Service-Dominant Logic: An Introduction

Symposium on Service-Dominant Logic
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Suddenly, Service(s) is Everywhere

Apparent transitions
- From manufacturing economy to service economy
- From goods-oriented firms to services firms

Manifestations
- Services marketing
- Services operations
- Service factories
- Servitzation
- Service-oriented architecture
- Software-as-a-service
- Service systems
- Services science

The Problem:
- The transitions are more apparent than real
- The blinding nature of the wrong ("arm-flapping") logic
From Arm-Flapping to Airfoil Logic
Goods-dominant (G-D) Logic

- Purpose of economic activity is to make and distribute units of output, preferably tangible (i.e., goods)
- Goods are embedded with utility (value) during manufacturing
- Goal is to maximize profit through the efficient production and distribution of goods
  - goods should be standardized, produced away from the market, and inventoried till demanded

Firms exist to make and sell value-laden goods
Value Production and Consumption

Supplier

Supply/Value Chain

Producer

Consumer

Goods/Money

Value Creation

Value Destruction

Product/Value Delivery

S-D Logic
Services: The G-D Logic Perspective

Value-enhancing add-ons for goods, or

A particular (somewhat inferior) type good, characterized by (IHIP):

- Intangibility
- Heterogeneity (non-standardization)
- Inseparability (of production and consumption)
- Perishability

Services Economy = Post Industrial = Less-than-desirable economic activity
Problems with Goods Logic

Goods are not why we buy goods

- Service (benefits) they render
- Intangibles (brand, self image, social connectedness, meaning)
- Experiences

Goods are not what we fundamentally “own” to exchange with others

- Applied knowledge and skills (our services)

Customer is secondary and seen as value receiver and destroyer

- “Consumer orientation” is an add-on—does not help

IHIP characteristics do not distinguish services vs. goods

- But they do characterize value and value creation
G-D Logic Background

Adam Smith’s Bifurcation

- From positive foundation of economic exchange:
- To normative model of (national) wealth creation:
  - “productive” and “non-productive” -- surplus, exportable tangible goods

Development of Economic Science

- Newtonian Mechanics -- Matter, with properties
  - Things (products), embedded with properties (“utilities”)

Business disciplines Built on G-D Logic Foundation of Economic Science
Evolving to a New Dominant Logic for Marketing

Marketing presented a model of exchange from economics, which had a dominant logic based on the exchange of goods; which value is manufactured output. The dominant logic focused on single-source, estimated values and limits.

Achieving

The Four Service Marketing Myths
Remnants of a Goods-Based, Manufacturing Model

Robert F. Lusch

Invited Commentaries on “Evolving to a New Dominant Logic for Marketing”

The Four Service Marketing Myths
Remnants of a Goods-Based, Manufacturing Model

Stephen L. Vargo

Robert F. Lusch

Advocating a New

THE SERVICE-DOMINANT LOGIC OF MARKETING

DIALOG, PATHS, AND DIRECTIONS

Robert F. Lusch and Stephen L. Vargo

Why “service”?

Stephen L. Vargo

Robert F. Lusch
Service-Dominant Logic Basics

Service is exchanged for service

- Service = use of competence for benefit of another part
- All economies service economies - all business service businesses

Shifts primary focus to human resources from physical resources

Sees all parties as “resource integrators.” and service providers

See value as always co-created

Sees goods as appliances for service delivery
# Foundational Premises (Revised)

