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## **SERVICE-DOMINANT LOGIC AS A FOUNDATION FOR A GENERAL THEORY**

ROBERT F. LUSCH AND STEPHEN L. VARGO

### **INTRODUCTION**

The quest for a general theory of marketing has been elusive. At least in part, this is because marketing is built on economic science, which has its own general theory. But, as discussed in chapter 2, though dealing with related subject matter, this general theory was built for a different purpose and within a different social and academic context than are characteristic of marketing, at least in the past fifty years. The focus of economics was “productive” services, defined in terms of units of tangible output that could be exported and exchanged. This focus and its related theoretical framework served applied marketing reasonably well in its initial concern with the distribution of these tangible goods.

In line with this concern for tangibility and application, marketing thought developed and evolved based on what was tangible, or at least observable, and capable of being acted upon. Goods were tangible and visible. Advertising also was visible, as was price and distribution channels.

However, what was less readily perceptible was that much of what was exchanged was intangible—the direct application of knowledge and skills (i.e., service)—and even when goods were exchanged, their value was partially derived from their being embodied with knowledge and thus had service potential; price (an expression of value-in-exchange) was a quantitative estimate of how valued a party’s specialized-resource-based service potential was in a market-based economy; advertising was part of a process of symbolic communication of a party’s service potential in the context of a broader, societal-based “sign” system; and distribution channels were mechanisms for the division and exchange of specialized marketing functions. In short, the common denominator of marketing was the intangibles—knowledge and skills, and social and economic processes.

Our concluding point of view in this volume of original essays is that service-dominant logic may be able to serve as a foundation for the development of a general theory of marketing. We base this view on the fact that S-D logic is grounded in the micro-activities of humans—specialization through the development of competences and the subsequent exchange of these competences

for competences the individual does not have. However, it also offers justification for the formation of macro institutions and structures—for example, goods, money, organizations, intermediaries, and markets—as natural consequences of this process of specialization and exchange. Stated alternatively, S-D logic demonstrates how micro actions result in macro structures. Consequently, as we will see, S-D logic has the breadth and abstract properties to operate at both the micro and macro level. Additionally, we argue that it has characteristics of generalizability and integration sufficient to be inclusive of competing and sometimes apparently contrary frameworks, some of which are offered by the authors of chapters in this book. Finally, we argue that it is implicitly normative and thus can point managers toward practical actions and organizations to standards for ethical interaction and social well-being.

## CHALLENGING THE DOMINANT LOGIC

S-D logic, by viewing service(s) as dominant and goods, organizations, networks, and money as only intermediaries, results in a fundamental inversion of the dominant logic in marketing. As such, it is similar to the reversal in thinking when the dominant logic about planet earth was that it was flat. Over the course of human history and experience, dominant thinking was repeatedly replaced by beliefs that were virtually opposite. Similarly, with the existing dominant paradigm in marketing, the following beliefs are strongly held: (1) entity performance is to be optimized or maximized, (2) the external environments are uncontrollable forces to be reckoned with, (3) consumers are operand resources or objects to be marketed to, and (4) value is embedded in products and then exchanged. Surprisingly, S-D logic takes an opposite perspective: (1) entity performance cannot be optimized but can be improved upon, (2) the external environments are not uncontrollable but are resources that can be drawn upon for support once resistances are overcome, (3) consumers are operand resources and to be marketed and collaborated with (i.e., co-producers or co-creators) as opposed to operand resources that are targeted and marketed to, and (4) value-in-use is superordinate to value-in-exchange.

Though disquieting to some (as illustrated in some of the chapters in this collection) S-D logic goes a step further and challenges the fundamental method for the practice of marketing. This dominant practice has become synonymous with the Four P's, or the marketing mix—product, price, promotion, and place—which are managed to enable the firm to target and capture the customer. However, S-D logic does not abandon the Four P's, just as it does not abandon the role of tangible goods, but rather places them in a more strategic role. This is quite different from current normative marketing practice in which the marketing mix is largely tactical. S-D logic recognizes the Four P's as part of a continuing flow of service(s) embedded in a dynamic marketing system comprising social and economic dynamic “flows” and “processes” in which value is collaboratively co-created with customers and partners. Strategic marketing becomes largely focused on the collaborative co-creation of value with customers and partners.

