely discussed. I believe that customer integration plays a major role in this paradigm shift and is the reason for the growing similarity between goods and services. Customer integration is the incorporation of resources from customers into the processes of a company. However, there is a perceived gap in literature herein. Prahalad (2004, p. 23) states, "I would like to illustrate that as scholars, we are behind the reality of how customers engage themselves in the value-creation process."

The purpose of this article is to show that customer integration enriches the SDL by proposing a framework that provides an implementation perspective. Customer integration enables us to identify three stages of service provision—facilities, transformation, and usage (FTU)—and to offer corresponding perspectives related to *resources, decisions,* and *value.* The FTU framework (see Figure 1) is based on the distinctions between direct and indirect service provision (Vargo and Lusch 2004a), and co-production and co-creation (Lusch and Vargo 2006).

From the *resource perspective,* the framework reveals the moment of change from companies to customers as prime resource integrators. It further shows whether the service company or the customer induces the process of direct or indirect service provision. Additionally, the framework contributes to identifying situations in which customers act mainly as operant resources and those in which they act as operand resources (Constantin and Lusch 1994). From the *decision perspective,* the framework demonstrates the interdependency of companies and customers in decision-making and shows how this interdependency differs by stage of service provision. Finally, from the *value perspective,* the framework reveals when customers are co-producers and co-creators of value. In addition, the stages of service provision that exhibit real value as opposed to those that exhibit only potential value are highlighted.

The FTU framework extends the SDL by assuming an implementation perspective. It is based on concepts like direct and indirect service provision, co-creation and

co-production, and value-in-use. Thus, in the following sections, the proposed shift toward an SDL is elaborated by discussing the foundational premises of Vargo and Lusch's work. Customer integration is presented from the *resource perspective,* the *decision perspective,* and the *value perspective.* In conclusion, the implications of the FTU framework for marketing and avenues for further research are presented.

The Service Dominant Logic and the FTU Framework

The proposed shift toward an SDL is put forth by Vargo and Lusch (2004a, 2004b). In nine foundational premises (FPs), they present the SDL and differentiate it from a goods dominant logic (GDL).

FP 1: The application of specialized skills and knowledge is the fundamental unit of exchange. Due to specialization, individuals need to rely on exchange to satisfy their needs. There are two basic views of this exchange: (1) exchanging any kind of output and (2) exchanging performances based on specialized skills. The SDL supports the latter view of exchange (Vargo and Lusch 2004a). In this regard, a distinction between operand resources, "on which an operation or act is performed to produce an effect, and . . . operant resources, which are employed to act [by producing effects] on operand or other operant resources," is made by Vargo and Lusch (2004a, p. 2), based on Constantin and Lusch (1994). Linking this to the exchange of performances based on specialized skills, the authors state, "Specialization [itself] implies the refinement of operant resources, the ability to cause something to happen" (Vargo and Lusch 2006, p. 45). The derivative proposition for companies competing through service is to view competitive advantage as a function of how one firm applies its operant resources to meet the needs of the customer, relative to how other firms apply their operant resources (Lusch, Vargo, and O'Brien 2007).

FP 2: Indirect exchange masks the fundamental unit of exchange. The common pre-industrial service-for-service exchange has been transformed. Due to the increasing division of labor, growing vertical marketing systems and their organizations, and the increasing monetization of the exchange processes, the skill-for-skill or service-for-service exchange is masked. However, according to the SDL, it is still the fundamental unit of exchange (Vargo and Lusch 2004a). This places significant emphasis on the skills or knowledge of a company. Hence, the derivative proposition is to view collaborative competence (i.e., competence to absorb and adapt) as basic for companies in acquiring knowledge leading to a competitive advantage (Lusch, Vargo, and O'Brien 2007).

FP 3: Goods are distribution mechanisms for service provision. According to the SDL, skills, rather than goods, are the fundamental units of exchange (see also FP 1). Goods are embodied with knowledge. Thus, they are seen as platforms for or appliances assisting in the provision of benefits. Goods act as the distribution mechanism for knowledge application (Vargo and Lusch 2004a). The authors distinguish between *indirect service provision,* in which goods act as distribution mechanisms, and *direct service provision,* in which the application of knowledge is directly rendered via services (Vargo and Lusch 2004a). Since the industrial revolution, operant resources have been embedded in operand resources. Because of information technology, the scope of (un)embedding, creating, and refining operant resources has widened. Thus, specialized operant resources can often be separated from operand resources. Similarly, the unit costs of information processing have declined, and the transaction costs of filtering and using information have risen. Thus, the authors suggest that companies use technology to optimize value-creation. Since collaboration is made easier by technology, companies that use it to provide innovative methods of collaboration will be ahead of their competition (Lusch, Vargo, and O'Brien 2007).

