

Money from nothing, and the clicks are free: An investigation into the commodification of non-pecuniary consideration in the Digital Economy

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Summary

- Positioning the research question
- Methodology
- Unit of analysis
- Intended contribution

The theory of the firm

- Economics view (Perlman, 1972)
 - The firm is profit seeking and has two roles: as a supplier of *product* [to the market] and as a demander of *factors of production* [from the market].
- Transaction Cost Economics
 - The ‘make or buy’ problem (Gibbons, 2005)
 - Successful firms are better at bridging the *gaps* between *consumers* and the market than *consumers* alone. (Shaw et al. 2009)

The theory of the firm cont.

- Marketing approach (Hunt, 2010)
 - Firm's primary objective is *superior financial performance* relative to its competitors.
- Resource-based view (Conner, 1991) and the related Resource-Advantage Theory (Hunt, 2010)
 - Firms integrate (bundle) *resources*, which are then 'supplied' to the consumer and traditionally referred to as *a product (good) or a service*

Service Dominant Logic

Core Foundational Premises of Service-Dominant Logic (Vargo & Akaka, 2009)

	Logic Premise	Explanation/Justification
FP1	Service is the fundamental basis of exchange.	The application of operant resources (knowledge and skills), "service," is the basis for all exchange. Service is exchanged for service.
FP6	The customer is always a cocreator of value.	Implies value creation is interactional.
FP9	All economic and social actors are resource integrators.	Implies the context of value creation is networks of networks (resource-integrators).
FP10	Value is always uniquely and phenomenological determined by the beneficiary.	Value is idiosyncratic, experiential, contextual, and meaning laden.

- There is only *service* (Vargo & Lusch, 2004)
 - Goods are *avatars* for service *in context* i.e. distribution mechanisms for service provision, having the potential to benefit a consumer through *competencies* afforded by bundles of resources embedded in a tangible form.
- Value is co-created
 - i.e. the beneficiary of service (*consumer*) determines value within the consumption context

Competencies

- It is not *resources* which provide benefits to the consumer but the *competencies* afforded by a bundle of resources, in a *specific consumption context* (Ng, 2013).
 - *Competencies* are the features of a *resource* which the *consumer* integrates with their own resources to provide benefit to the *consumer*
 - Distinct from the *attributes* of a resource, as mentioned in the RBV (Foss & Foss 2005).
 - *Attributes* may become part of *competencies* within a *specific consumption context*.
 - *Taste and smell attributes* of an apple form part of the ‘edible’ *competency* when the apple is being eaten.
 - *Available space and connection speed attributes* of a cloud-base storage system only become part of the ‘accessible’ *competency* when attempting to store something.

The nature of exchange

- *Service providers* can only offer a *value proposition* which the *consumer* may or may not accept.
 - i.e. the *value proposition* is also determined by the *consumer*.
- Service is exchanged for service
 - *The service provider* must also receive competencies afforded by bundles of resources in a specific use context from the *consumer* (as expressed through a *value proposition*)
 - The value propositions must be viewed as equal by both parties (in a specific exchange context) Otherwise exchange would not occur.

Consideration

- Exchange and consumption often occur within different contexts
 - I.e. the provider of consideration (*customer*) for the service is not always the same as the beneficiary of the service (*consumer*)
- Consideration (Contract Law) (Benson, 2011)
 - What is provided/given up by an actor as part of an exchange
 - May be financial in nature (pecuniary) or not (non-pecuniary)
- Consideration is the 'exchange value' within an specific exchange context (*market*)
 - In traditional markets, *exchange value* manifests as purchase price, and hence the consideration to the *service provider* is a specific quantity of money

Commodification

- In SD-Logic terms the consideration received by the firm offers a specific *value proposition* i.e. set of *attributes* which become *competencies* in a *specific consumption context*.
 - In the case of *pecuniary consideration (money)* the proposition may be the 'ability to be exchanged for other value propositions' (i.e. you can make purchases with it).
- Consideration can be (and often is) non-pecuniary.