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<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
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<tbody>
<tr>
<td><strong>FP1</strong></td>
<td><strong>Service is the fundamental basis of exchange.</strong>&lt;br&gt;The application of operant resources (knowledge and skills), “service,” is the basis for all exchange. Service is exchanged for service.</td>
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<td><strong>FP2</strong></td>
<td><strong>Indirect exchange masks the fundamental basis of exchange.</strong>&lt;br&gt;Goods, money, and institutions mask the service-for-service nature of exchange.</td>
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<td><strong>FP3</strong></td>
<td><strong>Goods are distribution mechanisms for service provision.</strong>&lt;br&gt;Goods (both durable and non-durable) derive their value through use – the service they provide.</td>
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<td><strong>FP4</strong></td>
<td><strong>Operant resources are the fundamental source of competitive advantage</strong>&lt;br&gt;The comparative ability to cause desired change drives competition.</td>
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<td><strong>FP5</strong></td>
<td><strong>All economies are service economies.</strong>&lt;br&gt;Service (singular) is only now becoming more apparent with increased specialization and outsourcing.</td>
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<td>FP6 The customer is always a co-creator of value</td>
<td>Implies value creation is interactional.</td>
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<td>FP7 The enterprise can not deliver value, but only offer value propositions</td>
<td>The firm can offer its applied resources and collaboratively (interactively) create value following acceptance, but can not create/deliver value alone.</td>
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<td>FP8 A service-centered view is inherently customer oriented and relational.</td>
<td>Service is customer-determined and co-created; thus, it is inherently customer oriented and relational.</td>
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<td>FP9 All economic and social actors are resource integrators</td>
<td>Implies the context of value creation is networks of networks (resource-integrators).</td>
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<td>FP10 Value is always uniquely and phenomenological determined by the beneficiary</td>
<td>Value is idiosyncratic, experiential, contextual, and meaning laden.</td>
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Resource Integration

Market-facing Resource Integrators

Private Resources Integrators

Public Resources Integrators

Individual Resource Integrator

Economic Currency

Social Currency

New Resources

Value

Public Currency
Service-Dominant Logic: The Essential (Service) Distinction

- **Services** = intangible products
- **Service** = The *process* of using one’s competences for the benefit of some party
  - The application of knowledge and skills
- **Service** *transcends* “goods and ‘services’”

There are No “Services” in Service-Dominant Logic
Clarifications: Cocreation vs. Coproduction

Coproduction is relatively optional. Value is always cocreated.
Service Exchange through Resource Integration and Value Co-creation

S-D Logic

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")

Market-facing and public and private resources

Value Co-creation

$ (Service Rights)

Value Co-creation

Resource Integrators
Issues for a Theory of the Market

- The performative nature of markets
  - The market is a function of the marketing (and other business disciplines)
  - e.g., Araujo (2009)

- Markets do not exist
  - They are images of service potential
  - Markets as practices
    - e.g., Kjellberg and Helgesson (2008)

- …and yet they do
  - Intersubjective realities
  - Intuitions
Markets: Shared or (Co)Created

The MP3-Player Market?
Or
The customizable-entertainment-storage-organizer-and-personal-assistant-and-life-applications-with-a-WOW-factor-platform market

The mineral-oil market?
Or
The baby-butt-rash-avoidance-mommy-guilt-reducing-body-massage-and-sexual-lubricant market

The sodium-bicarbonate market?
Or
The occasional-baking-but-primarily-refrigerator-freshening-teeth-cleaning-clothes-brightening market
The Messages of S-D Logic

- There are no services
  - There is only service (direct or through goods)

- There is no new service economy
  - Service is exchanged for service
    - All economies are service economies

- There are no producers and consumers
  - All parties are resource integrators (i.e., Bs)
The Messages of S-D Logic (2)

- Goods are not “goods.”
  - “Goods” are value propositions for service provision

- Firms do not create value
  - Value is always co-created

- Markets do not exist
  - Are imagined and created by linking resources with peoples lives
  - And yet they do – because we act as if they do.
Thank You!

For More Information on S-D Logic visit:

sdlogic.net

We encourage your comments and input. Will also post:

• Working papers
• Teaching material
• Related Links

Steve Vargo: svargo@sdlogic.net  Bob Lusch: rlusch@sdlogic.net
The New Fractal Geometry of the Market

Value Co-Creation

External Resources

Resistance Reduction

Resource Integration

Exchange

RI

Needs

Resources

Resistances

RI

Needs

Resources

Resistances

RI

Needs

Resources

Resistances

Customers

Stakeholders

S-D Logic

Resource Integration

Resistance Reduction

Value Co-Creation
Potential Implications

Making “services” more “goods-like” (tangible, separable, etc.) may not be correct normative marketing goal

• Make goods-more service-friendly.