FP 4: Knowledge is the fundamental source of competitive advantage. Building on the foundation that operant resources are more important than operand resources, the authors look at companies and their supply chains in terms of information flow rather than physical flow. This emphasizes information and knowledge as sources of competitive advantage (Vargo and Lusch 2004a). The proposition derived from this foundational premise is to engage customers and network partners in co-creation and co-production activities (see FP 6; Lusch, Vargo, and O'Brien 2007). Companies willing to compete through service are advised to collaborate (co-create and co-produce) with customers and network partners to enhance knowledge, the fundamental source of competitive advantage (Lusch, Vargo, and O'Brien 2007).

FP 5: All economies are service economies. In line with FP 1 (the fundamental unit of exchange is knowledge application) and FP 3 (goods are distribution mechanisms of service), the SDL defines all economies as service economies (Vargo and Lusch 2004a). Since the customer is always a co-creator of value (see FP 6) and

acts as a prime resource integrator even when using goods, Lusch, Vargo, and O'Brien (2007, p. 12) note, "Understanding how the customer uniquely integrates and experiences service-related resources . . . is a source of competitive advantage."

FP 6: The customer is always a co-producer and co-creator. In contrast to the GDL, in which producer and consumer are viewed separately, the SDL suggests that customers and companies collaborate in creating value (Vargo and Lusch 2004a). Such collaboration has two components: co-creation and co-production (Lusch and Vargo 2006). Co-creation is closely tied to usage, consumption, value-in-use, and the premise that value can be determined only by the customer. Co-production means the customer participates in creating the core offering itself, "through shared inventiveness [and] co-design" (Lusch, Vargo, and O'Brien 2007, p. 11). This leads the authors to propose that companies that enhance customers' experiences by offering opportunities to co-produce and co-create value at levels consistent with customers' desires will be ahead in competition (Lusch, Vargo, and O'Brien 2007).

FP 7: The enterprise can only make value propositions. Within the GDL, value is viewed as being embedded in goods during the manufacturing process. In contrast, Vargo and Lusch (2004a), as supported by other authors (e.g., Grönroos 2006; Gummesson 1998), believe that value can be perceived only by customers themselves (value-in-use). As such, value propositions "can be thought of as a promise the seller makes that value-in-exchange will be linked to value-in-use" (Lusch, Vargo, and O'Brien 2007, p. 13). Companies that develop such value propositions collaboratively with customers will be able to compete more effectively (Lusch, Vargo, and O'Brien 2007).

FP 8: A service-centered view is customer-oriented and relational. The SDL puts knowledge application and co-creation at the heart of value creation, which makes this perspective customer-oriented. Furthermore, co-creation implies that the exchange is relational (Vargo and Lusch 2004a). Later, the authors add the idea that companies and customers are resource integrators (see FP 9; Lusch and Vargo 2006; Vargo and Lusch 2006). This redefinition of the role of companies as prime integrators rather than distributors or providers leads the authors to suggest that the network member that is the prime integrator is in a stronger competitive position (Lusch, Vargo, and O'Brien 2007).

FP 9: Organizations exist to integrate and transform microspecialized competencies into complex services that are demanded in the marketplace. The authors postulate that "it is the unique application of the uniquely integrated resources that motivates and constitutes exchange, both economic and otherwise" (Lusch and Vargo 2006, p. 284). Thus, knowledge and skills drive the success of companies (see also FP 4). Treating employees as operant resources in order to develop innovative knowledge and skills for competitive advantage (Lusch, Vargo, and O'Brien 2007) is important.

Lovelock and Gummesson (2004) voiced their dissatisfaction with the current services-marketing paradigm, which is based on the unique characteristics of services. They proposed non-ownership as the basis for a new rental/access paradigm of services marketing. In their view, market transactions involving ownership differ fundamentally from ones that do not. Services are offerings that "involve a form of rental and access in which customers obtain benefits by gaining the right to use a physical object, to hire labor and expertise of personnel, or to obtain access to facilities and networks" (Lovelock and Gummesson 2004, p. 34). As a result, goods can be the platforms for providing services (e.g., rental cars).

This study builds on the SDL by proposing an implementation framework (the FTU) as a way to support service provision as a higher-order category of market offering (Vargo and Lusch 2004a). Furthermore, it adopts the line of reasoning of Vargo and Lusch (2004a) that either direct or indirect knowledge application can satisfy customer demand and can be a solution to an equivalent consumer problem. Besides this similarity of direct and indirect knowledge application, major differences, especially within the transformation process, are demonstrated.

In referring to goods and services, differences in the corresponding processes have been described in literature. For example, Grönroos (2006, p. 319) states,

> Services emerge in an "open" process where the customers participate . . . and hence can be directly influenced by the progress of the process. Traditionally, physical goods are produced in "closed" production processes where the customer only perceives the goods as outcomes of the process.

This is in line with Stauss (2005), who suggests that goods and services can both be solutions to a specific demand. However, they can be very different in the process in which they are delivered.

This study's approach extends the existing literature by elaborating the nature of the differences between direct and indirect service provision. The FTU framework shows that indirect knowledge application, a

process that does not include customer integration, differs substantially from direct knowledge application in terms of resources, decision-making, and value. This study considers both customers and companies as prime resource integrators. However, the focus is on the implementation of combining resources when companies act as prime resource integrators. Furthermore, the focus is on companies and customers in business-to-consumer transactions. Thus, other network partners, such as suppliers, are not captured by this framework. The FTU framework contributes to the SDL literature by helping to refine and elaborate the concept of resource integration.

