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## The service-dominant logic and the future of marketing

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*According to Vargo and Lusch (2004a, 2004b), service is the appropriate logic for marketing. For them, service is an interactive process of “doing something for someone” that is valued. More radically, goods also render service and have value-in-use. In this context service becomes the unifying purpose of any business relationship. This marketing world-view involves broadening and reframing what by convention counts as service and stands in opposition to 200 years of mainstream economic logic in explaining productive capacity. In our view they have succeeded in applying their scholarly thinking to old themes with synergistic results. Their thesis challenges marketing orthodoxy, and will in our view support much future innovation in both theoretical and practical terms.*

**Key words:** Co-creation of value; Otago Forum; Value-in-use; Value propositions

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When Steve Vargo and Robert Lusch first proposed their service-dominant logic (Vargo and Lusch (2004a, 2004b), some marketers may well have thought, “Here comes another re-statement of the blindingly obvious!” The premise that customer value is co-created has a strong intuitive pull and has been said by others in various ways (Normann and Ramirez, 1993; Prahalad and Ramaswamy, 2004; Lessem and Palsule, 1997; Toffler, 1980). More central to the Vargo and Lusch thesis is the

realization that customers appraise the value of goods they purchase in use, and that exchange value determination is always provisional upon later experience. In other words, customers determine what they *value-in-use* and the marketer can only offer *value propositions*. This makes sense (see also Alderson, 1957; Danner, 1976; Grönroos, 2000; Holbrook, 1999). More important however is the idea that goods are *service appliances* through which customers derive their value-in-use.

According to Vargo and Lusch, service is *the* dominant logic for marketing, and not, as might be assumed, because it is the major category of economic activity in developed countries around the world. Their reason is that service is an interactive process of “doing something for someone” that is valued. In this context service becomes the unifying purpose of any business relationship, seen from any perspective, through resource procurement, production, distribution and consumption (Lusch and Vargo, 2006b). Of course, this marketing world-view involves broadening and reframing what by convention counts as “service” and stands in radical opposition to 200 years of mainstream economic logic in explaining productive capacity. Some might say that Vargo and Lusch’s outstanding contribution to marketing thought has been to put ideas together that previously did not seem to belong together. In our view they have succeeded in applying different scholarly thinking to old themes with synergistic results. And yes, their thesis challenges marketing orthodoxy, and will in our view support much future innovation in both theoretical and practical terms.

There is no doubt that the service-dominant (S-D) logic is gaining attention in academic circles – witness their editorial selection (Lusch and Vargo, 2006a) of

contributions by leading marketing thinkers and the special panel sessions at *American Marketing Association* conferences (Summer 2004; Winter 2006), likewise the annual conference of the *European Academy of Marketing* (2005) and the *Australia and New Zealand Marketing Academy* annual conference (2005, 2006). Also of importance in evolving the S-D logic is *The Otago Forum* (2005), an International academic gathering held in New Zealand at the University of Otago. This Forum in which we were both involved was the inspiration for a special S-D logic issue of *Marketing Theory* (Aitken et al, 2006) and also this special issue of *JAMS*.

What appeals to us about S-D logic is that it reaches back into the pre-industrial past to find a unifying reference point for building and evolving a more holistic marketing logic; one more suited to open, dynamic and global markets than the static control-oriented resource allocation model most commonly represented as the *4Ps*. The economic logic in pre-industrial societies was based on self-production for immediate use. People provided for their own needs at family and community level. Beyond these localised economies, large scale production did exist, for example, in Mesopotamia, Egypt, India and China. There was also evident in many pre-industrial societies a form of exchange through reciprocal gift giving. However, as Toffler (1980) pointed out, it took an industrial revolution to split producers from consumers and create exchange markets for goods. Wherever production and consumption have become separated through specialization, markets have evolved to mediate exchanges between these groups. Thus goods moved from being items of personal value-in-use to items with a marketable exchange value (for a first hand account, see Smith, 1759; Smith, 1776).

The gestalt switch from pre-industrial *value-in-use* to *value-in-exchange* thinking has profoundly influenced the development of economic theory and subsequently marketing theory and practice (Ramirez, 1999; Vargo and Morgan, 2005). Marketing has been sorely constrained by the value-in-exchange mindset. When marketers switch to a value-in-use perspective, customers today are revealed as both producers and consumers who determine what is of value. The strategic role of the supplier then is to support the customer's value creating processes with both service activities and goods that render service (see also Gummesson, 1993, p.205; Vargo and Lusch, 2004a). Thus the strategic imperative for a supplier shifts to interacting as a service provider wherever and whenever worthwhile opportunities arise.