Commodification

- The translation of something, usually an activity, effort or asset into money (Ng & Smith, 2012).
- If the purpose of the firm is to achieve superior *financial* performance, there must exist a process by which non-pecuniary consideration is commodified.

The Digital Economy

- In the Digital Economy non-pecuniary consideration includes:
 - friendship, two seconds of someone's time or someone's individual predictions about the future) and unpaid, digital labour (for example, clicking on links or the generation of personal data) (Cherry, 2013)
- "to capture value from delivering new information services that users often expect to receive ***without charge... This involves some of the trickiest and most frustrating issues that entrepreneurs and managers must address.***" (Teece, 2010)
 - 'Value capture' is misleading as it implies the value co-created in consumption is equivalent to consideration transferred to the firm at the point of exchange.

The research question

- Despite many online firms applying (superficially) similar approaches, some firms are more successful at this form of *monetization* than others.
 - Google vs Facebook
 - Lego vs Spreadshirt
 - Snapchat vs What'sApp
 - Candy Crush Saga vs Deadspace 3
- *Why are some firms better at the commodification of non-pecuniary consideration in the Digital Economy?*

Methodology

- Retroductive process (Baert 2005; Mingers, 2006)
 - **Resolution** of the event or phenomena to be explained into its component parts and their relations
 - **Redescription** of the phenomena in such a way that makes it theoretically significant i.e. relevant to the concepts or issues of some particular theory(ies)
 - **Retroduction** postulation of a hypothetical mechanism(s) or structure(s) that, if they existed, would generate the observed phenomenon
 - **Elimination** of alternative explanations and attempts to demonstrate the mechanism by experimental activity or by prediction of other phenomena or events
 - **Identification** of the correct generative mechanism from those considered, and appropriate development to the theoretical base

Unit of analysis: *The CN-PC service system*

- For service science, the basic unit of analysis is the *service system* (Vargo & Lusch, 2011)
- *The CN-PC service system* links two (or more) service systems through their respective exchange relationships, within a wider service ecosystem.
- Non-pecuniary consideration received as part of one (or more) service system(s) is integrated with the resources of the firm.
- The competencies afforded by this bundle of resources must then form a compelling value proposition in a specific exchange context where the consideration received is money.

The CN-PC service system cont.

Each CN-PC service system needs to be described using the following axioms as guidance (Reynolds & Ng, 2014):