The Concept of Customer Integration

The following sections focus on the interrelationship of the terms customer integration and customer participation, and co-production and co-creation. This study assumes a broader scope for the term customer integration than for the term customer participation, a similar scope to the term co-production, but a narrower scope than for the term co-creation.

Customer Integration and Customer Participation

Most of the literature on customer participation focuses on the *activities* of customers during service provision and their experiences in relation to these activities. Research questions address the activities of customers and companies, or the productivity gains associated with customer participation (see Bendapudi and Leone 2003 for an overview). This study views the term customer participation as misleading because it focuses on activities. For example, the resource requirements customers have for car repair go far beyond activities and participation. Rather, these should be considered "production-enabling" because the main task of the customer is to provide access to the necessary resource to be transformed (e.g., the car to be repaired). The activity-oriented perspective is equally as weak when looking at offerings based on customer data (e.g., lawyers or tax advisers). In this case, the customer initiates and enables the production by merely transferring and integrating data.

By using the term "customer integration," we assume a broader perspective, which goes beyond an activity-focus. We assume a *resource perspective* because customer integration encompasses the integration of customers' resources, which may include their property (Fließ and Kleinaltenkamp 2004). It should be noted that the resource perspective incorporates the activity perspective. This is important because each customer integration event is associated with at least some initiating activities of customers (Beaven and Scotti 1990).

A resource input, apart from activities and information, has been recognized in only a few scholarly contributions on customer participation. For example, Bitner et al. (1997) made a distinction between "low customer participation," in which a customer's presence is required for service delivery, "moderate customer participation," in which a customer's inputs are required during service creation, and "high customer participation," in which a customer co-creates the service product. Furthermore, Larsson and Bowen (1989, p. 214) acknowledge the participation of customers by stating, "In services, customers are not only a source of demand, but they are also a source of production input in the form of information, their bodies or their labour." Customer participation does not capture the wide variety of inputs customers contribute during company processes.

Customer Integration and Co-Production

In their commentary on the SDL, Prahalad and Ramaswamy (2004) explain how the term *co-production* has morphed from engaging customers emotionally, if not physically, through advertising, to self-service (the idea of being part of an experience) and navigating their way through the firm's service system, to finally co-designing and co-producing offerings to lower the risk for both parties. For the purposes of this study, the term co-production will be used according to the SDL (see FP 6; Lusch and Vargo 2006; Vargo and Lusch 2004a); "co-production involves the participation [and integration of resources] in the creation of the core offering itself" (Lusch, Vargo, and O'Brien 2007, p. 11).

The resources that can be integrated into company processes by customers are called *customer resources.* They can be the customers themselves (e.g., surgery), their physical possessions (e.g., maintenance services), their nominal goods (e.g., banking services), and/or their personal data (e.g., tax advice; Fließ and Kleinaltenkamp 2004). To be able to refer to such customer activity within customer integration, the term co-producer (see FP 6; Lusch and Vargo 2006; Vargo and Lusch 2004a) is adopted herein.

Customer Integration and Co-Creation

Co-creation is closely tied to value-in-use and the premise that value can only be determined by the

customer (see FP 6; Lusch and Vargo 2006; Vargo and Lusch 2004a). As mentioned, customer integration assumes a narrower perspective than co-creation of value, as defined by the SDL (Lusch and Vargo 2006; Vargo and Lusch 2004a). The FTU framework (Figure 1) shows that customer integration occurs only in the transformation stage, when the company acts as the prime resource integrator (see FP 8; Lusch, Vargo, and O'Brien 2007).

Customer integration is thus defined as combining customer resources (persons, possessions, nominal goods, and/or personal data) with the company resources, in order to transform customer resources.

Perspectives on the Concept of Customer Integration

In the following sections, I will show that customer integration allows service provision to be divided into three stages: *facilities, transformation,* and *usage.* The stages differ in terms of resource origin, decision-making by companies and customers, and value perception of customers. These differences will be elaborated in order to further enhance the implementation of service provision in each stage. The stages and corresponding *resource, decision,* and *value* perspectives will be described in the following sections and they are synthesized in the FTU framework (Figure 1).

Resources Perspective on the Stages of Service Provision

Facilities. Based on the concept of customer integration, direct and indirect service provision can be subdivided into three stages (similar to Donabedian 1980; Edvardsson and Olsson 1996; Fließ and Kleinaltenkamp 2004). Stage 1 is called "Facilities" (similar to Edvardsson and Olsson 1996; Mayer, Bowen, and Moulton 2003). This stage is the foundation of and prerequisite to any offering. It includes all company resources, including employees, know-how, and other facilities that must be accessible before service provision is feasible (Fließ and Kleinaltenkamp 2004; Mayer, Bowen, and Moulton 2003; Shostack 1992). Resources are tangible, intangible, or human assets that are tied to the firm at a given point in time (Barney 1991). Given this, I agree with Lovelock and Gummesson (2004), who claim that manufactured goods (which are part of facilities) can be the basis of service. As Vargo and Lusch (2004a, p. 3) postulate, revisiting Zimmermann (1951), "Resources are not; they become." The reason for this is that as long as no customer demands the company's resources or capacity for service provision, the facilities remain unused (Fließ and Kleinaltenkamp 2004).

