From Goods to Service(s): Divergences and Convergences of Logics

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From goods to service(s): Divergences and convergences of logics

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Abstract

There are two logics or mindsets from which to consider and motivate a transition from goods to service(s). The first, "goods-dominant (G-D) logic", views *services* in terms of a type of (e.g., intangible) good and implies that goods production and distribution practices should be modified to deal with the differences between tangible goods and services. The second logic, "service-dominant (S-D) logic", considers *service* – a process of using ones resources for the benefit of and in conjunction with another party – as the fundamental purpose of economic exchange and implies the need for a revised, service-driven framework for all of marketing. This transition to a service-centered logic is consistent with and partially derived from a similar transition found in the business-marketing literature — for example, its shift to understanding exchange in terms value rather than products and networks rather than dyads. It also parallels transitions in other sub-disciplines, such as service marketing. These parallels and the implications for marketing theory and practice of a full transition to a service-logic are explored.

Over the last several decades, leading-edge firms, as well as many business scholars and consultants, have advocated the need for refocusing substantial firm activity or transforming the entire firm orientation from producing output, primarily manufactured goods, to a concern with service(s) (see, e.g., Davies, Brady, & Hobday, 2007; Gebauer & Fleisch, 2007). These initiatives can be found in both business-to-business (e.g., IBM, GE) and business-to-consumer enterprises (e.g. Lowe's, Kodak, Apple) and in some cases entire industries (e.g., software-as-a-service).

The common justification is that these initiatives are analogous with the shift from a manufacturing to a service economy in developed countries, if not globally. That is, it is based on the idea that virtually all economies are producing and exchanging more services than they are goods; thus, services require increased attention. This perception suggests that firms need to redirect the production and marketing strategy that they have adopted for manufactured goods by adjusting them for the distinguishing characteristics of services.

This logic of the need for a shift in the activities of the enterprise and/or industry to match the analogous shift in the economy is so intuitively compelling that it is an apparent truism. It is a logic that follows naturally from marketing's traditional foundational thought. But is it the only logic; is it the correct logic? Does it move business-to-business (B2B) firms and/or academic marketing thought in a desirable and enhanced direction?

While we agree that a shift to a service focus is desirable, if not essential to a firm's well being and the advancement of academic thought, we question the conventional, underlying rationale and the associated, implied approach. The purpose of this commentary is to explore this traditional logical foundation with its roots in the manufacturing and provision of tangible *output* and to propose an alternative logic, one grounded in a revised understanding of the meaning of *service as a process* and its central role in economic exchange. It is a logic that represents the convergence and extension of divergent marketing thought by sub-disciplines and other research initiatives. We argue that this more service-centric logic not only amplifies the necessity for the development of a service focus but it also provides a stronger foundation for theory development and, consequently, application. It is a logic that provides a framework for elevating knowledge discovery in business marketing (as well as other "sub-disciplines") beyond the

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identification and explanation of B2B marketing differences from other forms of marketing to a level capable of informing not only the business-marketing firm but "mainstream" marketing in general. Thus, we argue a service-centered focus is enriching and unifying.

1. Alternative logics

Broadly speaking, there are two perspectives for the consideration of service(s). One views goods (tangible output embedded with value) as the primary focus of economic exchange and "*services"* (usually plural) as either (1) a restricted type of (intangible) good (i.e., as units of output) or (2) an add-on that enhances the value of a good. We (Vargo & Lusch, 2004a; Lusch & Vargo, 2006a) call this logic *goods-dominant (G-D) logic*. Others have referred to it as the "neoclassical economics research tradition" (e.g., Hunt, 2000), "manufacturing logic" (e.g., Normann, 2001), "old enterprise logic" (Zuboff & Maxmin, 2002), and "marketing management" (Webster, 1992). Regardless of the label, G-D logic points toward using principles developed to manage goods production to manage services "production" and "delivery".

The second logic considers "*service"* (singular) – a *process* of *doing something for another party* – in its own right, without reference to goods and identifies service as the primary focus of exchange activity. We (Vargo & Lusch, 2004a, 2006) call this logic *service-dominant* (S-D) *logic.* In S-D logic, goods continue to play an important, service-delivery role, at least in a subset of economic exchange. In contrast to implying the modification of goods-based models of exchange to fit a transition to service, S-D logic provides a service-based foundation centered on service-driven principles. We show that this transition is highly consistent with many contemporary business-marketing models.

