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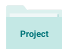

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Invited Commentaries on "Evolving to a New Dominant Logic for Marketing"

In the preceding article, Vargo and Lusch (V&L; 2004) observe that an evolution is underway toward a new dominant logic for marketing. The new dominant logic has important implications for marketing theory, practice, and pedagogy, as well as for general management and public policy. Thus, their observations are likely to resonate with a broad cross-section of the business community. With the goal of stimulating discussion and debate, I invited some distinguished scholars to write brief commentaries on different aspects of V&L's article. I was delighted to receive a thoughtful and diverse set of comments. The ideas expressed in the article and the commentaries will undoubtedly provoke a variety of reactions from readers of *Journal of Marketing*. I hope you will enjoy reading, and thinking, about these scholars' views on the fundamental premises of marketing as much as I did.

—Ruth N. Bolton

Achieving Advantage with a New Dominant Logic

George S. Day

Dominant logics and disruptive technologies apparently evolve in the same way. There is a convergence of streams of contributing technologies, methods, concepts, and theories that crystallize to form something new. This is not an abrupt emergence, because the underlying elements change gradually. Instead, there is usually a "tipping point" that signals and validates a seemingly radical shift. For example, the key elements of wireless communications technologies were largely in place four decades before the "cellular revolution" took place.

Vargo and Lusch (V&L) believe that we have passed the tipping point in the transition from a goods-centered to a service-centered logic for marketing. My purpose is to apply a two-question stress test to their proposition. First, what are the underlying reasons for this transition? If the enablers have endurance, this new dominant logic will likely be sustained and advanced. Second, will it change our view of how marketing resources are converted into competitive advantage? If a service-centered logic prevails, this logic should fundamentally change the mind-sets, schemas, and mental models of the managers and researchers who determine how competitive advantage is conceptualized and how resources are allocated (Bettis and Prahalad 1995; Prahalad and Bettis 1986).

Enabling a New Dominant Logic

Many tributaries feed the "new" dominant logic, including services marketing, market orientation, customer relationship management, networked markets, mass customization, and interactivity. Each tributary has been a high-profile part of the marketing terrain for at least a decade. Why have they converged now? A common denominator is that each draws on information technology advances that enable universal access to knowledge that previously was dispersed and difficult to reach. The drivers are the acceptance of compatibility standards that enable computer systems to converse as well as the escalation of broadband communications and economical computing power.

This connected knowledge system enables the real-time coordination of dispersed organizational activities and groups, the management of cross-functional processes, and the synchronization of the myriad points of customer contact that are integral to the new dominant logic. However, most firms are far from capitalizing on the possibilities, which means that marketing is still in the early stages of the transition to a service-centered dominant logic. Indeed, the tipping-point argument readily leads to the conclusion that the rate of transition is likely to accelerate. By facilitating information flows, and the concomitant knowledge sharing and utilization, the enablers will also speed acceptance of the premise that "knowledge is the fundamental source of competitive advantage" (V&L, p. 9). This raises the question of who will be advantaged or disadvantaged as the competitive landscape changes.

Competing When the Dominant Logic Changes

The crux of V&L's argument (p. 12) is that a service perspective is superior to a goods-centered view because it emphasizes solutions and "points to opportunities for expanding the market by assisting the consumer in the process of specialization and value creation." This is not a new insight. Fully 63% of the *Fortune* 100 firms already claim that they offer solutions (Sharma, Lucier, and Molloy 2002), but have these firms really encoded the concept of solutions in their dominant logic, or is it merely a fashionable statement of intent?

It is unlikely that most firms are pursuing a true solutions strategy as V&L advocate. This would mean satisfying the following five criteria for a deep relationship that transfers a supplier's skills and knowledge to a customer that lacks them: First, the strategy requires the *integration* of products with services to offer a complete bundle of benefits. Second, there is a two-way *interaction* that results in mutual commitments, ranging from information exchanges to cross-firm coordination and even relation-specific investments. This implies the third and fourth criteria: The solu-

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tion is *coproduced* by the customer and supplier, and it is *tailored* to each customer. Fifth, the solution might also mean some absorption of the *customer's risk*. In light of these stringent criteria, arm's-length referrals, one-stop shopping, and even a tailor-made personal computer that suits a customer's desired configuration do not qualify as service-centered solutions.

An important caution is that many customers may willingly enter into only a few close and committed relationships. They may resist the kind of operational entanglements based on relationship-specific assets that create switching costs (Dyer and Singh 1998), such as (1) location of assets in close proximity, (2) tailoring of physical assets, or (3) human-asset specificity achieved through cospecialization and shared knowledge. For example, GE Plastics installs sensors in customers' injection-molder storage silos to signal an automatic recorder when volume becomes low. It takes a lot of iterative learning to make this work, which underscores the participatory and dynamic nature of the new dominant logic. However, not every customer may want to subordinate its ability to bargain with suppliers or expose itself to the risk of a single source. Thus, both a product- and a service-centered logic will coexist in most markets.