As shown in Figure 32.1, replacing a tactical product focus, service-dominant logic views the offering as service, which in some circumstances can be transmitted in the form of an appliance that the customer uses to provide self-service; in other circumstance, this service is provided directly (without a tangible transmission mechanism). Replacing price, arguably the most often-employed marketing tactic, is a strategic orientation on a firm's value proposition. S-D logic recognizes that firms can only make a value proposition and that value itself is a continuous process that unfolds over time as consumers participate in the value-creation process. Promotion, also heavily tactical, is replaced by conversation and dialogue (also a continuous flow) as a strategic pathway for improved integrated marketing communication. Channels of distribution (place)

Figure 32.1 Traditional Marketing Mix versus Service-Dominant Logic

<b>Traditional Marketing Mix (largely tactical)</b>	<b>Service-Dominant Logic (largely strategic)</b>
Product	Co-creating service(s)
Price	Co-creating value proposition
Promotion	Co-creating conversation and dialogue
Channel of distribution (place)	Co-creating value processes and networks

rather than being a fixed mechanism for distributing product is replaced with a strategic focus on value-creation processes and networks that are constantly developing and evolving. Rather than trying to capture the customer via target marketing, the firm shifts its focus to co-producing or co-creating value with the customer. In fact, Jaworski and Kohli (chapter 8) argue that co-production begins with the front-end process of identifying customer needs/wants with a dialog-based process for co-creating the voice of the customer.

However, S-D logic brings not only the customer to the process of co-creation of value, but also the organization's partners throughout the value creation network. This is primarily because S-D logic views knowledge as the fundamental source of competitive advantage and recognizes that knowledge is not centralized but dispersed throughout the marketing system and society. Consequently, S-D logic recognizes all entities must collaborate with other entities and integrate resources with them.

Collectively S-D logic moves the totality of marketing from a product-centric focus to a customer- and knowledge-centric focus. In fact, S-D logic suggests that marketing be defined as the process in society and organizations that facilitates voluntary exchange through collaborative relationships that create reciprocal value through the application of complementary resources. Marketing is thus seen as the means by which organizations and societies are able to create value by the voluntary exchange of knowledge and skills. Sawhney (chapter 29) coins the concept of a "solutions-centric mind-set" which focuses on the "design and marketing of end-to-end customer solutions." S-D logic explicitly recognizes that solutions require the application of operant resources (knowledge and skills) and the active involvement of customers (and partners). Whether we use the term *customer* or *solutions-centric mind-set*, the goods-dominant (G-D) paradigm is viewed as seriously flawed and inadequate as a marketing framework. In what follows, we try to uncompact the fundamental shift in worldview of marketing and markets<sup>1</sup> to service-dominant. In so doing we hope to show that S-D logic is sufficiently broad and abstract to serve as the foundational basis of a general theory of markets and/or marketing.

## THE MARKET(PLACE) AND S-D LOGIC

S-D logic suggests that markets and marketing are primary drivers or creators of society. Individuals without the exchange of service for service are anti-society. With exchange of service comes society and society does not exist without the exchange of the most fundamental resources for human existence (mental and physical competences). Sometimes social and sometimes economic, but most often intertwined, a society involves a complex web of social and economic exchanges of service(s). In modern society this complex is heavily centered on the market as the central forum for exchange.