2. Goods-dominant logic

As the label implies, G-D logic is centered on the good – or more recently, the "product", to include both tangible (goods) and intangible (services) units of output – as archetypical units of exchange. The essence of G-D logic is that economic exchange is fundamentally concerned with units of output (products) that are embedded with value during the manufacturing (or farming, or extraction) process. For efficiency, this production ideally takes place in isolation from the customer and results in standardized, inventoriable goods.

The roots of G-D logic are found in the work of Smith (1776) and took firmer, paradigmatic grasp in the context of the Industrial Revolution during the quest for a science of economics, at a time when "science" meant Newtonian mechanics, a paradigm for which the idea of goods embedded with value was particularly amenable. Management and mainstream academic marketing, as well as society in general, inherited this logic from economics (see Vargo, Lusch, & Morgan, 2006; Vargo & Morgan, 2005).

However, since formal marketing thought emerged over 100 years ago, G-D logic and its associated concept of embedded value (or utility) have caused problems for marketers. For example, in the mid 20th Century, it caused Alderson (1957, p. 69) to declare: "What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating utility". But the G-D-logic-based economic theory, with its co-supportive concepts of embedded value (production) and value destruction (consumption) was itself deeply embedded in marketing thought. It was not long after this period, we believe for related reasons, that academic marketing started becoming fragmented, with various marketing concerns taking on an increasingly separate, or sub-disciplinarian, identity.

3. Subdividing and breaking free from G-D logic

Arguably, the establishment of many of the sub-disciplines of marketing, such as business-to-business marketing, services marketing, and international marketing, is a response to the limitations and lack of robustness of G-D logic as a foundation for understanding value creation and exchange. That is, while G-D logic might have been reasonably adequate as a foundation when marketing was primarily concerned with the distribution of commodities, the foundation was severely restricted as marketing expanded its scope to the more general issues of value creation and exchange.

3.1. Business-to-business marketing

Initial sub-disciplinary approaches have typically involved trying to fit the models of mainstream marketing to the particular phenomena of concern. For example, as marketers (both academic and applied) began to address issues of industrial marketing and found that many mainstream marketing models did not seem to apply, the natural course of action was not to question the paradigmatic foundation but rather first to identify *how B2B marketing was different* from mainstream, consumer marketing and then to identify the ways that business marketers needed to adjust. Thus, early attempts led to the identification of prototypical characteristics of business marketing — derived demand, fluctuating demand, professional buyers, etc. (see Fern & Brown, 1984). But we suggest that the creation of business-to-business marketing as a sub-discipline was more because of the inability of the G-D-logic-grounded mainstream marketing to provide a suitable foundation for understanding inter-enterprise exchange phenomena than it was because of any real and essential difference compared to enterprise-to-individual exchange.

Support for this contention can be found in the fact that business-marketing academics soon began moving beyond characteristic differences and explored structures and relationships that were needed to understand the phenomena but missing from G-D-logic-driven, mainstream marketing thought. In business marketing the *network perspective* (e.g., Hakansson & Snehota, 1995) began to replace the dyadic perspective; *interactivity* (e.g., Gummesson, 2006) began to supersede the one-way-flow models, and *relationship* developed as a superordinate concept to a model of one entity acting on the other (Ulaga & Eggert, 2006). Perhaps most important to this transition was an implicit, though not fully developed, emergence of *economic-*

actor-to-economic-actor perspective (e.g., Hakansson & Prenkert, 2004), replacing (at least partially) the producer–consumer perspective of goods logic. Business-marketing scholars have also been at the forefront of the shift from understanding exchange in terms of products to concepts of *value* (e.g., Moller, 2006; Lingreen & Wynstra, 2005; Ulaga, 2003) and extending the sources of value-creation to relationships and networks (e.g., Moller & Torronen, 2003; Kothandaraman & Wilson, 2001), albeit sometimes while retaining a somewhat product-centered orientation.