Reconsider the primary nature of the firm

• From manufacturing (make and sell) to marketing
• Service Providers
  • Outsource non-core manufacturing and other non-core functions
  • Virtual, “on demand” modular marketing organizations
  • Resource integrators vs. resource owners
Potential Implications (2)

- Selling service flows rather than ownership, even when goods are involved

- Shifting to Value-Based Pricing
  - Based on value-in-use

- Network to network marketing
  - Co-creation of value, brands, and markets
  - Experience- ”platform” creation
Service, value creation, and markets: Some Nordic pioneers

- Christian Grönroos
- Evert Gummesson
- Haken Hakansson
- Bo Edvardsson
- Christian Moeller
- Kjellberg
- Helgesson
- Kaj Storbacka
- etc.
The Source of the “New” Service(s) Economy

G-D logic classification

Increasing division of labor

Outsourcing

Apparent New Service Economy
Lego
a. Get your idea ready to be submitted...
Take some time to come up with the best original idea you can think of. We're not talking your fraternity's logo or a photo of your new puppy. We're talking an idea so amazing that your eyeballs may explode if you stare too long!

Use our submission kit for templates and to learn about all the various incredibly awesome specialty ink and print methods we offer.

b. Submit your idea to Threadless...
Use the templates provided in the submission kit to prepare your design files. Click the "Submit a design" button below, follow the instructions and fill out the form to submit your design for presentation to the Threadless community.

c. The community rates & comments on your idea...
Over a period of 7 days, the Threadless community will score and comment on your submission. These scores and comments will help us decide which designs should become the next Threadless tees!

d. If your idea is selected for print, you'll receive:
- $2,000 in cash
- $500 Threadless Gift Certificate (can be redeemed for $200 cash)
- $500 in cash each time your design is reprinted
- Up to $10,000 more if you win a "Bestee" in the Threadless Awards
- Alumni Club membership including a Medal of Honor and other goodies

Submit a design
Jones Soda

- Relatively new brand, actively solicits and applies user input from the onset
- Largely inorganic - corporately created brand community
- Consumer packaged good
Firefox: Consumer Generated Content
Firefox

- Free open source platform
- Cross-platform browser
- Supports MS Windows, Linux, Mac OS X
- As of September 2007
- %15 of US users
- %28 of European users
Firefox

How is Firefox spreading?

- Word of mouth - many people are passionate about it
- Company runs contests for consumer generated ads

http://www.spreadfirefox.com

- Consumers run their own campaigns to spread Firefox

http://www.mouserunner.com
“Dematerialization” and “liquification” (IT and ICT)

• The ability to separate and transport information apart from and matter (and people) (Normann 2001)

G-D logic (perhaps) was adequate as long as information and goods are integrated

• Applied knowledge skills (specialized information – division of “labor”) has always been the core of economic exchange

Economic exchange is (has always been) service based – service is exchanged for service
Domestication and Liquefication of Resources Drives Mobility

From Somatic Mobility to Extra-Somatic Mobility

Domesticate Animals: Horse & Buggy
Domesticate Wind: Sailing Ships
Domesticate Carbon: Petro Powered Transportation
Domesticate Silicon & Spectrum: Extra-Somatic Mobility

The Message

- The transitions are mythical
- The apparent transitions are driven by an inadequate logic of the market
  - “arm-flapping” logic?
- The real transition is in the basic logic of economic exchange markets
  - Emerging from diverse disciplines
  - Reframing future research questions and approaches
  - Reframing practices
The Importance of the Right Logic

- Without changing our pattern of thought, we will not be able to solve the problems we created with our current pattern of thought
  - Albert Einstein

- The greatest danger in times of turbulence is not the turbulence: it is to act with yesterday’s logic.
  - Peter F. Drucker

- The main power base of paradigms may be in the fact that they are taken for granted and not explicitly questioned
  - Johan Arndt

- What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process creating utility.
  - Wroe Alderson
Service Ecosystems

- An economic community supported by a foundation of interacting organizations that co-create and exchange service. It includes:
  - “Suppliers”
  - “Producers”
  - Competitors
  - Customers
  - Other social and economic actors
A Partial Pedigree

- Services and Relationship Marketing
  - e.g., Shostack (1977); Berry (1983); Gummesson (1994); Gronroos (1994); etc.