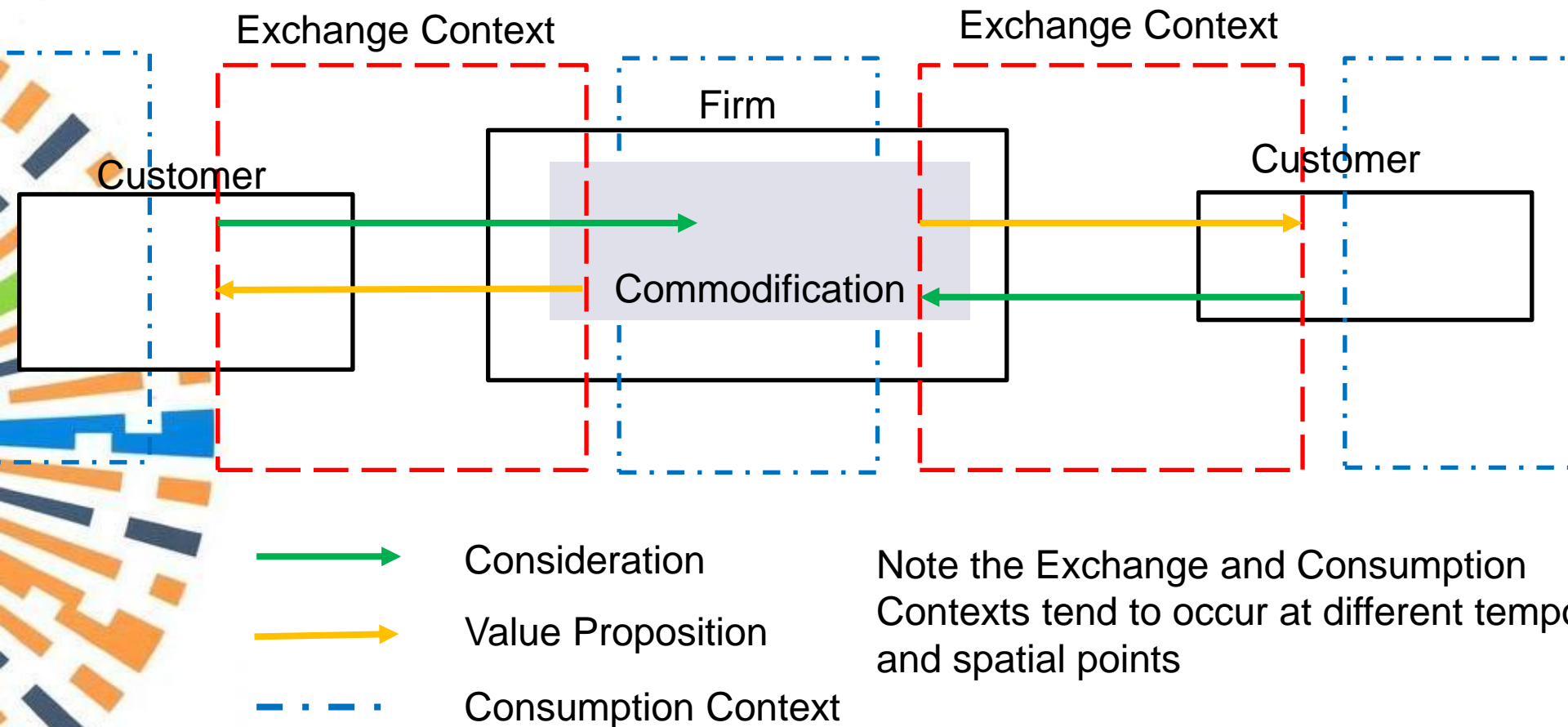
A1: Systemic entities must be discussed based on both connective and distinctive roles within the system, and how tightly coupled its entities are. Reducibility analysis must therefore report on the implications to the system's holistic nature.

A2: Even while much of the outcome of a service system could be predictable, a service system must exhibit some emergent property.

A3: The boundaries and perspective of a service system must be specified and held consistent across all discussions.

A4: A service system must report the competency (i.e. ability to render the service) of entities within the system.

Simple CN-PC System Diagram



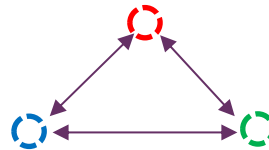
Types of CN-PC eco-system

Adapted from [Chandler & Vargo \(2011\)](#)

- Intermediary (direct exchanges)



- Platform (exchange facilitation)



- Market share (future exchange)



- Freemium (continued relationship)



Intended contribution

Contribution to theory

- Contribute to the theory of the firm, in particular our understanding of the context and nature of *exchange relationships* within a wider service (eco)system.
- Answer, in part, **Vargo & Akaka's (2012)** call for further research “to better understand the way in which resource-integration practices can be (re)combined into a multitude of various interconnecting value co-creation processes that ultimately form dynamic networks or systems”.

Contribution to practice

- There is starting to be a backlash against the collection of personal data and advertising as the primary form of revenue generation (**Clemons, 2009**)
 - We see this manifesting in the use of Ad-blocker, Tor, OFF Pocket phone case, and Hub-of-All-Things project
- A better understanding of the mechanisms around the CN-PC service system should lead the identification of innovative and more acceptable methods for the monetization of ‘free’ services.

Thank you

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