Achieving a Relational Advantage

The emphasis on operant resources in the new dominant logic is well grounded in the resource-based view of the firm. The immediate implication of this theory is that many firms will find it hard to gain and sustain a relational advantage through superior solutions.

A key premise of the resource-based view is that resource and capability development is a selective and path-dependent process. The need for selectivity requires an organization to concentrate attention on a few capabilities that correspond to key success factors in the target market. Thus, firms need to select whether to make superior relational value a central or a supportive element of their strategy. Many firms will not make this choice, perhaps because they have been preempted.

Firms build on what they know (Cohen and Levinthal 1990). As a result, they are path dependent when choosing which resources to develop. Behind the immediate choices are histories of prior choices that sensitize the firms to certain issues, create a knowledge platform on which they can keep building, and constrain or lock in the firm to a particular path.

The choice of a new strategic direction derived from the new dominant logic must overcome the inertia of this path dependency. However, an entrenched logic that is built into the mind-set and mental models of managers is difficult to change. The old logic must be unlearned (Bettis and Prahalad 1995). This can be a slow process because the prevailing dominant logic both supports and is reinforced by the current strategy and structure. Overcoming this inertia takes leadership and resource commitments sustained by a sense of urgency because of the threat of new or existing competitors that are better aligned with changing customer requirements.

Further motivation for change comes from the prospect of firms not being able to overcome the disadvantage of a follower. According to the sustainability premise of the resource-based view, key resources keep their value when they are protected from imitation by causal ambiguity. There is causal ambiguity when it is unclear to competitors how the source of advantage works. Causal ambiguity deepens when the resource is based on a complex pattern of coordination in a process. The complexities of a solutions strategy enabled by the new dominant logic will be difficult to master but even more difficult to copy.

What Role for Marketing?

The emerging dominant logic has many implications, but they are not entirely the ones that V&L have in mind. Vargo and Lusch believe that marketing should be at the center of the integration and coordination of the cross-functional processes of a service-centered business model, but this depends on what is meant by "marketing." It will probably not be the marketing function that is found in most firms; instead, it will be marketing as a general management responsibility of the top team that will have the crucial tasks of (1) navigating through effective market-sensing, (2) articulating the new value proposition, and (3) orchestrating by providing the essential glue that ensures a coherent whole. This broadened role is most effective in a market-driven organization that has superior skills in understanding, attracting, and keeping valuable customers (Day 1999). Thus, the field converges toward and thereby validates V&L's conclusion that the new dominant logic is inherently customer centered and market driven.

Stories and Theories

John Deighton & Das Narayandas

Stories can be read as illustrations of theory. This commentary can be read in that spirit, as a story that attempts to vivify what V&L contend is the new dominant logic of marketing. Stories can also be read as challenges to theory, and perhaps some readers will interpret this commentary in that spirit. Either way, telling stories, whose verisimilitude is the primary "fact" that theory is called to account for, is not how marketing literature usually operates. However, telling stories is a tradition in anthropology, history, and some of the other interpretive social sciences, and if V&L are correct that marketing scholarship must increasingly contend with value not frozen in objects but flowing in events, then, as anthropologists and historians do, marketing scholars may find that offering stories to one another to support or repudiate claims about the meaning of a sequence of events is a useful way to perform scholarship.

This story, or history, is of two companies. A comparison of their fates over five years may illuminate what V&L describe as the new dominant logic for marketing. In 1993, SaleSoft was founded in Cleveland to serve the market for sales force automation (SA) software. Siebel Systems was founded in San Mateo, Calif., in the same year and for the same purpose. In 1995, a Gartner Group (1995) report pictured the two as close contenders in the race for market lead-

ership, but by 1997, one was out of business and the other's market capitalization was $2 billion. Can this stark divergence in outcomes be considered evidence weighing on the assertion that what V&L call a "units-of-output" marketing perspective is inferior to a service-flows perspective? Can it be that pathfinding framed within the latter paradigm was bound to be more successful than if framed within the former?

In 1995, SA software represented a $1 billion market. It was used by a quarter of all firms that employed sales forces, including most *Fortune* 1000 corporations. However, most firms used quite simple contact management software that kept track of a salesperson's itinerary and transmitted progress to headquarters daily or weekly. The opportunity that SaleSoft and Siebel set out to pursue was larger: to automate the sales process and integrate it with marketing and customer service to create a system that, both firms claimed, would unify the fragmentation that characterized sales and marketing, just as manufacturing resource planning had brought order to the production side of the enterprise. In 1995, SaleSoft had built three of eight modules needed to realize this vision and had installations at only five customer sites. Siebel had no complete product and a small set of customers.