Furthermore, it was B2B marketing that first recognized the need to develop *collaborations and partnerships* with customers (e.g., Bucklin, 1970; McCammon, 1970). It was also early in recognizing that customers are not buying output, but rather the *service capabilities* of that output (Phillips, Ochs, & Schrock, 1999), and in recognizing the primacy of *value-in-use* in relation to *value-in-exchange* and assessing this use value in the context of the total cost of ownership (e.g., Mohan, 1991; see Lusch & Vargo, 1998). Well before lifetime-value assessments became important in "consumer" marketing, B2B marketing was developing metrics to analyze *long-term value of customers* (Canning, 1982). Many of these transitions and insights are now migrating to mainstream marketing, often superseding their consumer marketing counterparts, though, much of the G-D foundational logic remains intact.

3.2. Service(s) marketing

These responses and later contribution to the conventional logic of marketing are almost identical in process, and in some instances substance, to those of the sub-discipline of service marketing, arguably for similar reasons. That is, early service marketing scholars first identified the ubiquitous four characteristic differences between goods and service (Zeithaml, Parasuraman, & Berry, 1985) — *inseparability of production and consumption, heterogeneity, inventoriability, and perishability* ("IHIP" characteristics, as called by Lovelock and Gummesson (2004)) — and then focused on how service marketers must adjust their approach to overcome these "*inadequacies*".

As with business marketing, in addition to, or perhaps in spite of, this initial approach of identification of characteristic differences, service scholars soon began to identify alternatives to the concepts and models of mainstream marketing — for example, exchange conceptualized as *relationships* rather than transactions (Berry, 1983), *quality* conceptualized *in terms of customer perceptions* rather than engineering standards (e.g., Gronroos, 1983), the *equity of the firm residing with its customers* rather than in its brands (Rust, Zeithaml, & Lemon, 2000), etc. Also, as with business marketing, over time, these service-marketing reconceptualizations are increasingly becoming established as superordinate to the goods-marketing concepts for which they had originally been considered comparable, if not subordinate.

3.3. Stealthy theory building at the intersection

As these reconceptualizations are reconciled and integrated with similar, business-to-business and other divergent (from G-D Logic) approaches to understanding exchange phenomena, they begin to provide the foundation for a revised, alternative logic for understanding exchange. In effect, what has been taking place is a series of stealthy concept, model, and tool-building projects in the skunkworks of the sub-disciplines. The critical and common theme is *rethinking the meaning and process of value creation* rather than thinking about how to market to a different type of customer or how to make a different type of good.

Yet, it is difficult to break free from the constraints of dominant paradigms, as evidenced by the continual reference to the sub-discipline's archetypical differentiators, despite protests (e.g., Fern & Brown, 1984; Lovelock & Gummesson, 2004; Vargo & Lusch, 2004b). Likewise, in spite of this sub-disciplinary based reconceptualization of marketing phenomena, academic marketing continues to point firms toward *producing services instead of producing goods*, rather than *providing service*. It continues to suggest that all that is needed is a change in the unit of output from the tangible to the intangible. As we have stated elsewhere (Vargo & Lusch, 2004a,b), this is a logic that not only misleads "goods" firms, but one that has misled what are traditionally thought of as service industries (e.g., airlines, banks, healthcare, education, government) toward trying to refine the *production of units of services* and away from *providing service*.

As noted, we believe that this stealthy theory building in the sub-disciplines points toward an emerging logic that transcends the sub-disciplines. We believe that logic is captured in S-D logic.

4. Service-dominant logic

The most critical distinction between G-D logic and S-D logic is found in the conceptualization of service. In S-D logic, *service* is defined as the application of competences (knowledge and skills) for the benefit of another party. The use of the singular "service" as opposed to the plural *"services*", as traditionally employed in G-D logic, is intentional and non-trivial. It represents a shift from thinking about value in terms of *operand resources* — usually tangible, static resources that require some action to make them valuable – to *operant resources* – usually intangible, dynamic resources that are capable of creating value. That is, whereas G-D logic sees services as (somewhat inferior to goods) *units of output*, S-D logic sees service as a *process* — doing something for another party. The locus of value creation, then, moves from the "producer" to a collaborative process of co-creation between parties (see Fig. 1 for an S-D Logic representation of value creation).