Transformation. Stage 2 of a service provision is the "Transformation" (similar to Donabedian 1980; Fließ and Kleinaltenkamp 2004; Mayer, Bowen, and Moulton 2003; Shostack 1992). This is the stage in which company resources are combined with other company resources to accomplish a transformation (Stage 2a, "Company-induced transformation") or customer resources are integrated into the service provision for the purposes of transformation (Stage 2b, "Customer-induced transformation").

Both types of transformation include the "knowledge application" that Vargo and Lusch (2004a) argue constitutes service provision. However, there are two reasons to believe that the term "transformation," rather than "knowledge application," better represents the wide scope of service provision and the joint nature of value creation.

In FP 1 and FP 2 it is stated that knowledge application is the fundamental unit of exchange, even though it is masked in the current business world. This "mask" leads us to the insight that knowledge application is often not perceived by customers as the dominant element in service provision; sometimes a company simply provides a platform or goods through which to deliver service to customers. Examples are telephone services, eBay, and blogging networks. This view is supported by Lovelock and Gummesson (2004), who view obtaining access to facilities and networks or obtaining the right to use a physical object as fundamental approaches to service offerings. Although I acknowledge that these platforms or goods embody the knowledge of the company, customers may not perceive this knowledge application as dominant.

Second, the term "transformation" better covers the collaboration of customers and companies and the notion of "market with" instead of "market to" (Lusch, Vargo, and O'Brien 2007). Application includes an active (i.e., more knowledgeable) part and a passive (i.e., less knowledgeable) part, whereas transformation is neutral in this regard. Thus, for the aforementioned reasons, I prefer the term "transformation."

This transformation can take place mainly on company resources (company-induced transformation, Stage 2a), *not including customer integration.* Alternatively, transformation can take place mainly on customer resources (customer-induced transformation, Stage 2b) *including customer integration.*

Company-induced transformation. In company-induced transformation (Stage 2a), companies act as the prime resource integrator (see FP 5). As such, company-induced transformation (Stage 2a) is defined as the process in which resources from the company are combined with other company resources in order to transform them (e.g., producing a microchip).[1] Some of these company resources will be operant, producing effects on operand or other operant resources. Within this transformation, knowledge is applied. FP 3 proposes that goods are distribution mechanisms for service provision and embodiment of knowledge (Vargo and Lusch 2004a). The implementation of this knowledge embodiment in goods is accomplished in company-induced transformation.

Customer-induced transformation. Customer resources can, likewise, be the foundation of the transformation process (Stage 2b). The idea that customer resources are the foundation means that customers induce this transformation by integrating their resources (customer integration). As mentioned, these can be the customers themselves (e.g., surgery or theater), their physical possessions (e.g., repair or cleaning services), their nominal goods (e.g., banking services), and/or their personal data (e.g., tax advice; Fließ and Kleinaltenkamp 2004). Customer-induced transformation does not mean that customer resources are the only resources transformed. It might also include some supporting sub-processes in which company resources are transformed (e.g., "in the back office"). Nonetheless, companies act as the prime resource integrator in customer-induced transformation because coordination of the process is accomplished by the company.

Referring to the distinction of customers as co-producers and co-creators (Lusch and Vargo), it is postulated that in customer-induced transformation (Stage 2b), customers act as co-producers *and* co-creators of value. They act as co-producers because customer integration is always bound to some customer activity. Otherwise, no inquiry from customers could be associated with corresponding resources. This is based on Lusch and Vargo (2006), who postulate that customers participate in the creation of the core offering and, in doing this, *customers act as co-producers.* Coupling the approach of Vargo and Lusch (2004a) and Constantin and Lusch (1994) with the role of customers as collaborators, it can be concluded that in customer-induced transformation, those customer resources predominantly fall in the category of operand resources because an act (i.e., transformation) is performed on them (see FP 1; Vargo and Lusch 2004a).

In addition to being a co-producer, *customers are also co-creators* of value in customer-induced transformation (Stage 2b). For instance, when customers themselves are integrated into the transformation stage (e.g., passenger transportation or spa treatment), consumption begins with integration. Customers act as co-creators of value in customer-induced transformation (Stage 2b) by using, consuming, and evaluating the company's value proposition. This is in contrast to company-induced transformation (Stage 2a), in which customers are neither co-producers nor co-creators of value during the transformation process.