SaleSoft (as Narayandas [1998] describes) framed its problem in what might be called "units-of-output" terms. It decided that the difficulty in finding customers pointed to a problem with the product. It believed that its integrated sales, marketing, and service automation offering was too complex; that its sales cycle was too long; that too many people were involved in the purchase decision (several customer business units as well as systems integrators and consultants); and that too much customization was required in each installation. The answer, management concluded, was a simple order-pipeline management product with a crisp value proposition for a single organizational decision maker (the head of sales in the customer firm) that would need no customization by systems integrators. Sales of the simpler product would be a Trojan horse, leading to sales of the multimodule system in due course. SaleSoft projected that it would sell product to a value of $30 million in three years, which would represent 1.3% of the market.

Siebel (as described in the works of O'Reilly and Chang [2001] and Roberts, Lassiter, and Tempest [1998]) framed the problem in what might be called "service-flow" terms. It identified a few large-potential firms that might appreciate what information technology would eventually do for their enterprises. Phase 1 of the service flow was to collect information about the firms' business processes and to propose how the processes might be enabled by information technology. For the firms that respected the expense and complexity of realizing the opportunity and preferred to fund others to do it rather than undertake it themselves, Siebel supplied services to map the processes into code, build systems, and train people to implement the coded systems. Siebel outsourced about 70% of service revenue to systems integrators. It then invited some of the clients and one of the systems integrators to become shareholders. It held out to these investors the vision of a market worth more than $2 billion. When the value-creation process involves coproduction between vendor and client, the marker of a successful collaboration is customer satisfaction, and the measure of satisfaction is continuity of the relationship, as V&L note. That said, transaction revenue is also pleasing evidence of success, and within three years, annual revenue from the shareholders and other clients was $397 million, or 13 times the target glimpsed in SaleSoft's units-of-output framing of the path ahead.

Several features of the successful case that are absent from the failure case are elements of V&L's new dominant logic. In the successful case, the customer was a coproducer, to the point in some cases of being an investor. The company framed the offering as a flow of services, beginning with an interactive definition of the customer's problem and leading to joint development of a solution. Indeed, the head of a competitor once described Siebel's approach as "the client's people, the client's processes, Siebel's tools, so two-thirds of the risk and responsibility was in the client's hands" (personal communication, September 2001). By co-opting the customer throughout the design and implementation of its systems, by holding the customer responsible for making the product work successfully, and by enabling the customer and the integrators to share in the marketplace success, Siebel outran SaleSoft.

Does this story of two responses to the same market conditions support V&L's argument, or does it, on the contrary, hint that the argument fits only particular contingencies, such as the moment when a market is emerging or when the client truly wants a service, not a product? Is there a new dominant logic for marketing or just a familiar set of contingencies? We do not know the answer, and if we did, we doubt that we could be convincing within the word limit imposed on this commentary. However, we do assert that the answer lies in the inductive development of theory from phenomena closely observed and thickly described. Writing of the early history of thermodynamics, Lord Kelvin said that the steam engine had given more to science than science had given to the steam engine. In the same spirit, we suggest that at this point in marketing's evolution, perhaps the marketplace has more to teach scholars than scholars have to teach the marketplace.

Service Provision Calls for Partners Instead of Parties

Evert Gummesson

Vargo and Lusch's intent to develop new marketing theory based on research and market changes of the past few decades and to offer links back to Adam Smith, Wroe Alderson, and others has my full support. There is little integrative marketing theory on a higher level of abstraction and generalization, but there is no shortage of fragmented "textbook theory" that piles ideas, concepts, models, survey data, cases, and hypotheses on top of one another.

My task is to comment on three of eight foundational premises of a new logic of marketing in which service provision is the unifying concept. The three are (1) "The appli-

cation of specialized skills and knowledge is the fundamental unit of exchange," (2) "Indirect exchange masks the fundamental unit of exchange," and (3) "Goods are distribution mechanisms for service provision." Because I agree, in essence, with the authors, I reflect on some of their issues.

In the spirit of grounded theory (Glaser 2001), collection, analysis, and interpretation of data are targeted to finding a hierarchy of variables, categories, and concepts that results in progressively more general theories. I have ventured to find a core variable that unifies the first three premises, and I have settled for "provider." Rather than claiming that this choice is the best, the stance in grounded theory is investigating where a tentative variable leads and constantly being open to revision.

"Provider" embraces experts, organizations, and goods, each representing one of V&L's three premises. Consumers have moved from self-supporting individuals in local and familiar environments to become dependent on experts, strangers, and external products. Providers stand between consumers and need-satisfaction. Traditional literature offers clear-cut roles and parties: seller/buyer, active producer/passive consumer, and subject/object. For example, physicians provide expert advice and patients receive it ("doctor's orders"), retailers distribute household appliances to consumers, and a washing machine cleans dirty laundry for its owner.

Service research began to realize that these parties, roles, and activities were inseparable and simultaneous, at least in part. Production and consumption were not tied to clearly defined parties, but roles became blurred, and there was a third activity: *interaction*. The consequence is that service and value are produced through (1) independent provider contributions, (2) independent customer contributions, and (3) joint contributions through interaction.

