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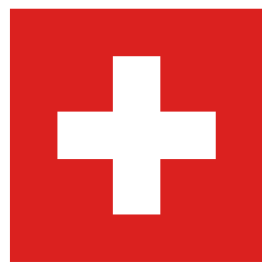
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Inbound Marketing



Service-Dominant Logic – A Guiding Framework for Inbound Marketing

With the rise of a network economy, customers are part of an extended enterprise and co-producers of the firm's marketing. Enterprises need to learn not to fear it but embrace it as a healthy part of a highly networked market economy. Inbound marketing is made more effective, efficient and whole when your customers are viewed as a partner to be "marketing with" or "co-creators of value", which is the essence of service-dominant logic.

ROBERT F. LUSCH | STEPHEN L. VARGO

It might be disquieting to some CEO's and marketing executives, but the customer and other stakeholders are becoming increasingly involved in their businesses. This emerging involvement extends well beyond the word-of-mouth advertising that existed in pre-industrial city markets in Rome and Istanbul and the industrial cities of London, Paris, New York, and Tokyo. A more proactive involvement of the customer which is well beyond the traditional word-of-mouth or customer-to-customer (C to C) practices is emerging. This proactive customer is involved in inbound marketing or customer-to-business (C to B) activities, but also may be talking, negotiating, and planning with your suppliers with the intent of bypassing your firm. Even more disheartening to many executives is the growth of customer-to-public (C to P) practices where customers or would be customers are

attempting to influence public opinion and policy about your business.

With the rise of a network economy, enabled by global telecommunications and ubiquitous computing, customers are part of an extended enterprise and co-producers of the firm's marketing. This trend is projected to rise over the next decade and thus enterprises need to learn not to fear it but embrace it as a healthy part of a highly networked market economy. In brief, inbound or co-produced marketing will be one of the most exciting opportunities for enterprises to enhance their marketing programs, improve their financial performance, and more efficiently but also effectively serve customers, suppliers and other stakeholders.

Witness for example the practice of inbound marketing across industries and around the world. McDonald's and Heinz (catsup)

are inviting customers to help design their advertising programs. Lego has created a digital design factory where customers can design new products both for their use and for potential larger scale marketing by Lego. The KJG-Catholic Church in Germany is connecting people via the Internet and asking them why they no longer go to church and what it will take to regain their church membership and attendance. Those with ideas and suggestions are invited to develop and lead a workshop to resolve issues that prevent people from being regular churchgoers. Frankenburger, an Austrian producer of beverages, is asking customers to come up with new flavors for Trinkhanf which is its all natural hemp milk drink. Procter & Gamble is opening up its innovation process to customers, suppliers, and experts around the world. Threadless.com, an innovative entrepreneurial venture based in Chicago, holds weekly t-shirt design contests and then customers vote on the entries and the firm then produces what the customers have designed and vote to have produced. Innovative web based enterprises such as Zwiggle.com and Clothingswaps.com allow customers with clothing they no longer need to trade or give to others who need these items. In these latter cases the historical difference between a customer and the firm disappears.

The Long and Small View

History is an excellent teacher and can help inform one of the past and provide a proper perspective or lens to look into the future. Over a dozen years ago we began an effort to identify a new logic for marketing (Vargo and Lusch 2004a,b) which rapidly became known as service-dominant logic. This logic was both historically informed, because it took a long view by reflecting back thousands of years, and action or practice informed because it examined the micro actions and activities of how individuals used their mental and physical competencies to create value propositions directed at facilitating economic exchange (Vargo and Morgan 2005; Lusch 2006).

This long and small view provided a perspective for an understanding of the basic nature of economic exchange and marketing. Since man came down from the trees he developed tools to help serve themselves and others. Along the way he discovered that specialization was advantageous to tool making. At some point it became more efficient and effective to have others make tools for your household or family. With the advent of domesticated agriculture and then industrialization, coupled with a revolution in transportation, the individual began to take on a role as a worker outside the home. At the end of the day and workweek the worker would then return to the home exhausted but with money to exchange for the offerings in the marketplace that they did not have the time or expertise to produce. Individuals once able to experience the benefits of specialization were not likely to return to the home or cottage as a fully integrated economic unit (i.e. a mini-factory). Essentially, the farmer in Italy found the best way to obtain a Swiss Watch was not by learning how to craft these watches but by producing grapes and making wine and at the same time

the Swiss watchmaker found the best way to get wine with lunch and dinner was to produce watches and not to learn the skills and make the resource investments to operate a vineyard.