The resource perspective can add to the non-ownership approach of Lovelock and Gummesson (2004), who emphasize that many services involve tangible performance activities and tangible outcomes of change. The tangibility of a service outcome can be explained from the customer integration perspective. Tangibility can result from either company resources in company-induced transformation or customer resources in customer-induced transformation. The latter usually includes an ownership transfer of a tangible entity at the beginning and the end of the customer-induced transformation (e.g., providing and retrieving a car from a garage, or giving access to internal documents and obtaining the final report from a consulting project).

Usage. The transformation of company or customer resources leads to Stage 3 of service provision: "Usage" (similar to Donabedian 1980; Fließ and Kleinaltenkamp 2004; Mayer, Bowen, and Moulton 2003; Shostack 1992, mostly referred to as outcome). The change from transformation to usage differs depending on whether the transformation is induced by the company or the customer (Stage 2a or 2b).

Usage stage of company-induced transformation. When knowledge is applied to company resources, the change from the company-induced transformation (Stage 2a) to the usage (Stage 3) is a marketable good that is sold. These marketable goods are supposed to embody transformation and knowledge application. In such cases, goods act as distribution mechanisms for a company-induced transformation (see FP 3; Vargo and Lusch 2004a). In the usage stage, customers assume the role of co-creators of value (see FP 6) by acting as prime resource integrators, creating value for themselves by using goods, and by benefiting from company-induced transformation. In doing so, they act as operant resource because they produce effects (e.g., using a vacuum cleaner).

Usage stage of customer-induced transformation. When a transformation of customer resources takes place, the effects are produced directly on them. Thus, company and customer resources are combined to create the core offering. The change from customer-induced transformation (Stage 2b) to usage (Stage 3) occurs when customer resources exit the company's sphere and customers or their belongings are no longer integrated into the transformation process. The transformation is completed and the stage of usage and benefiting begins. Such change occurs when a guest exits a hotel, when a student exits a classroom or graduates, when a car is picked up from a garage, or when a passenger leaves an airport.

Decision Perspective on the Stages of Service Provision

The stages of service provision affect the nature of activities of customers and companies and the autonomy of decision-making in accomplishing these activities. Within the stages of service provision, customers and companies accomplish different activities that can be (a) independent company contributions, (b) independent customer contributions, or (c) joint contributions (Gummesson 2004). Against the background of this approach, distinctions can be made among "company autonomous," "customer autonomous," and "integrative" decisions (see also Fließ and Kleinaltenkamp 2004). Deciding autonomously means that one market partner can come to decisions without being directly dependent on another market partner. Deciding integratively means that one market partner is directly dependent on another market partner in decision-making. The three stages of "facilities," "transformation," and "usage" differ in the autonomy of decision-making for customer and company.

Autonomous decisions of companies. In Stage 1 (facilities) and Stage 2a (company-induced transformation), companies operate independently of the activities and preferences of specific customers during transactions (i.e., customer integration) because the resource origin is company-internal. Thus, companies can decide autonomously about the facilities, as in decisions on company-induced transformations (Stage 2a). This explains why Vargo and Lusch (2004a) point out that goods embody knowledge application (company-induced transformation) and are thus more or less standardized. Standardized entities will always be independent of the preferences of specific customers. In other words, companies can make *autonomous decisions* for the disposal of their resources in facilities (Stage 1) and company-induced transformation (Stage 2a). Their level of autonomy in decision-making is high.

In spite of *autonomous decision-making,* companies constantly try to achieve *market* or *customer orientation* in order to gain competitive advantage and increase performance (e.g., Deshpandé and Farley 1996). Being customer-oriented can and should be apparent in service provision and in facilities. Customer orientation is distinguished from customer integration because an orientation is more of a guiding principle for the company's activities (Noble, Sinha, and Kumar 2002). Customer integration is the incorporation of customer resources from a certain customer into the transformation process of a company. I contend that autonomous decision-making (because of no customer integration on an individual level) does not mean that the company does not intend to be customer-oriented on an aggregate level.

Integrative decisions of companies. In contrast to a company-induced transformation (Stage 2a) to produce most goods, service providers have been traditionally unable to purchase or acquire all the inputs for providing the core offering. Hill (1977, p. 319) states, "The principal 'input,' namely the good being serviced, continues to be owned by the customer of the service." Consequently, the company's potential to initiate and control customer-induced transformation is restricted. This also holds true for its ability to dispose of customer resources (Fließ and Kleinaltenkamp 2004; Gummesson 2004; Lengnick-Hall 1996; Mayer, Bowen, and Moulton 2003). In the stage of customer-induced transformation (Stage 2b), companies need to consider specific customers when determining the process. Accordingly, the company's level of autonomy in decision-making is lower. Because customer integration is the origin of this dependency, these decisions are termed herein as *integrative decisions.*

Integrative decisions of customers. Customers are also restricted in their decision-making if they have integrated resources in the transformation process of a company. This sheds light on literature stating that customers are influenced by the progress of the process (Grönroos 2006). A customer having brought his or her car to a garage is restricted in decision-making regarding the availability of this car. A guest in a hotel or restaurant is expected to follow the rules of the company. However, in customer-induced transformation (Stage 2b), both companies and customers are dependent on one another for service provision. Thus, their autonomy of decision-making is restricted. They need to make integrative decisions.

