From Goods-Dominant Logic to Service-Dominant Logic

Service-Dominant Logic: An Evolution or Revolution in Marketing Theory and Practice?

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The Message

We are apparently transitioning:

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

The transitions are mythical

The apparent transitions reflect a flawed understanding (logic) of the market

The real transition is in our mental models (logic) of economic exchange and business

- Emerging from diverse practices and academic disciplines of business
FOUNDATIONS: GOODS-DOMINANT 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
G-D Logic Model: Value Production and Consumption
Wrong Thinking about Service(s): 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
THE G-D LOGIC PROBLEMS
“FIXES”
Problems with Goods Logic

Goods are not why we buy goods
- Service (benefits) they render
- Intangibles (brand, self image, social connectedness, meaning)
- Inputs into 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: The "Consumer Orientation" Fix

The Consumer Orientation is Inherently Producer Centric
G-D Logic: The Relationship Fix
The Inadvertent Route to G-D Logic

Smith’s Model of Economic Exchange
- Division of labor (specialized knowledge & skills)
- Value-in-use (real value)

Smith’s Focus on National Wealth Creation
- Value-in-exchange (nominal value)
- Productive = “labor” contributing to surplus exportable, tangible goods

Economic Science
- “Utility” as a property of goods (exchange value)
- Newtonian model of science = matter embedded with properties
- Producer-consumer distinction

Neoclassical economics
- The science of exchange of things (products), embedded with properties (“utiles”)
- Foundation for all business disciplines
FOUNDATIONS: THE S-D LOGIC CORE
A Partial Pedigree For S-D Logic

- 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 for S-D Logic

- 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)
Evolving to a New Dominant Logic for Marketing

Marketing is often perceived as a rational, outcome-oriented process focused on maximizing shareholder value. However, recent developments in the field have challenged this view. The traditional logic of marketing, which is based on the exchange of goods and services, has been replaced by a new logic that emphasizes the role of the customer and the customer experience. This new logic is not just about selling products or services, but about creating value for the customer through a deeper understanding of their needs and desires.

The Four Service Marketing Myths

Remnants of a Goods-Based, Manufacturing Model

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Service-dominant logic: continuing the evolution

Stephanie L. Vargo & Robert F. Lusch

Service-dominant logic: reactions, reflections and refinements

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Why “service”?

Stephanie L. Vargo & Robert F. Lusch

The Service-Dominant Logic of Marketing

Dialog, State, and Directions

Robert F. Lusch and Stephen L. Vargo
# Core Foundational Premises of Service-Dominant Logic

<table>
<thead>
<tr>
<th>Premise</th>
<th>Explanation/Justification</th>
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<tbody>
<tr>
<td>FP1</td>
<td><strong>Service</strong> is the fundamental basis of exchange. The application of operant resources (knowledge and skills), “service,” is the basis for all exchange. <strong>Service</strong> is exchanged for service.</td>
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<td>FP6</td>
<td>The customer is always a co-creator of value Implies value creation is interactional.</td>
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<tr>
<td>FP9</td>
<td>All economic and social actors are <strong>resource integrators</strong> Implies the context of value creation is networks of networks (resource-integrators).</td>
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<tr>
<td>FP10</td>
<td><strong>Value</strong> is always uniquely and phenomenological determined by the beneficiary Value is idiosyncratic, experiential, contextual, and meaning laden.</td>
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**FP1: Service is the basis of exchange**

- Operant Resources (knowledge and skills) are the fundamental source of competitive advantage (FP4)
- All economies are service economies (FP5)

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

- The firm cannot deliver value but only offer value propositions (FP7)
- Goods are distribution mechanisms for service provision (FP3)
FP9: All economic and social actors are resource integrators

- Indirect service masks the fundamental nature of exchange (FP2)

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

- A service-centered view is inherently customer oriented and relational (FP8)
Clarifications: Service vs. Services

- **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
Value Co-creation through Resource Integration & Service Exchange

Market-facing Resource Integrators
Private Resource Integrators
Public Resource Integrators

Resource Integrator (individual, family, firm, etc.)

Economic Currency
Social Currency
Public Currency
Service

New Resources
Value
Actor Centricity & Resource-Integration based, Service-for-Service Exchange

The Market

A network of actors, labeled as "Firm" and "Customer," with arrows indicating relationships. The text "Actors = Resource Integrators" is visible at the bottom right of the diagram.
From the Individual to Market-Based

Source: Ridley 2010
Value as a Central Concept

Co-production is relatively optional. Value is always co-created.
REORIENTATION
The Value (effective) vs. Production (efficient) Trade-Off

**VALUE/Effectiveness**
- Benefit (Intangible)
- Customization (Heterogeneity)
- Customer Involvement (Inseparability)
- Contextual contingency (Perishability)

**PRODUCTION/Efficiency**
- Tangibility
- Standardization
- Separate production
- Inventoriability
Micro Exchange Embedded in Complex (Eco)Systems of Exchange

Resource Integrator/Beneficiary ("Firm")

Resource Integrator/Beneficiary ("Customer")
“It's all B2B...” – A2A (Actor to Actor)

From a G-D logic, perspective

- (B2C, producer to consumer)
- Consumer centricity is inherently firm (producer) centric

From a S-D logic perspective

- All actors are, resource-integrating, service-providing enterprises (B2B or A2A)
- Resources & value creation must be understood, contextually, co-creatively, and (service-eco)systemically
Difficult Conceptual Transitions

**Goods-Dominant Concepts**
- Goods ➔ Services
- Products ➔ Offerings
- Feature/attribute ➔ Benefit
- Value-added ➔ Co-production
- Profit maximization ➔ Financial Engineering
- Price ➔ Value delivery
- Equilibrium systems ➔ Dynamic systems
- Supply Chain ➔ Value-Chain
- Promotion ➔ Integrated Marketing Communications

**Transitional Concepts**
- Services ➔ Offerings
- Benefit ➔ Co-production
- Financial Engineering ➔ Value delivery
- Dynamic systems ➔ Value-Chain
- Integrated Marketing Communications

**Service-Dominant Concepts**
- Service ➔ Experiences
- Solution ➔ Co-creation of value
- Learning ➔ Value proposition
- Complex adaptive systems ➔ Service ecosystem
- Dialog
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

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