- Theory of the firm
  - Penrose (1959)

- Core Competency Theory
  - (Prahalad and Hamel (1990); Day 1994)

- Resource-Advantage Theory and Resource-Management Strategies

- Network Theory
  - (Hakansson and Snehota 1995)

- Interpretive research and Consumer Culture theory
  - (Arnould and Thompson 2005)

- Experience marketing
  - (Prahalad and Ramaswamy 2000)
An Extended Pedigree

- Social Network Theory
  - e.g., Giddens (1984); Granovetter (1973)
- New Institutional Economics
  - North (2005); Menard (1995)
- Human Ecology
  - e.g., Hawley (1986);
- Business Ecosystems
  - Insiti and Levien (2004)
- Stakeholder Theory
  - Donaldson and Preston (1995)
- Service Science
  - e.g., Spohrer and Maglio (2008)
- Market Practices and Performances
  - Araujo (2008), Kjellberg and Helgesson (2008)
Marketing and Market Science

- Other disciplines have found it convenient to institutionalize the distinctions between applied and basic science... In marketing, the problem is rather one of spinning off a basic science from a problem solving discipline.
  - (Arndt 1985)
- “Paradoxically, the term *market* is everywhere and nowhere in marketing.”
  - Venkatesh, Penaloza, and Firat (2006)
- It is a peculiar fact that the literature on economics...contains so little discussion of the central institution that underlies neoclassical economics – the market
  - North (1977)
Resource Integration and Value Co-creation Opportunities

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")
What S-D Logic Might be

Foundation for a paradigm shift in marketing

Perspective for understanding role of markets in society—Theory of Markets

• Basis for general theory markets and marketing
• Basis for “service science”
• Foundation for theory of the firm
• Reorientation for economic theory
Uneasiness with Dominant Model

- “The historical marketing management function, based on the microeconomic maximization paradigm, must be critically examined for its relevance to marketing theory and practice.”
  - Webster (1992)

- “The exchange paradigm serves the purpose of explaining value distribution (but) where consumers are involved in coproduction and have interdependent relationships, the concern for value creation is paramount...There is a need for an alternative paradigm of marketing.”
  - Sheth and Parvatiyar (2000)

- “The very nature of network organization, the kinds of theories useful to its understanding, and the potential impact on the organization of consumption all suggest that a paradigm shift for marketing may not be far over the horizon.”
  - Achrol and Kotler (1999)
Reflections of the G-D Logic

Marketing is:
- The “creation of utilities” (Weld)
- Time, place, and possession
- “production function”
- Concerned with value distribution

Orientations
- Production and Product
  - distribution vs. value-added
- Consumer Orientation
  - Evidence of problem vs. correction
  - Marketing management and Consumer Behavior

Disconnect between marketing theory and marketing practice

Sub-disciplinary divisions
What S-D Logic is Not

Reflection of the transition to a services era
- In S-D logic, all economies are service economies

A Theory
- S-D logic is a logic, a mindset, a lens, but not a theory (at least yet)

Restatement Of The Consumer Orientation
- Consumer orientation is evidence of G-D logic, not a fix to it
- Joint, firm/customer orientation is implied by S-D logic
The greatest danger in times of turbulence is not the turbulence: it is to act with yesterday’s logic.

- Peter F. Drucker

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**Value Proposition:** There are alternative logics for understanding markets and marketing

- One is more robust and better suited to the long-term viability of marketing
Evolution of Marketing & Web

1. To Market
2. Marketing To
3. Marketing With

1. Web Plumbing
2. Web 1.0 Retrieve & Read
3. Web 2.0 Co-Create
Given our service system abstraction and the service-dominant logic on which it depends, we can define service science and its variations:

- **Service science** is the study of the application of the resources of one or more systems for the benefit of another system in economic exchange.