Over the history of economic development, the role of the enterprise became one of producing uniform, standardized tangible goods at high efficiency using the principles of division of labor and automation (Vargo and Lusch 2004a; Vargo and Morgan 2005). These activities occurred far away from the market. Hence, the enterprise had to store these goods and transport them to distribution intermediaries (wholesalers and retailers) and then provide them to central marketplaces where customers sought an assortment of goods that could enhance their standard of living. Marketing could be characterized during this period of time (up until around the 19th century) as a **to market** philosophy (Lusch 2007). Stated alternatively, the role of marketing was to take products to market and thus distribution was paramount.

» Both the customer and the firm are co-creating by integrating resources for individual and collective benefit, and learning how to better serve each other. «

Once the enterprising sector of the economy could produce abundant quantities of goods it was soon discovered that to dispose of this production, an active marketing program was required. Marketing was no longer able to achieve its objectives by merely taking stuff to market but by marketing to target customers using what became known as the Four Ps (product, promotion, place and price). This was the period of **marketing to** or **outbound marketing**. It was outbound because the customer was assumed to be exogenous to the enterprise.

In both the period of **marketing to** and **outbound marketing**, enterprises embraced a goods-dominant logic. With a goods-dominant logic the focus is on efficiently producing units of output usually far removed from the customer in order to improve manufacturing efficiency. This is illustrated in Figure 1. This logic produced an inherent conflict. The conflict occurred because the firm was viewed as the active source of expertise and knowledge which was used to develop innovative and creative marketing offerings that were produced in the factory. Hence, the firm and the factory were seen as the source of value. The customer was seen as passive, exogenous to value creation, and unknowledgeable but could be encouraged to purchase and “consume” the firm’s output (production). Hence, the customer was a destroyer of value.

Earlier, a new logic for understanding marketing was alluded to. Initially these ideas were published in two scholarly articles (Vargo and Lusch 2004a, b) and further developed over several years (e.g., Lusch and Vargo 2006; Lusch, Vargo, Malter 2006; Vargo and Lusch 2008a,b). In these articles, it was argued that marketing prac-

tice and theory are at an inflection point and beginning to change dramatically. Much of this change can be characterized as the **marketing with** or the **co-creation** era in which customers and supply chain partners are viewed as endogenous to value creation and as a source of expertise and knowledge from which the enterprise could and should benefit (Vargo and Lusch 2004a; Lusch, Vargo, O'Brien 2007; Lusch et al. 2009 forthcoming). As shown in Figure 2, the enterprise and the customer are no longer seen as separate but rather as an integrated economic system. Both the customer and the firm are co-creating by sensing and experiencing together, integrating resources for individual and collective benefit, and learning how to better serve each other.

Thus, over thousands of years, the individual and household moved from being an integrated economic system to one where the individual was separate from the enterprise; now, in the early 21st century, the reemergence of the individual or household with the enterprise as a unified economic system takes place. It should be noted that the term “inbound marketing,” which is the theme of this issue of the Marketing Review St. Gallen will slowly evaporate as the firm, workers and customers become understood as part of a value network rather than as independent actors. This is because “inbound marketing” implies the customer is separate from the enterprise; in a network perspective, they are not separate.

What began as a detailed historical treatment of the evolution to a new dominant logic for marketing (Vargo and Lusch 2004a, b) quickly became identified as the “service-dominant (S-D) logic” of marketing. S-D logic and how several of its key ideas and concepts can be applied to inbound marketing will be discussed next.

What is Service-Dominant Logic?

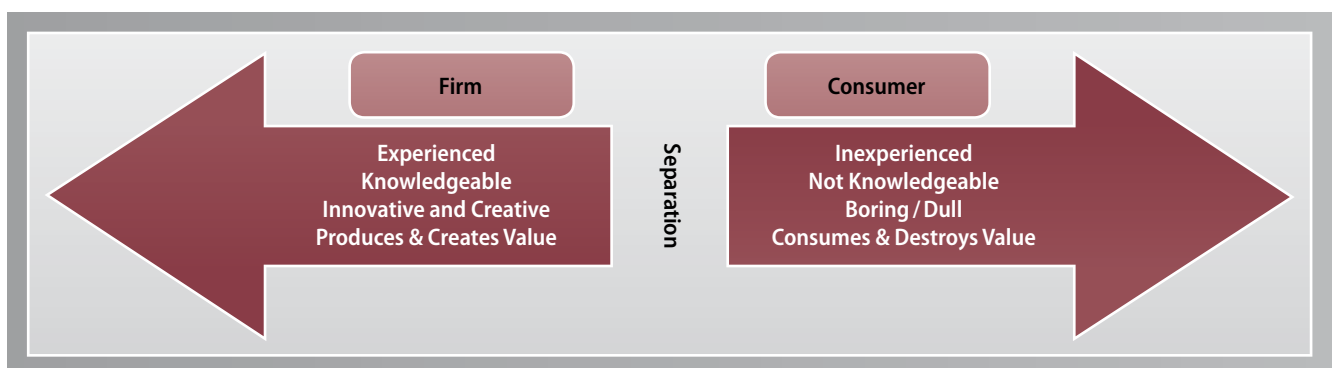
Service is an act of doing something for someone else’s benefit (Vargo and Lusch 2008b). However, service always involves the beneficiary as an active part of the service. This is fairly obvious if we are referring to barbering, transporting, education, health, recreation, consulting, legal advice, and a myriad of other offerings