Autonomous decisions of customers. Apart from companies being able to decide autonomously regarding their facilities (Stage 1) and company-induced transformation (Stage 2a), the customer can (or must) decide autonomously about usage (Stage 3). For example, having bought a knife or a gun, the customer can decide autonomously about how to use it because he or she is outside the direct influence of the company. This is what Prahalad and Ramaswamy (2004, p. 7) perceive as a threat because customers seem to want power without accountability: "What if consumers inappropriately use or modify your products and then hold you responsible for any resulting damage?" The fact that the customer is autonomous from the company when consuming goods illustrates why the consumption of goods is sometimes seen as a black box (Grönroos 2006). Furthermore, SDL emphasizes that service provision rendered via goods requires customers to learn how to use, maintain, and repair the goods by themselves (Vargo and Lusch 2004a).

Value Perspective on the Stages of Service Provision

The above-derived stages of service provision—facilities, transformation and usage—differ additionally in terms of value. Value can only be determined by customers (see FP 7; Vargo and Lusch 2004a). This taken into account, value is the customer's trade-off between the sacrifices and the benefits of certain offerings (Zeithaml 1988). Or, as articulated by Radford and Sridhar (2005), the value of a transaction has a (perceived) "get" and a (perceived) "give" component for both actors. The differences in value perception of the stages can partly be attributed to customer and company resources and the autonomy of decision-making.

Potential value in facilities. The facilities include the prerequisites for any service provision and do not yet include customer integration. Thus, the facilities (Stage 1) only exhibit *potential value.* Facilities (Stage 1) are activated by transformation induced by either the company or customer (Stage 2a or 2b). The company can decide autonomously about the initiation and process of company-induced transformation (Stage 2a). In contrast, it has been shown that the company is dependent on customer input for the latter (Stage 2b).

Potential value in company-induced transformation. Since company-induced transformation does not include customer integration, the status of exhibiting potential value is similar for this stage (Stage 2a), which then leads to marketable goods. The changeover from the company-induced transformation stage, exhibiting potential value, to the usage stage, exhibiting value-in-use, is in line with SDL stating that "there is no value until an offering is used" (Lusch, Vargo, and O'Brien 2007, p. 7).

Distinction of value-in-transformation and value-in-use. The SDL emphasizes that companies can only make value propositions; thus, value is a perception of customers (see FP 7). As indicated by the choice of this study's definition of value, I agree in principle. Beyond this, I believe that it is favorable for marketing management to make a distinction between value in the stage of customer-induced transformation (Stage 2b) and the value in the usage stage (Stage 3). The stages differ in terms of dependency of customer decision-making (autonomous and integrative decisions); thus, they differ in the way companies can manage them. Value that originates from customer-induced transformation (Stage 2b) is *value-in-transformation.* This term is analogous to the term *value-in-use,* the value that originates from in usage (Stage 3).

Value-in-transformation. Many offerings are consumed because of customer-induced transformation itself (e.g., spa treatment). This is most likely to occur when the resources integrated are customers themselves. Customer-induced transformation (Stage 2b; e.g., spa treatment) can be valuable for customers beyond the actual usage (Stage 3; e.g., recreation effects from the treatment). Although the customer-induced transformation *can* exhibit value, this is not a necessary condition (e.g., painful medical treatment). These stages cannot be consumed individually because one is a prerequisite for the other. Therefore, it is assumed that only the expected value of both stages together needs to be positive. For example, the process of surgery (Stage 2b) can be perceived as a sacrifice that is outweighed by the benefit in the usage stage (Stage 3).

Value-in-use. Customers buy offerings because they render a service (Gummesson 1995). Often direct service provision, including customer-induced transformation (Stage 2b), and indirect service provision with company-induced transformation (Stage 2a) are both perceived as possible solutions to comparable demands of customers (e.g., vacuum cleaner vs. cleaning service; Vargo and Lusch 2004a). Hence, customers assess these comparable solutions according to their value-in-transformation and value-in-use. The expected value determines their willingness to pay, which enables companies to likewise appropriate their benefit (Mizik and Jacobson 2003).

Both company and customer intend to offer and/or consume offerings in which the benefits exceed the sacrifices and which are, therefore, valuable for the customer and performance-enhancing for the company. Apart from these common aspects, perceived value in usage (Stage 3) will differ depending on whether transformation is induced by the company or the customer.

Value-in-use from company-induced transformation. As mentioned, company-induced transformations end with marketable goods that embody knowledge application and render a service when used by customers (see FP 3; Vargo and Lusch 2004a). Value is thus accomplished only in the usage stage (Stage 3) because company-induced transformation does not yet provide value for customers. Customers as prime resource integrators create value for themselves by using goods acting as operant resources. As such, sacrifices beyond the financial contribution during usage need to be considered. Possible misuse or problems with usage need to be anticipated and prevented.