In S-D logic, this process of providing service for (and in conjunction with) another party in order to obtain reciprocal service, is the purpose of economic exchange — that is, *service is exchanged for service*. Goods are sometimes involved in this process in their role as *appliances* for service provision; they are *conveyors of competences*. In either case – service provided directly or through a good – it is the knowledge and skills (competences) of the providers that represent the essential source of value creation, not the goods, which are only sometimes used to convey them. Thus, in S-D logic, goods are still important; however, service is superordinate.

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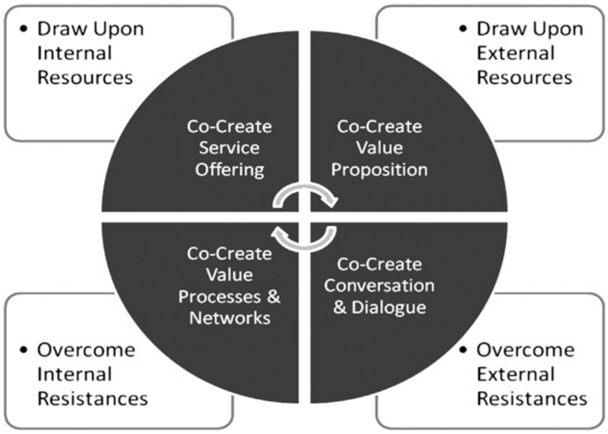

Fig. 1. Value creation and service-dominant logic.

Importantly, S-D logic represents a shift in *logic of exchange*, not just a shift in *type of product* that is under investigation. Arguably, this shift to a process-driven, service-centric logic provides a more solid foundation for a true transition from a *manufacturing model* to a *service-provider model* than a logic that considers services to be inferior goods. This shift to a process of mutual service provision has implications for additional foundational shifts in marketing theory as well as for applied marketing as they continue this transition.

However, S-D logic is a mindset and an organizing framework, rather than a theory. If academic marketing is to inform marketing practice adequately in the transition from a goods to service focus, what is needed is foundational theory building developed from a service perspective. This can be accomplished by leveraging and elaborating the development of thought at the intersections of business and service marketing, as well as other divergent marketing research streams and approaches.

5. Developing the intersections for better marketing theory

One major step in building this foundational theory for marketing requires shifting the unit of analysis from *products* to *value creation* and understanding that the essential drivers for all value creation are operant resources — resources that are capable of "purposefully" acting on other resources. It is this application of resources for the benefit of another entity – that is, service – with the anticipation of reciprocity – service for service – that motivates exchange. But service is not something that happens to another party. The associated experience and its value are uniquely determined by the beneficial entity in the context of its other resources.

Closely related to the product/value-creation distinction is the issue of *efficiency* versus *effectiveness*. The goods model points toward the primacy of efficiency. This is, perhaps ironically, particularly evident in the early distinctions between "goods and "services" in the service-marketing literature — essentially, the identification of those characteristics ("IHIP") of services that contribute to non-efficient "production" (Vargo & Lusch, 2004b). The issue of effectiveness/efficiency (like the issue of services versus goods itself) has often been treated as either–or, but it can also be treated as a "duality" (e.g., see Dittrich, Jaspers, van der Walk, & Wynstra, 2006) and, thus, potentially transcended through reframing (Lewis, 2002). That is, efficiency and effectiveness can be seen as complementary — effectiveness is necessary before efficiency has relevance but efficiency is often both a component (buyer's perspective) of effectiveness and also necessary for long-term effectiveness (seller's perspective). Thus, effectiveness can be seen as a path to efficiency. Industrial marketers have been at the forefront of the exploration of these dualities (e.g., Dittrich et al., 2006; Hakansson & Ford, 2002); S-D logic provides a potential *foundation for transcendence*.