In this light, the physician provides expertise in certain therapies, but patients are experts of their own experience of a disorder. To arrive at a superior solution, doctors need interaction with patients, and patients must not only consume the therapies but also produce them by taking medication, exercising, and altering their lifestyles. Patients may even know more about a disease than the doctor does, the reason being that doctors know little about health, disease, and cure relative to what there is to know. The patients' possibilities of being updated on a disorder through the Internet have highlighted this even more. This way of reasoning supports the relationship marketing view, in which providers and customers retain win–win relationships. The *parties* become *partners*.

How is it in marketing practice and theory? Marketing scholars have not been successful in generalizing this knowledge into actionable theories, even if the Internet has speeded up the interest in interaction. The bulk of relationship marketing and customer relationship management literature reflects the 4P's of marketing management, a traditional perspective in which the role of the firm is to manipulate, manage, and lock in the customer (Grönroos 2000; Gummesson 2002a, b).

The alleged superiority of specialization, large-scale operations, and standardization in boosting productivity worries me, especially when it comes to food. Consumers have lost touch with original food, and little is left of its origin after heavy processing by food technology, genetic manipulation, packaging, transport, storage, and sales to households, which often continue the processing with "kitchen technology." Channel management takes the product for given and is solely concerned with the productivity of the steps in an alleged value chain. Product and operations management knowledge are lacking in marketing, even though it is claimed that both services and goods are in part coproduced and that marketing and production are often simultaneous. What, then, are the net productivity gains when consumer and societal value is considered? Corporations become more productive, but food quality (measured in terms of its core mission to provide nutrition and health) becomes inadequate, thereby causing obesity, diabetes, and a host of other nonquality effects.

Experts, organizations, and goods increasingly depend on sophisticated technology, though it may be most obvious with goods. Technology is axiomatically hailed as good, even as "God." At least initially, technology is science- and producer-centric; it is rarely customer-centric. For example, there is much anecdotal evidence that information technology (IT) has both boosted productivity and increased quality of life. A *Harvard Business Review* article (Carr 2003) says to the contrary, which caused *Fortune* (Kirkpatrick 2003) to react vehemently in defense of IT. A study by McKinsey, reported in the media in 2001, concluded that there was no evidence that IT had improved productivity in general (though it might have in specific cases). In a letter, Peter Drucker (2002) expressed his concern: "I have yet to see a company that has really succeeded in integrating information technology into its management structure and into its decision making." For example, it has been observed how relationship marketing principles, transformed into customer relationship management software (eCRM), partially get lost by the neglect of human aspects (hCRM).

Where are the hard facts and metrics, saluted by marketing scholars and managers alike, to prove the net benefits of the providers to the customer, when, for example, food marketing and IT marketing are concerned? Piecemeal surveys of limited data and based on arbitrary assumptions and narrow operationalizations of variables are not sufficient. To begin with, marketers need to do as V&L advocate: reinvent marketing theory to fit the present and the future. The more marketers dare to recognize the complexity and ambiguity of marketing phenomena in this theory, the more useful it will be.

On the Service-Centered Dominant Logic for Marketing

Shelby D. Hunt

Vargo and Lusch argue that marketing, informed by static-equilibrium economics, has had a goods-centered, "value is embedded in output," dominant logic. However, V&L argue that marketing is now evolving toward a dynamic, evolutionary-process, service-centered

view that is informed by resource-advantage theory, competences, knowledge, and relationship marketing. In this view, "value is defined by and cocreated with the consumer" (p. 6). For V&L, marketing *should* shift toward this customer-centric, market-driven, service-centered view, and it should (1) focus on specialized skills and knowledge as operant resources that provide competitive advantage, (2) strive to maximize consumers' involvement in developing customized offerings, and (3) aim to be "the predominant organizational philosophy ... [that] lead[s] in initiating and coordinating a market-driven perspective for all core competences" (p. 13). Furthermore, marketing scholars should "lead industry toward a service-centered model of exchange," teach principles courses that subordinate "goods to service provision," and teach marketing strategy courses that center on resource-advantage theory (p. 14).

A decade ago, Robert M. Morgan and I struggled to craft an article-length (rather than monograph-length) manuscript that would articulate a new theory of competition (Hunt and Morgan 1995). Similarly, V&L's goal of developing an article-length manuscript on marketing's evolving logic dictated that they could not explore in depth all the worthwhile topics. Therefore, this commentary does not nitpick their argument but, at the editor's suggestion, amplifies and extends it, using the resource-advantage theory on which V&L draw.