Value-in-use from customer-induced transformation. In contrast to company-induced transformation (Stage 2a), customer-induced transformation (Stage 2b) can exhibit value during transformation. Customers or their belongings are part of the transformation process (customer integration) and this transformation can be part of the consumption (e.g., a spa treatment). As mentioned, apart from the value-in-transformation of a treatment itself, recreational effects within the usage stage can exhibit value-in-use (Stage 3). Thus, the value continues when customers have exited the sphere of the company and decide autonomously (Stage 3).

Implications for Marketing and Avenues for Further Research

Implications from the Resource Perspective and Further Research Avenues

The resource perspective reveals which actor is the *prime resource integrator.* Within the stages of facilities (Stage 1) and transformation (Stage 2), companies act as prime resource integrators. According to Lusch, Vargo, and O'Brien (2007), the actor who is the prime resource integrator is the one coordinating the service provision. This actor is in a stronger competitive position than the derivative resource integrator. It is important for companies to recognize this task and view coordination as a challenging opportunity, especially when customers are integrated (Stage 2b). To accomplish a customer-induced transformation (Stage 2b), customers' resources are temporarily transferred to a company. As a result, customers can be directly affected by a failed transformation because their resources are often inimitable and they are often part of the transformation. A failed transformation can often be remedied easily in company-induced transformation (Stage 2a) because the company has full disposition over the resources.[2] The position of the derivative resource integrator reveals the importance of companies acting as supporting sources in the usage stage (Stage 3), in which customers act as the prime resource integrators.

Furthermore, the resource perspective facilitates *identification of the give-components* of customers, in terms of resources. Since customer resources are prerequisites for customer-induced transformation, this is highly relevant. Customers might lack the willingness and ability to integrate themselves into transformation (Stage 2b). However, willingness and ability are important prerequisites for collaboration in service provision (Meuter et al. 2005; Sheth and Parvatlyar 1995). The varying abilities and degrees of customers' willingness to integrate themselves has been suggested as the foundation of market segmentation (Kelley, Skinner, and Donnelly 1990). According to the aforementioned role of companies in acting as supporters in the usage stage (Stage 3), companies need to provide circumstances that enable different customer segments to perform as co-creators. This would enable customers to get the most value-in-use.

To fulfill the task of supporter in co-creation, companies need to *embed enabling capacity in transformation.* For company-induced transformation (Stage 2a), this means knowledge and enabling capacity need to be included in goods that act as distribution mechanisms. In contrast to customer-induced transformation, the company has no service encounter during the company-induced transformation process because the customer is not integrated. Accordingly, the emphasis in SDL that service provision rendered via goods requires customers to learn how to use, maintain, and repair goods by themselves (Vargo and Lusch 2004a) becomes comprehensible. For customer-induced transformation (Stage 2b), enhancing customer ability can be accomplished during service encounters in the transformation process. This includes educating or socializing customers during transformation to enhance their ability or willingness to co-create in the usage stage, after they have left the sphere of the company. Additionally, if any tangible items (distribution mechanisms) are created, they need to be

embedded with enabling capacity, as well (e.g., the final report from a consulting project).

This is important not only for indirect, but also for direct service provision. Customers need to know how to conserve or enhance the transformation process to get the most value-in-use (e.g., showing patients how to live healthier after surgery). Companies need to put more emphasis on the task of supporting customers during usage (Stage 3). Companies should be sure to consider usage (Stage 3) during transformation (Stage 2). This can be achieved by embedding an enabling capacity in the transformation process. This responds to the claim of Ballantyne and Varey (2006), who postulate that SDL includes a different time logic for marketing, from pre-sale service interactions to post-sale value-in-use.

Furthermore, the study's resource perspective takes up Kohli's (2006) two suggestions for extending the SDL in terms of "the interrelated themes of firm-consumer resource integration and value co-creation" (p. 290), voiced in a commentary on the SDL. First, Kohli (2006) claims that resources should be seen as fluid and alterable rather than fixed and given. By including the transformation of resources and the autonomy of decision-making in the different stages of the FTU framework, this study accounts for the fact that resources are fluid and alterable. Second, Kohli (2006) maintains that a transfer of resources offers interesting possibilities for co-creating value, whereas it is stated that certain functions are best performed by a firm and others by consumers. The identification of two substantially different resource transformation processes and the corresponding customers' and companies' resources needed to fulfill these processes show which resources need to be integrated by which actor, and which corresponding activities are not substitutable. However, the remaining activities reveal interesting possibilities for either internalizing or externalizing activities in service provision.

In a commentary on the SDL, Rust (2006) suggests that the SDL still needs to go a step further and include relationship thinking. Although the approach taken in this study does not incorporate a full relationship perspective, it incorporates the dynamic perspective of a transaction, which can be the foundation of a relationship perspective. Thus, additional avenues of research open up when viewing customer integration from a dynamic, relational perspective. This could include investigating how customers learn to integrate themselves over time, how these company-specific competencies enhance perceived co-creation of value, and how this changes the expectations of a company.