A second step is the *elimination of the producer–consumer distinction*. Clearly, in a collaborative model of value creation, the distinction is incoherent. One party does not produce value while the other consumes (or destroys) value. They reciprocally co-create value, with each party bringing their own unique resource accessibility and integrability into that process. Business marketing has made strides in this understanding, especially in the work of the IMP group (e.g., Hakanasson & Prenkert, 2004), which seems to have embraced the term "actors", though neither mainstream marketing nor service marketing has adequately followed. Of course, once the notion of a consumer of value is eliminated, so too is much of the distinction between B2B and B2C marketing — that is, all economic exchange represents both collaborative value creation and partially derived demand. This of course implies the possibility of revised, general models of exchange. Particularly noteworthy in this regard is the *actor, resource, activity* (ARA) model (e.g., Hakanssson & Snehota, 1995), which is relatively effortlessly isomorphic with the resource integrator/*resource/service* model of S-D logic, which itself creates an interesting intersection.

Business marketing has also been at the forefront of development of *network theory*, a third critical step in a theory of markets and marketing. But this network theory has been largely focused on the industrial "sellers" and "buyers" and, almost by definition, given the B2B context, not what has traditionally been considered the "consumer".

Likewise, though business-marketing scholars have embraced the idea that suppliers are networks or constellations, they do not appear to have yet fully embraced the idea that so are "consumers". As we have suggested elsewhere (e.g., Lusch & Vargo, 2006b; Vargo & Lusch, 2008), a more isomorphic model is one of *all actors* as *resource integrators*. This integration happens at both a macro and micro level and includes not just private resources but also public resources (see Lusch, Vargo, & O'Brien, 2007). For example, in a B2B setting, local, state or federal governments provide public infrastructure (highways, bridges, airports, university and/or vo-tech training, etc.) that are part of an integrated set of resources to attract and/or retain businesses. Similarly, the household and the individual are integrators of public and private resources.

Some marketing scholars already embrace a model something like networks creating value through interaction with other networks. Perhaps not surprising, this seems most common among scholars who work at the frontier of service and business marketing (e.g., Gummesson, 2006 — "many-to-many marketing").

Table 1
Transition for practitioners

Goods logic	Service logic
Making something (goods or services)	Assisting customers in their own value-creation processes
Value as produced	Value as co-created
Customers as isolated entities	Customers in context of their own networks
Firm resources primarily as operand	Firm resources primarily as operant
Customers as targets	Customers as resources
Primacy of efficiency	Efficiency through effectiveness

Considerable work is still required to move from S-D logic to a positive theory of markets on which a normative theory of marketing can be built, which can help guide practitioners to a true transition to service providers. However, S-D logic alone can provide considerable guidance, at least in approach.

6. S-D logic directions for marketing practitioners

Even without a reoriented theory of the market and marketing, S-D logic suggests the following transitional shifts to move from a product focus to a service focus (see Table 1).

1. From thinking about the purpose of firm activity as *making something* (goods or services) to a process of *assisting customers in their own value-creation processes*.
2. From thinking about *value* as something *produced* and sold to thinking about value as something *co-created* with the customer and other value-creation partners.
3. From thinking of *customers as isolated entities* to understanding them in the context of their own *networks*.
4. From thinking of *firm resources* primarily as *operand* — tangible resources such as natural resources — to *operant* — usually intangible resources such as knowledge and skills.
5. From thinking of *customers as targets* to thinking of *customers as resources*.
6. From making *efficiency primary* to increasing *efficiency through effectiveness.*

Collectively, these shifts imply much more than just a move from goods to services. They imply a reframing of the whole purpose of the enterprise and its collaborative role in value creation, for both the actors involved in exchange and for society.

7. Conclusion

There are two logics for transitioning from goods to service(s). One based on G-D logic, in which *services* are a special type of good. The other is S-D logic, which considers *service* as a process, rather than a unit of output (good). We argue that this S-D logic represents the intersection of service marketing and business marketing, the creation of both of which was more driven by the inadequacies of G-D-logic-driven traditional marketing. Additionally, it is informed by a number of other seemingly disparate research initiatives. Thus, we see S-D logic providing a bridging function with the potential to coalesce and simplify marketing thought by unifying not only consumer and business and industrial marketing but also other sub-disciplines such as domestic and international marketing. We believe that S-D logic can serve as a foundation for a sounder theory of markets and marketing that can, in turn, reduce the divide between academic and applied marketing and thus inform marketing practitioners in their desire to develop a true service focus.

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