Central to V&L's argument, and unique to their work, is the distinction between operand resources (those on which an operation or act is performed) and operant resources (those that act on other resources). However, precisely what is a "resource"? For resource-advantage theory, resources are the "tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s)," and resources are categorized as financial, physical, legal, human, organizational, informational, and relational (Hunt 2000, p. 138). Therefore, resource-advantage theory both conceptualizes "resource" and explicates the kinds of resources that can be operand or operant. That is, operand resources are typically physical (e.g., machinery, raw materials), whereas operant resources are typically human (e.g., the skills and knowledge of individual employees), organizational (e.g., controls, routines, cultures, competences), informational (e.g., knowledge about market segments, competitors, and technology), and relational (e.g., relationships with competitors, suppliers, and customers).

For V&L, the "consumer must understand that the value potential [of an offering] is translatable to specific needs through coproduction. The enterprise can only make value propositions that strive to be better or more compelling than those of competitors" (p. 11). As to what this means, recall resource-advantage theory's nine-celled, competitive-position matrix, the axes of which are relative resource-produced value and relative resource costs (Hunt 2000, p. 137). Because "value refers to the sum total of all benefits that consumers perceive they will receive if they accept a particular firm's market offering" (Hunt 2000, p. 138), the positions of competitive advantage/disadvantage in the matrix further explicate V&L's emphasis on value propositions that are more compelling.

For V&L, operant resources such as competences are valuable to the firm. How, though, is their value determined? For resource-advantage theory, not all resources that are valuable to the firm have an exchange value or price; that is, relatively immobile resources, such as competences, are not commonly or easily bought and sold in the marketplace (save when firms themselves are bought and sold). Therefore, the value of such operant resources is determined not by exchange but by the extent to which each resource contributes to the firm's ability to produce efficiently/effectively market offerings that some market segments perceive as having value. In addition, because relative resource costs in the competitive-position matrix are accounting costs, they may be related only indirectly to key, operant, value-producing resources.

For V&L, competition is a knowledge-discovery process because "in the service-centered model, marketplace feedback not only is obtained directly from the customer but also is gauged by analyzing financial performance from exchange relationships to learn" (p. 14). For resource-advantage theory, competition is a disequilibrating process that involves the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. In this process, "firms learn through competition as a result of feedback from relative financial performance 'signaling' relative market position, which, in turn, signals relative resources" (Hunt 2000, p. 136). Therefore, to amplify V&L's insight, "[b]ecause command economies lack the process of competition, their firms lack a powerful means (i.e., financial performance stemming from marketplace positions) for determining how efficient and effective they are. Indeed, it ... was the premium prices of Western imports that communicated to socialist planners just how ineffective socialist firms were" (Hunt 2000, p. 174).

For V&L, marketing strategy should be taught from the view of resource-advantage theory. Missing are the arguments for "why" and "how." The arguments are found in Chapter 9 of *Foundations of Marketing Theory* (Hunt 2002), where resource-advantage theory is argued to be *toward* a general theory of marketing on three grounds, one of which is that it provides a positive foundation for normative theories, such as those strategies based on market segmentation, resources, skills, knowledge, learning, competences, market orientation, and relationships. Faculty and students report that resource-advantage theory provides a model that enriches the educational experience by integrating the remarkably diverse topics taught in business and marketing strategy. To understand competition (i.e., resource-advantage competition) is to make sense of strategy.

In conclusion, as bespeaks an important and potentially seminal article, V&L's argument is historically informed, finely crafted, properly interdisciplinary, and logically sound. Their position deserves a careful read and thoughtful evaluation, not a quick skim and hasty judgment. I urge marketers to provide such an evaluation. Competition is an evolutionary, disequilibrating, dynamic process that involves firms that use operand and operant resources in their search for competitive advantages and superior financial performance. As it is in competition, so it should be in marketing.

The Cocreation of Value

C.K. Prahalad

I have been asked to comment on V&L's sixth foundational premise: The customer is always a coproducer. I want to congratulate the authors on challenging the dominant logic for marketing by suggesting that services ought to be at the core, and therefore consumers become coproducers. My concern is that V&L do not go far enough. I would like to take a step back and identify the attempts by various scholars to recognize the patterns of customer involvement and engagement in the value-creation process. Then, I would like to illustrate that as scholars, we are behind the reality of how customers engage themselves in the value-creation process.