Implications from the Decision Perspective and Further Research Avenues

Implications for implementation to be drawn from the decision perspective are related to the level of standardization or customization of value propositions. They influence the attempted control of the transformation process since the type of decision-making determines the level of standardization of an offering. Elements of value propositions that include autonomous decisions independent of a specific customer are standardized; those that include integrative decisions are individualized. Company-induced transformation (Stage 2a) is associated with company autonomous decisions. Thus, the value propositions resulting from such transformation processes are standardized. Although customer-induced transformations (Stage 2b) can also include pre-made elements that allow for autonomous decisions (Fließ and Kleinaltenkamp 2004), they mainly include elements that are jointly created while requiring integrative decisions.

Transferring the distinction from Lusch, Brown, and Brunswick (1992) between internal and external exchange to the approach considered in the FTU framework, internal exchanges involve company-induced transformations, which are standardized, whereas external exchanges involve customer-induced transformations, which are individualized. Taking some restrictions into account, companies can determine the relative importance of standardization (i.e., company-induced transformation including autonomous decision-making) in relation to the importance of individualization (i.e., customer-induced transformation including integrative decision-making). The restrictions are related to the fact that tasks within transformation are not always substitutable between customer and company (Parks et al. 1981).

The defined degree of standardized, pre-prepared transformation, and individualized transformation has implications for the *risk of the company.* If a company focuses on company-induced transformation, it risks that speculatively produced (i.e., standardized) offerings cannot be sold on the market (i.e., demand risk). For example, if a restaurant has speculatively prepared a certain number of meals, which are then not consumed, the restaurant must dispose of them. If a company focuses on customer-induced transformation, it risks that the transformation process is not being carried out as intended, due to customer influence (i.e., implementation risk). In the restaurant setting, this would include the special request of a patron that causes more complicated preparation or a delay in the process. Because of the

nature of the transformation and the decision-making, the controllability of the customer-induced processes decreases and the uncertainty of the company increases (Mills and Morris 1986). In conclusion, the decision of how much standardized and how much individualized transformation is necessary determines the company's level of control in the transformation and the degree of demand versus implementation risk.

Implications from the Value Perspective and Further Research Avenues

In combination with the resource perspective, the value perspective puts emphasis on the fact that the stages differ in terms of *get and give components* (Radford and Sridhar 2005). Evaluation of these components results in an overall value perception by customers (Radford and Sridhar 2005). Building on transaction cost theory (Williamson 1985), and in contrast to many marketing concepts in the GDL, this study's approach considers that customers' give components go beyond financial components for both types of service provision. In the case of direct service provision, customers contribute to customer-induced transformation (Stage 2b) and to usage (Stage 3) with resources and activities. In the case of indirect service provision, customers only contribute during usage (Stage 3), in co-creating their own value. Further research could investigate the perception of the give components for different offerings, which is closely related to the convenience of these offerings.

Additionally, the company needs to recognize that the expected and perceived value-in-transformation can be negative. For such offerings, the communication of the expected value-in-use is especially important during transformation. For this reason, it is believed that value-in-transformation (Stage 2b) needs to be distinguished from value-in-use (Stage 3).

Conclusion

Different offerings can be possible solutions to satisfying equivalent demand. These solutions can be very different in their implementation (e.g., Day 2004; Grönroos 2006; Lovelock and Gummesson 2004; Stauss 2005). The manner of implementation is worth investigating because it is of importance for customers' perception of the offering. My aim was to extend the two categories of the SDL, indirect and direct service provision, with an implementation framework.

The SDL suggests that customers are always involved in value creation (FP 6; Vargo and Lusch 2004a). By assigning existing approaches of services marketing, like the stages of service (e.g., Donabedian 1980), to the SDL, the study investigates the manner of this involvement and its consequences. The approach emphasizes the transformation of resources, which are either from the company or the customer, as the key element to any service provision. The SDL proposes that both customers and companies can be prime resource integrators. Beyond this, the framework reveals who is the prime resource integrator in the different stages of service provision and who is responsible for coordinating the resource combination. Since the initiation of the transformation cannot always be accomplished by the prime resource integrator, the framework exposes who induces the transformation (resource perspective).

This shows the dependency of the actors in service provision. To further investigate this dependency in terms of decision-making, a distinction is made between whether the actors decide autonomously or need to account for their counterpart and decide integratively (decision perspective).

The SDL postulates that customers are co-creators and co-producers of value. The former is closely tied to usage, consumption, and value-in-use. Co-production, in contrast, involves participation in the creation of the core offering itself. The framework has put emphasis on the fact that co-production can also be perceived as valuable. Analogous to value-in-use, the category of value-in-transformation has been introduced. This distinction is important since the expected outcome of the value-in-use is positive, whereas the expected outcome of value-in-transformation can be positive as well as negative (value perspective).

Notes

1. Since this study focuses on companies, customers, and their resources, the origin of company resources from other network partners, such as suppliers, is excluded from the analysis.

2. Nonetheless, there might be situations in which company resources are as scarce as customer resources.

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