that have become known as service offerings. However, this perspective can also be applied to what are traditionally classified as tangible product offerings (i.e., goods). Importantly, S-D logic rejects the common distinction between goods and services (i.e., alternative forms of products) but rather considers the relationship between goods and services. S-D logic considers goods as **appliances, vehicles, or distribution mechanisms for service provision**. Stated alternatively, when one purchases a tangible good it is with the intent of using that good in a particular context to provide a service to oneself (i.e., self-service) or another. Consequently, service is superordinate to goods; all market offerings are service offerings, sometimes provided directly – person to person – but at other times with the aid of a tangible good (Vargo and Lusch 2004a).

»Inbound marketing« implies the customer is separate from the enterprise; in a network perspective, they are not separate. «

It can be argued that where we have gone astray in thinking about economies is in the artificial distinction that has been made between goods and services. Hundreds of years ago the purchase of a suit of clothes was accomplished by visiting a tailor, who performed tailoring services. But then suit making moved to the factory and the same **service** became described in terms of a **manufactured good**. Today a person can go to the grocer and purchase the ingredients to cook a meal at home. At home, this person can use their mental and physical competences coupled with kitchen appliances to prepare the meal and then serve it using tableware and eating utensils at a table and then after the meal clean up the dishes and utensils and dispose of waste in some manner. Thus from a systems perspective it is hard to say where production (of

Fig. 1 Goods-Dominant Logic Produced an Inherent Conflict



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the meal) begins and ends since the customers are essentially taking the output of a firm and using this resource with other resources to produce something to satisfy their need(s). This has been well recognized in B to B marketing for decades but also characterizes household markets.

Another peculiarity of the distinction between goods and services deals with the measurement of economic activity in a society. When the economic transactions occur that were just mentioned, the economic value of manufacturing and retail output rises in the economy. If I now eat this meal at a restaurant or if I hire a chef to work in my home and cook for my family then the service sector appears to be growing. In all three of these illustrations the difference is not so much in what is done but in how it is done and by whom and how this impacts national accounting statistics. As is argued below, the distinction is not necessary and actually confuses management about what they should be doing to improve their competitive advantage.

Service-dominant logic shifts the primary focus from what are called **operand resources** – tangible, static resources that require other, more dynamic resources to act on them to be useful – to **operant resources** – dynamic resources that can act on other resources, both operand and operant, to create value through service provision. In this regard, S-D logic views the customer as one of the most valuable resources of the firm – as an operant resource. The customer can help with your marketing program and at the same time you can work collaboratively with customers to co-create value. Inbound marketing works best when this occurs. Inbound marketing is made more effective, efficient and whole when your customers are viewed as a partner to be **marketing with** or co-creators of value.

Leverage Inbound Marketing with S-D Logic

If an enterprise is to excel at fostering productive inbound marketing there are four major leverage points S-D logic can provide. These include: (1) foster co-production and co-creation of value with your

customers, (2) engage customers in dialog, (3) recognize that value is unique to each individual customer, and (4) embrace learning.

Co-production & Co-creation

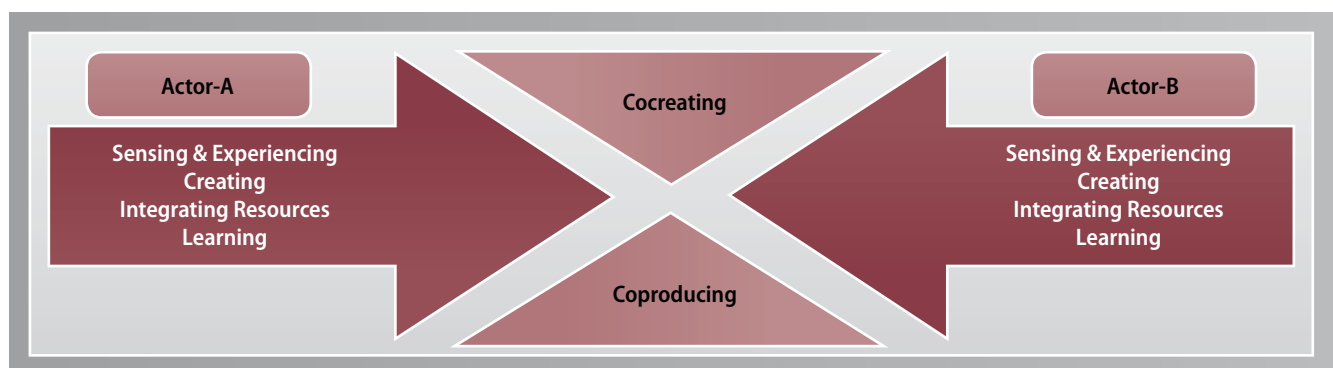
Customers can be part of inbound marketing by using their skills and competences to help you produce part of your core offering. In this situation the customer takes over part of your marketing program. For instance in the case of IKEA they help to produce the furniture by doing the final assembly. In the case of Dell Computer via Dell Storm the customer can be part of Dell's team that helps to discover new product ideas or with Legos they can actually design products they can purchase. In the case of ALDI, the customer is part of the retail staff by selecting the merchandise, carting it through the store, and in some cases checking themselves out of the store.