- **Normative service science** is the study of how one system can and should apply its resources for the mutual benefit of another system and of the system itself.

- **Service science, management, and engineering (SSME)** is the application of normative service science.

Source: Maglio 2009
What S-D Logic is Not

Reflection of the transition to a services era
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Restatement Of The Consumer Orientation
• Consumer orientation is evidence of G-D logic, not a fix to it
• Joint, firm/customer orientation is implied by S-D logic
Exchange is about the reciprocal application of knowledge skills (specialized information)

- Service for service

“Dematerialization” and “liquification” (IT and ICT)

- The ability to separate and transport information apart from and matter (and people) (Normann 2001)
- Make S-D logic compelling
Service Ecosystems

An economic community supported by a foundation of interacting organizations that co-create value through service exchange. It includes:

- “Suppliers”
- “Producers”
- Competitors
- Customers
- Customer’s network of resources
- Other social and economic stakeholders
The Market, Marketing, and Economics

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  - The market is a function of the marketing (and other business disciplines)
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- Markets do not exist
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  - Markets as practices
  - e.g.,
- …and yet they do
  - Intersubjective realities
The Prelude: The Blasphemy of the Alternative Logic

- There is no new service economy
- There are no producers and consumers
- Goods are not “goods.”
- Firms do not create value
- There is no B2C
- There are no services
- There are no markets
  - And yet there are
The meaning of logic

- The underlying philosophy for organizing and understanding a phenomena
  - Pre-theoretical
  - Paradigm level of thought
  - The lens that provides the perspective

- Different from formal scientific and mathematical logic
What S-D Logic Might be

Foundation of a paradigm shift in marketing

- Perspective for understanding role of markets in society—Theory of market
- Basis for general theory markets and marketing

More generally, basis/foundation for

- “Service science”
- Theory of the firm
- Reorientation for economic theory
Suppliers will Design & Build

Suppliers will Invest Upfront for Design & Development

All Users Included in Process

Global Supply Chain with their Sub-contractors
force.com is the world’s first Platform as a Service (Paas), enabling developers to create and deliver any kind of business application, entirely on-demand and without software. It’s a breakthrough new concept that is making companies radically more successful by letting them translate their ideas into developed applications in record time.

Development Time = 100 vs. 4000 hours
Deployment Time = Instant vs. 4 weeks

http://www.salesforce.com/platform
Appexchange

1. FIND APPS
   Search and Browse
   Over 600 Apps

2. TEST DRIVE
   Try Before You Buy

3. INSTALL
   Fast, Easy, Secure into
   Your Salesforce Deployment
Ponoko

- World’s first personal manufacturing platform.
- Consumers ideas create value and consumers use value
- What they provide
  - Laser cutter
  - Matterials
  - E-commerce site
  - Targeted advertisement
- Based out of New Zealand
- Offer prizes to inspire innovation
Ponoko

- **make & sell**: Got a great idea? Use our digital tools to make it real - then sell it to the world.
- **Materials info!**: We've added new info - including prices and example product costs – to every material in our catalog. Go check them out.
- **Test drive Ponoko**: Can't wait to get started? Then click to make this cool wine rack by Ponoko designer Dan Emery. You pay for materials, making and shipping costs, but the design files are yours to download for FREE.

- **browse & buy**: Check out and buy product designs developed by some of the world's finest creative minds. Get them made on demand - it's kinder to the planet that way.

- **mingle & share**: Get design tips, read our FAQs or ask questions on the Ponoko forum.
Crowd Spirit created the first electronic products driven and inspired by customers’ wishes & expectations.
Crowd Spirit

1. Submit an idea for a new innovative electronic product
2. Vote, discuss & contribute on products
3. Be elected to finalize the product with partners
4. Based on your contribution, earn a share of the product revenue

Step 1: Innovator sends ideas. The contributors fine tune them & vote for the best one.