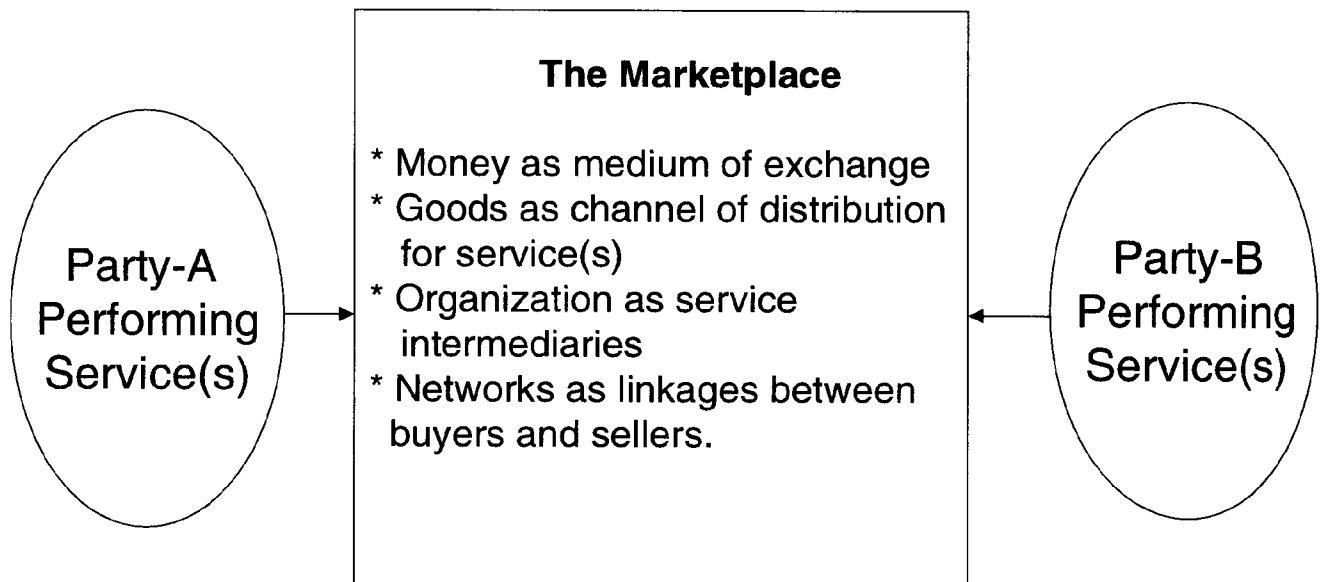
Consequently, S-D logic is supportive of a starting point of analysis being the market, which Venkatesh, Peñaloza, and Firat (chapter 19) view as a set of institutional arrangements. However, institutions themselves are co-produced and co-production is a central concept in S-D logic. Furthermore, language, knowledge, norms, culture, and scientific paradigms are all part of a network of co-creation activities by individuals and organizations that create society. In a real sense, society can be viewed as a macro-service provision institution. Through the invisible hand of the exchange of service for service, a market-driven society emerges that serves humankind.

As the division of labor develops in the family or household unit, we see the roots of service being exchanged for service. To facilitate this exchange of service(s), humans develop three primary mechanisms: (1) tangible, primarily operand resources that are embedded with knowledge, (2) organizations and networks, which become the integrative mechanisms through which micro-specialists exchange their competences (service), and (3) money, which people exchange for the service(s) they need and want.

Although we recognize that tyrants often controlled early civilizations and open and free one-to-one exchange of services was not the norm (Achrol and Kotler, chapter 26) it is still useful to conceptualize the basic process of service being exchanged for service as suggested by Bastiat (1860/1964)—one party hunting and gathering and another tending to cooking, fabricating clothing, tending the young ones. At some point this household unit begins to exchange with other units. Direct barter might apparently involve trading animal hides for feedstock—tangible good for tangible good. However, what is the tangible good and how did it come about? The tangible good came about because one party applied their specialized knowledge and skills to hunt the animal and skin the hide (i.e., they provided service). Another party applied its specialized knowledge and skills and tended crops or gathered crops (i.e., provided services). But more importantly the tangible goods (animal hide and feedstock) are only of value because of the value that can be extracted or received from them in use. The animal hide provides protection from the cold weather and thus the equivalent to heating services. The feedstock provides nourishment, and thus energy, for the body to function. However, there is one other function the tangible good may provide. It may be a storehouse of value or medium of exchange. First as a storehouse of value it can be inventoried and can be used at another time to trade for other things. Second, as a medium of exchange, it may be used to trade for other things indirectly (i.e., it can be used as money). Cattle or livestock were often used for this function. In fact with loans one would often give a pregnant cow as collateral where the creditor would receive the offspring as interest and then return the cow when the loan was paid. Thus we see even interest or financial services being embedded in tangible matter.

It is because of gain from trade that a medium of exchange is developed. Money emerges initially as tangible and then evolves to being purely abstract. Initially most monetary systems involve some type of scarce metal minted into different sizes. These tangible coins become the medium of exchange. Later they are represented by paper or notes that are backed by metallic currency. Today they are largely represented by paper or notes not backed by metallic currency and increasingly are digital signals (or purely abstract). Behind these currencies are the character and trustworthiness and integrity of the backer. Essentially what we see in contemporary money is both economic and social exchange (the social exchange being the exchange of trust). Money as a medium of exchange facilitates exchange and trade and goods become convenient and effective marketing channels for services.

Entities learned that there are gains to be made by organization. Coase (1937) developed a theory of organization, which was further developed by Williamson (1975). Firms or organizations develop to lower transaction costs. But because individuals who work in the organization

Figure 32.2 **Service(s) Exchanged for Service(s)**

(i.e., sell their services to the organization) can avoid the discipline of the marketplace, they can often be individually nonresponsive to the customer. In short, they are not directly exchanging service for service. As such, they can often shirk responsibility and are not responsive to customer demands. This partially explains the paradox of why many service organizations (government agencies, airlines, phone services, etc.) have a reputation of *not* being service oriented and have low-quality service.