Co-production is thus a way to involve your customer in your core business offering, however, **co-production is (relatively) optional**. Many customers will prefer not to be significant co-producers because they have better things to do with their time. On the other hand, **co-creation of value is not an option** but occurs by the very act of customers using a firm's offering and integrating it with other resources to create value with the firm. Recall the earlier discussion that what a firm sells as output is actually an input into the customers' resource-integrating and value-creating activities. This reinforces the S-D logic perspective that it is in the use of a market offering where true value is created and not in the exchange of money for a market offering. Value-in-exchange cannot be ignored but use-value ultimately determines value-in-exchange and, thus, the long term success of the firm.

Dialog

With traditional marketing, given the **marketing to** perspective, the firm's promotional activities, at least as normally practiced, tended to be propagandistic. Since their purpose was to sell the advertiser's products, they typically advocated the views and perspective of the seller, and thus, were one-sided and favorably biased. Whereas

Fig. 2 Service-Dominant Logic is Inherently Collaborative



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this is not necessarily bad, buyers now have access to more and more information, causing them to turn away from communications that appear to be inaccurate, abusive, intrusive or overly one-sided. Also, buyers learn more from users of your market offering than they learn from your firm's advertising program.

Service-dominant logic argues that communication should be characterized by conversation and dialog. It is especially important with conversation and dialogue that all parties are transparent and truthful with each other. This approach to communication should include not only customers, but also employees and other relevant stakeholders that may be affected by service exchange. All stakeholders need to be part of the market dialog. Thus, marketing conversation will (should) occur as an integral part of the marketplace – the market itself will be part of the conversation. Thus, the marketplace itself becomes part of the marketing which no single firm can control; however, by being a part of the market conversation it can increase its understanding of customers.

Unique Value

When a firm practiced marketing under the old (goods) logic, it operated under the assumption that utility was embedded in goods and the marketing and distribution process added to this utility via creating time, place and possession utility. S-D logic views value as uniquely determined by each individual. This relates to the earlier observation that all customers are co-creators of value. If two people visit a museum and gaze at and study an identical piece of art, each experiences a different value. But S-D logic goes a bit deeper to suggest that the context of the usage is critical to determining value. The context consists of other actors that are part of the experience and the other resources that are drawn upon in the usage experience. Thus viewing the piece of art with a loved one is different from viewing it alone or with a stranger. And viewing in the context of other resources such as the knowledge of art acquired through study or in a climate-controlled and comfortable room or with the aid of an audio guided tour, all contribute to the experienced value.

Learning

Traditionally, the firm establishes a marketing budget and program which is intended to produce a certain level of sales and market share. When the plan is not realized, the shortfall is an indication that management and the marketing program have failed. When the plan is met or exceeded, on the other hand, management and marketing have succeeded.

Service-dominant logic suggests that the actual performance of the enterprise is a way of learning about the market and customer. If the actual results do not meet plan, then marketers are encouraged to emphasize listening to customers to determine what went wrong. It suggests that marketers should focus on hearing the voice of the market and the signals that arise from the market. In this regard, more and more people that are not part of a direct economic exchange are voicing their views about the economic exchanges of global entities – for instance, the voicing of views

about the practices of firms or their suppliers in employing child labor or the marketing practices that spread global brands that influence local cultures. The service-dominant logic enterprise will not only listen to all of these voices, but will also participate in the conversations.

Concluding Comment

Enterprises, whether they serve local, regional, national or global markets, must wake up to the fact that customer, supplier, and stakeholder involvement in their business will not go away and in fact will rise over forthcoming planning horizons. Each of these stakeholders and especially the customer will be ever more active in marketing to the enterprise. What S-D logic argues is that firms embrace customers, suppliers and other stakeholders as knowledgeable resources to co-produce and co-create in a collaborative manner the firm's entire marketing program and strategy. The age of co-creation and service-dominant marketing has arrived.

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