Step 2: A core team is elected by the innovator to define the product specifications with partners.

Step 3: The first prototype is tested and then further improved by the community.

Step 4: Fans purchase products to the CrowdSpirit partners. The community recommends products to new partners.
Your Contribution

INNOVATOR

Inventors send in ideas for new or improved electronic products. Innovator will retain the totality of their Intellectual Property rights.

CONTRIBUTOR

Apply to join the product core team. Participate in the ‘high level definition’ of products. Vote for the best ideas.

CORE TEAM

A core team will define detailed product specifications with partners.

TESTER

You can test the first prototypes and help to improve the products with the partners so as to obtain the best possible products.

AMBASSADOR

You can promote the products to retailers in order to increase the sales coverage of the products.

SUPPORTER

You can also help to support the products by writing or translating product manuals, helping fixing customer product issues, etc.
G-D Logic: A Logic of Separation

Producer

- Experienced
- Knowledgeable
- Innovative and Creative
- Produces / Creates Value

Consumer

- Inexperienced
- Unknowledgeable
- Passive / Dull
- Consumes / Destroys Value

S-D Logic
S-D Logic: A Logic of Cocreation

Cocreating Value

Sensing & Experiencing
Creating
Integrating Resources
Learning

Resource Integrator (Firm)

Resource Integrator (Customer)

Sensing & Experiencing
Creating
Integrating Resources
Learning

Cocreating Value

Resource Integrator (Firm)

Resource Integrator (Customer)
Services: The G-D Logic Perspective

Value-enhancing add-ons for goods, or

A particular (somewhat inferior) type good, characterized by (IHIP):

- Intangibility
- Heterogeneity (non-standardization)
- Inseparability (of production and consumption)
- Perishability

Services Economy = Post Industrial = Less-than-desirable economic activity
Evolving to a New Dominant Logic for Marketing

Marketing oriented a model of exchange from economics, which has a dominant logic based on the exchange of goods. What really is the marketing model, which is the theory of marketing oriented to be performed in marketing? The problem is that when the marketing model is not characterized by the marketing of the customer, due to a lack of knowledge about the marketing model on several or even more levels, the marketing model then becomes a marketing oriented to the exchange of goods. The marketing model of the exchange of goods is oriented to be performed in marketing, which is the theory of marketing oriented to the exchange of goods. The marketing model of the exchange of goods is oriented to be performed in marketing, which is the theory of marketing oriented to the exchange of goods.

Invited Commentaries on “Evolving to a New Dominant Logic for Marketing”

The Four Service Marketing Myths
Remnants of a Goods-Based, Manufacturing Model

Achieving Service-dominant Logic: Remnants of a Goods-Based, Manufacturing Model

Stephen L. Vargo
University of Arizona
Robert F. Lusch
University of Arizona

Dedicated to our mentors, colleagues, and friends. This is not an isolated topic for marketing, but rather a critical component of the marketing model of the exchange of goods. This paper provides an introduction to new dominant logic for marketing, which is the theory of marketing oriented to the exchange of goods.

Service-dominant logic: continuing the evolution

Stephen L. Vargo
Robert F. Lusch

Marketing was originally oriented toward the exchange of services, but not toward the exchange of goods. The emergent service-dominant logic is a new marketing model, which is oriented toward the exchange of goods. This new marketing model is oriented toward the exchange of goods.

Why “service”?

Stephen L. Vargo
Robert F. Lusch

Marketing was originally oriented toward the exchange of services, but not toward the exchange of goods. The emergent service-dominant logic is a new marketing model, which is oriented toward the exchange of goods. This new marketing model is oriented toward the exchange of goods.

Keywords:
Service-dominant logic: New dominant logic for marketing

Introduction

In the two years of the introduction of new dominant logic for marketing, "Evolving to a New Dominant Logic for Marketing" has been substantially relevant, and has shown that there is a strong need for a new dominant logic for marketing. The new dominant logic for marketing is not only relevant to the exchange of goods, but also to the exchange of services.