In Figure 32.2 we graphically portray the fundamental notion that service(s) are exchanged for service(s). It is important to note that it is only because of the marketplace and the development of: (1) money as a medium of exchange, (2) goods as channels of distribution for services, (3) organizations as service intermediaries, and (4) networks that link together buyers and sellers, that we have lost sight of the fundamental economic principle of Bastiat (that services are exchanged for services). The world we live in is not about money, goods, and organization; it is about service to each other and humankind (society). Money, goods, organization, and the network are only the exchange vehicles.

### **SERVICE(S) EXCHANGED FOR SERVICES**

A service-centered model of exchange motivates the study of marketing at the most micro level, which is entities exchanging competences or service(s) (refer to Figure 32.2). We suggest this micro-level analysis allows for a more complete understanding of marketing from a holistic, systems, or macro perspective. Consequently, a service-centered model is not anti-macromarketing as some believe.

Macro systems, which undoubtedly should be studied in their own right, come about or emerge from micro phenomena. Systems at higher and higher levels of aggregation constitute a hierarchy of nested levels (Capra 1996; Holbrook 2003; Kiel, Lusch, and Schumacher 1992), for instance, atom, molecule, cell, organism, species, community, ecosystem, biosphere, cosmos (Holbrook 2003). Since marketing deals with human exchange, it is useful to begin the study of marketing with individual human organisms, although these entities themselves consist of particles inside of nuclei of atoms, inside of atoms, inside of molecules, inside of nuclei of cells, inside of cells, inside of tissue, inside of organs, inside of the human organism (Kiel, Lusch, and Schumacher 1992).

Most of marketing from a managerial perspective has begun with the organization as the unit of analysis. However, organizations are a community of human organisms. By investigating the more fundamental unit of individuals and their exchanging of services for services we can inform ourselves on how macro structures such as organizations and societies emerge. There is a temptation to view these macro structures as entities in and of themselves without recognizing that they emerge from the actions of more fundamental actors exchanging their services or competences. The macro structures emerge from co-productive activities of micro-entities.

### **Division of Labor**

The microscopic actions begin with the division of labor. Physical and mental skills are the two basic operant resources that all individuals possess (Vargo and Lusch 2004). As long as all individuals used these resources for self-service and did this independent of other individuals, the world was simple. Isolated man interacting only with nature keeps the world rather static except for naturally occurring physical phenomena. An individual human can at best survive but without others cannot change the world. However, when individuals begin to interact with others and exchange the platform for changing the world is set.

Humans learned that the skills they possess are not equally distributed and thus they began to specialize. This specialization led to a division of labor where entities became more dependent upon each other. Smith (1776/1904) recognized that the extent of the market was a function of the division of labor in society. However, as the division of labor increased, another important development occurred—the connectedness of individuals. As each person specializes we become more dependent and connected to others. Thus both the extent of the market and the density of the network of interconnections is a function of the division of labor in society.

This begins to form the basis of a complex system. And since each entity in this interconnected system is always attempting to do better or to improve its condition the system becomes adaptive. Thus what emerges rather quickly as a result of a division of labor is a complex adaptive system. Soon the environment humans face is not only the natural environment but also the social environment that is made up of the actions of all other entities that are part of this web of interconnectedness.

### **Learning Through Change**

Exchange is pro knowledge discovery because entities enter into exchange to improve their condition. They have very simple hypotheses or expectations that if one takes a certain action (and changes) then he or she will be better off. However, these hypotheses are tested in the crucible of reality. They take actions to enter into exchange and are able to experience the consequences firsthand. These hypotheses can be falsified. Exchange is not only pro knowledge discovery for firms but also for consumers. Firms seeking competitive advantage are constantly seeking ways to lower costs or improve value provided to buyers (Hunt 2000). Seldom mentioned is the fact that buyers also learn in this process. A buyer has the desire to improve its condition and thus via exchange learns what works and doesn't work. This can also stimulate the buyer to use or develop its competences to either be able to acquire more in the marketplace or to better utilize goods acquired in the marketplace to obtain value.

In the exchange process, one of the most important things learned is the relative value of things. Without exchange one has no or little information on value. In a simple bartering economy one is able to learn about how many of A units can be exchanged for B units. Let us say one is not