What is meant by customers as coproducers? There are multiple approaches to customer engagement (Berry and Parasuraman 1991; Heskett, Sasser, and Schlesinger 2002; La Salle and Britton 2002; Peppers and Rogers 1993; Pine and Gilmour 1999; Rust, Zahorik, and Keiningham 1996; Schmitt 1999; Thomke 2003; Zeithaml 1990). First, firms try to persuade customers through advertising and promotions; they try to engage them emotionally, if not physically, in the act of coproduction. The second phase of customer involvement is self-service (e.g., self-service gas stations, self-checkout in grocery stores), which is a transfer of work from the firm to the customer. In that sense, the customer is a coproducer. The third phase is the staging of an experience in which the firm constructs the context and the consumer is part of it (e.g., Disney World). The consumer is involved and engaged, but the context is firm driven. This is labeled the "experience economy." The fourth phase is to allow the customer to navigate his or her way through the firm's system to solve a problem (e.g., call centers). Call centers may provide 24-hour service, but their success depends on both the skill levels and the persistence of customers; this involves transfer of work, use of the customer's time, and use of the customer's skills. The fifth phase is in consumers getting involved in codesigning and coproducing products and services. Consumers have work, service, and risks transferred from the firm, and both the consumer and the firm benefit. Risk can be lowered for both the firm and the customer. There are two common features in all five perspectives on customer engagement and involvement. Although work and risks increasingly are shared, the firm decides how it will engage the customer. It is this premise, a firm-centered perspective on how to engage the customer, that needs to be debated.

Although the aforementioned approaches to customer engagement and involvement are current, there are indications that customers want to engage with the firm in new ways. Three forces are driving this transformation: (1) ubiquitous connectivity that enables consumers to be well informed and networked, (2) convergence of technologies (and especially the emergence of digital technologies), and (3) globalization of information. Four implications result from these drivers:

1. Customers are not isolated. The firm–customer relationship is not bilateral. Customers, customer communities, and firms interact. Customer communities can be an integral part of the value-creation process, whether by developing product strategy (e.g., video games) or new distribution channels (e.g., Napster and now Kazaa).
2. The outcome of the engagements (be it a single customer with the firm or the customer community and the firm) is the cocreation of value; what is cocreated is the experience. Physical products and services can be the artifacts around which personalized experiences are cocreated.
3. New building blocks are needed for the cocreation of value. The new building blocks are dialogue (rather than one-way communication from the firm to the customer), access and transparency to information (to avoid and eliminate the asymmetry of information between the firm and the consumer), and risk assessment (an explicit dialogue among consumers, consumer communities, and the firm of risks).
4. No single firm can provide the total cocreation experience. Often, a network of firms must work together to provide a unique cocreation experience (e.g., OnStar)

The central ideas revolve around the individual consumer, the experience, the cocreation of value, the criticality of consumer communities, and the need for a network of firms. My colleague Venkat Ramaswamy and I have been working on these ideas for more than four years (Prahalad and Ramaswamy 2000, 2002, 2003, 2004). We find that when we escape the firm and product-/service-centric view of value creation, which is the dominant logic for marketing and strategy (see Kotler 2002; Porter 1980), and move on to an experience-centric cocreation view, new and exciting opportunities unfold. This new perspective also enables us to challenge the deeply held assumptions about marketing staples, such as the meaning of a brand (experience is the brand), the role of exchange and the market (market as a forum), and innovation (innovating experience environments). This is not the place to detail these implications. I want to congratulate *Journal of Marketing* for opening up this debate. Marketing scholars need more of the "let us examine our premises" perspective in scholarly work for the field to catch up with and shape *next* practices.

If Everything Is Service, Why Is This Happening Now, and What Difference Does It Make?

Roland T. Rust

I am delighted to respond to V&L's brilliantly insightful article. They do a thorough job of detailing the evolution of marketing thought and demonstrating that marketing is currently in the process of perhaps its most profound paradigm shift. I would first like to expand on their work by providing a historical insight into why this paradigm shift is happening now, rather than, for example, 100 years ago. Second, I wish to explore further some of the implications that this paradigm shift has for marketing academia and marketing practice.

The innate intelligence of *Homo sapiens* has not changed much in the past 100,000 years, so it is unlikely that the marketers, economists, and philosophers of today are significantly more intelligent than those of 100, 200, or 300 years ago. The implication is that new paradigms are more likely to result from structural changes in the underlying system than from increasing perceptiveness and insight. Perceptiveness and insight *are* required to sense the structural changes and understand their importance, but it is the structural changes that provide the underlying basis for new paradigms.

Why, then, are scholars only now realizing the full implications of the notion that everything is service? It seems to me that the answer to this question pertains to information technology. As V&L so capably point out, it is ultimately knowledge and information that drive service. It is no coincidence, then, that the information revolution that has accelerated in the past 100 years has brought with it a revolutionary new capability to leverage knowledge and information into service. In particular, it has expanded the intangible aspect of virtually all economic exchanges.

In essence, the service revolution and the information revolution are two sides of the same coin. Information technology gives the company the ability to learn and to store more information about the customer, which in turn gives the company more ability to customize its services and to develop customer relationships. The result is that the utility provided to the customer increasingly is based more on information and less on physical benefits.

Consider the example of General Motors, a traditional bastion of the goods economy, which for many years derived its profits almost exclusively from selling cars and other vehicles. However, as the information economy developed, the provision of service and the manipulation of information became increasingly important, to the extent that eventually the General Motors Acceptance Corporation (the car-loan subsidiary of GM) became even more profitable than the core car-sales part of the company. For similar reasons, IBM shifted from being primarily a computer manufacturer to being primarily a service and consulting company, and American Airlines found that its SABRE reservations company was even more profitable than its airliners. Even large oil companies such as ExxonMobil have realized that their competitive advantages derive more from service elements, such as the Speedpass payment system, than from gasoline.