This is the service-dominant way of looking at marketing innovation, and it is our view that the roles of suppliers, consumers and all intermediaries are expanded in new and novel ways. Even when goods are produced conventionally, the idea that they are developed as a service appliance for home or business use (or elsewhere) extends the potential for involvement of the supplier, both pre- and post-sale. This involvement impacts on relationship development and customer repurchase decisions. This is not to deny that people (and indeed firms) desire things for what they mean in symbolic, experiential and functional terms (there is of course a stream of research with this branding orientation dating back at least to the seminal paper by Levy (1959). Nonetheless, the initial pre-sale customer appraisal is tested in use and so will be confirmed or not, with consequences for repurchase decisions and relationship development.

Marketers are always experimenting with new ideas but recently Sheth and Sisodia have lamented that marketing has not changed much in substantive ways and "...remains stuck in a juvenile time warp of gimmickry and shallow imagery." (Sheth and Sisodia, 2006, p.332). In this context, the emphasis on co-created value encourages experimentation in multiple ways of interacting with stakeholder groups - beyond the usual market-based divisions and roles and beyond short-term managerial agendas (see for example, Payne, Ballantyne and Christopher, 2005; Sheth and Sisodia, 2006, p.324). Co-creation of value is especially interesting conceptually because, in reconnecting production and consumption through interaction, marketing opportunities come into view among new groups of "value makers and takers" (Jacobs, 1992), such as producers and producers, producers and consumers, and consumers and consumers. This seems perfectly plausible in a web-wired world.

One subtle but important point of difference between our thinking and that of Vargo and Lusch (Lusch and Vargo, 2006b) is that they use the term 'co-creation' as a rubric, with co-production as one sub-category of co-creation. We have argued elsewhere (Ballantyne and Varey, 2006b) that *co-creation* is a distinct form of collaboration. It results in unique value, perhaps starting with a spontaneous idea achieved through dialogical interaction (Varey and Ballantyne, 2005). In contrast, co-production involves known resources and requisite capabilities. Second, dynamic co-creational activity can take place within 'integrated' networks of suppliers, competitors and customers working together and yet competing. This is particularly evident with continuing convergence today of digital telephony, computer and software technology and the expansion of interactive web sites and portals. Third, the idea of co-creational activity has evolved over the last 20 years or so with the vertical

(re)integration of distribution channels, the coming together of collaborative global supply chains in the context of continuing deregulation of markets and through the realisation that procurement, production, distribution and consumption are no longer discrete linear steps in a “supply chain”.

In B2B relationships where trust is present (and trust is always provisional), internal control data and market information is increasingly shared between collaborating buyers and suppliers, enabling them to work together to reduce their resource investments in works in progress and finished goods inventories, and also reduce *process cycle time*. Customer service improvements in supply response times and logistics cost savings now routinely bypass the previous price/demand efficiencies of “arms length” industrial market exchanges. Also the growth in DIY home improvement has led to the development of goods that support self-service, thus bypassing the traditional professional and trade skills markets. These market bifurcations have been well under way now for a generation.

Is marketing theory keeping pace? If the S-D logic is accepted, even provisionally, then markets seem less useful as contexts for defining customer value. The role of the marketer becomes more focused on managing communicative interactions across a variety of modalities and in facilitating key relationships. And product improvements and breakthroughs emerge when routine market transactions are replaced by non-routine *dialogical* learning among supply partners of the ‘what if?’ variety (Varey and Ballantyne, 2005). Of course such dialogue takes time and energy, and those who are the leaders in new forms of service development, such as IBM, will tell you that it can be frustrating. Yet dialogue leads to new learning and know-how (Ballantyne and

Varey, 2006a; Dixon, 2000; Nonaka and Takeuchi, 1995). This does not mean that markets will disappear as an exchange mechanism but they are undergoing transformation already through collaborative activity at many levels of business.

We are already through the frontiers of a new age of service aggregation when networks of firms consciously choose to compete, network against network. The underlying assumption from 30 years of research by the Industrial Marketing and Purchasing Group (IMP) and others is that networks of embedded firm to firm, firm to customer and customer to customer relationships exist in and across markets, which confounds traditional 'transactional' approaches to marketing (see for example, Ford, 1997; Gummesson, 1999; Iacobucci, 1996). We would add that firms and their customers 'serve' each other through collaborative relationships whether network actors choose to see it that way or not. Theory is always a partial perspective but the marketing imperative is now revealed in this new way: "Who will we choose to serve in collaborative relationships, and who will choose to serve us?" An expanding and evolving service-dominant logic of marketing is an entrepreneurial and a social challenge that cannot easily be ignored.

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