If it is acknowledged that information technology is the driver of the shift toward service, it is also possible to forecast the future of marketing confidently. Information technology has always moved forward, in a trend that has now lasted for thousands of years. Thus, it can be confidently predicted that information technology will continue to advance. This, in turn, implies that marketing's paradigm shift toward service will only intensify. The past 100 years provide unambiguous confirmation of this conclusion: As information technology has accelerated, the world's leading economies have changed from approximately 30% service to approximately 70% service.

What, then, are some of the implications of this paradigm shift for marketing academia and marketing practice? Many existing concepts and models will need to be modified. For example, traditional marketing relies on many technologies (e.g., conjoint analysis or discrete choice models) that implicitly assume a transactional choice. Such models were used, for example, to predict (wrongly) that New Coke would be much more popular than the original Coke. As marketing proceeds toward more of a service/relationship paradigm, transactional choice models are increasingly incomplete and need to be replaced by models of choice in the context of a relationship. The brand choice models failed to model the effect of customers' relationship with the original Coca-Cola brand. Such relationships occur with even more frequency and intensity in the service economy. Ultimately, it must be realized that it is the lifetime value of the customer relationship that really matters to the marketer and that the transactions in that relationship are driven not only by traditional conjoint choice elements, such as value and brand, but also by relationship elements, involving switching costs, that change and evolve over the course of the relationship.

Some sectors of the economy lead in this paradigm shift. Business-to-business marketing has originated many of the most important new ideas in marketing, due to its relationship intensiveness and its customer databases. Likewise, the service sector has experienced the embrace of its underlying concepts (e.g., customer satisfaction, customer loyalty, customer equity) by an increasing percentage of the marketing world. Predictably, the slowest adopters of the new paradigm are consumer packaged-goods companies, but even there the information/service revolution is inexorably transforming the way that marketing is conducted. Increasingly, customer panel databases are used to understand the dynamics of customer relationships, and information technology provides the capability for statistical techniques that make it possible to personalize marketing efforts.

Marketing is entering a new era, and mainstream marketing in the new era will closely resemble the business-to-business/service/relationship marketing of today. The reason for the shift is the advance of information technology, which has resulted in the service revolution and the use of information to understand and enhance customer relationships. Marketers need to replace their goods-derived transactional concepts and models with service-derived relationship concepts and models. For the foreseeable future, the service/information parts of every business will continue to increase in importance because of inevitable advances in information technology, and the marketing paradigm as V&L describe will become even more dominant as time passes.

Finance, Operations, and Marketing Conflicts in Service Firms

Steven M. Shugan

The insightful observations of V&L should dramatically influence academic research in marketing and other disciplines. Vargo and Lusch eloquently and provocatively detail why the mainstream marketing disci-

pline must react to obvious dramatic changes in the world economy. It must be recognized that (1) the service sector dominates most developed economies in the world and employs nearly all marketing students; (2) the systems that deliver manufactured products (i.e., service) often provide more value-added for the customer than do the delivered manufactured products themselves; (3) managing company–consumer service interactions requires adaptation, dynamic strategies, and learning new competences; and, consequently, (4) marketing research requires reinvention.

The spirit of V&L is undeniable. As service-dominated economies replace manufacturing-dominated economies, most transactions involve government, high-end business services, health care (e.g., Kahn and Luce 2003), legal services, transportation services, evolving communications, multichannel retailing, financial services, and personal services.

Three questions emerge, the answers to which might dictate the station, and perhaps survival, of the marketing discipline. Although survival seems a hyperbole, consider the following: First, stagnant consumer packaged-goods manufacturers rather than lucrative financial services or rapidly expanding business services predominantly employ marketing's best students. Second, although top corporate officers of consumer packaged-goods firms often have marketing pedigrees, other backgrounds (e.g., finance, law, operations) prevail for most service firms (Doyle 2000; Fredman 2003; Pasa and Shugan 1996). Third, although new marketing faculty members enjoy increased starting salaries this year, their salaries still lag those of hires in information systems, operations, accounting, and finance (AACSB 2002–2003 Salary Survey). Fourth, the gap between academic research and the content of basic marketing textbooks is growing. Fifth, knowledge of the marketing literature is less of a competitive advantage for marketing doctoral students who face competition from nonmarketing doctoral students.

What Are the Risks of Doing Research with a Service Orientation?

Many authors (e.g., V&L) justifiably advocate implementing radical new research directions, but nontrivial impediments and perilous obstacles await researchers. First, much of the marketing discipline concerns itself with developing and refining tools for analyzing numeric data, which historically have been cross-sectional survey data. These data endowed marketing groups with unique advantages: having valuable information not available elsewhere in the organization and having homegrown techniques with which to analyze it. A shift to longitudinal transaction data makes the techniques less valuable. Moreover, longitudinal transaction data are well understood by finance, operations (e.g., the airlines), accounting, information systems, and other business disciplines, which have analyzed the transaction data for years and have developed their own decision-making tools that employ that data. The marketing discipline's distinctive competency in this domain is unclear.

Second, generality is a traditional holy grail of academic research. The developers and zealous stewards of existing methods and theories will enthusiastically proclaim that new methods are unnecessary. Their current treasured methods are equally applicable to data on soap sales or data on surgery.

Third, services (as defined by the U.S. Census Bureau) possess neither entirely unique nor mutually common properties. For example, although psychiatric services are intangible, setting broken bones is no less tangible than the scent of manufactured perfumes. Although consulting services require clients, airplanes fly without passengers. Although inventorying empty airline seats after departure is difficult, many manufactured goods are also highly perishable. Although dry-cleaning services require some customer participation, driving manufactured automobiles requires greater degrees of customer involvement.

Is the Marketing Function Important to Service-Oriented Firms?

Marketing is certainly an essential activity that is worthy of serious academic research. However, for service industries, other disciplines make compelling claims to greater relevancy. In the airline industry, marketing might take a backseat (no pun intended) to maintenance- and safety-related functions. For many public utilities (e.g., electricity, water, emergency services), marketing might take a backseat to legal concerns and regulatory obligations. Do pilots require a customer orientation or flight training? Are restaurant servers more important than the quality of meals? Do deficiencies in marketing or operations explain the high rate of bankruptcies among service providers? Was the titanic battle between Kmart and Wal-Mart resolved on the operations battlefield or on the marketing battlefield (Muller 2002)?

The fundamental marketing concept of a customer orientation can be vague. For example, who is the customer of a hospital? Is it the patient who receives the service, the insurer who pays for the service, the admitting physician who refers the patient, the government regulator who specifies the service, or the employer who chooses the health-care provider? Are the customers of colleges the students, the parents who pay the tuition, the taxpayers who provide subsidies, the donors who provide funding, the corporations who hire the students, the grant providers, the government, or society at large?

Despite the significant role of marketing, modesty is appropriate. Marketing must coexist with finance and operations. Researchers in marketing must recognize and contemplate the impact of marketing activities on operations as well as their financial impact. For example, complex or confusing promotions might tax servers, thereby causing a dramatic detrimental impact on server time per customer. Moreover, marketing must be accountable to finance and justify marketing activities by measuring both customer satisfaction and the consumption of precious organizational resources. For example, it must be considered how marketing activities affect scarce resources (e.g., server time, space, administrator attention) during times of peak capacity.

What Service-Related Research Problems Crave Attention?

Rather than directly attacking existing views as simply inadequate (despite justification) or arguing for the universal

dominance of the marketing function, perhaps a more humble approach is possible. Scholars might focus on overcoming concrete problems and daily challenges commonly faced by particular service industries (Shugan 2003). The primary concern is the implementation of marketing activities, including their financial impact (e.g., Rust, Moorman, and Dickson 2002) and impact on operations (e.g., Evangelist 2002).

As extensions of prior work, further research should explore the following challenges:

- Implementing marketing strategy in an operations-dominated environment (e.g., Eliashberg et al. 2001);
- Measuring the impact of marketing strategies on short- and long-term profits (e.g., Leeflang and Wittink 2000);
- Managing demand and enhancing profits, given capacity constraints;
- Developing new services in which implementation is more critical than design;
- Developing recovery systems for mitigating almost-certain failures in service delivery systems (e.g., Hart, Heskett, and Sasser 1990);
- Making personal selling more effective by adding service;
- Developing marketing strategies for exploiting seasonality and diminishing its deleterious impact on server capacity (e.g., Radas and Shugan 1998);
- Increasing sales and profits when teams deliver the service;
- Marketing when third parties pay for the service or evaluate it (Eliashberg and Shugan 1997);
- Using marketing to train effectively and to retain employees;
- Marketing more effectively information services, entertainment, and services with low marginal costs;
- Developing highly profitable ancillary services to complement low-margin core services (e.g., concessions at movie theaters);
- Balancing self-service and employee-delivered service;
- Determining the optimal amount of customization (e.g., Anderson, Fornell, and Rust 1997) in a rate-based pricing environment;
- Developing internal marketing programs to motivate service employees;
- Determining when and how to advance sell services (Moe and Fader 2002; Xie and Shugan 2001);
- Developing creative pricing ideas for services (e.g., Biyalogorsky and Gerstner 2004);
- Building network externalities for services (e.g., Basu, Mazumdar, and Raj 2003); and
- Measuring the impact of more service on customer welfare (e.g., Liu, Putler, and Weinberg 2004).

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