Historical Perspectives on Service-Dominant Logic

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HISTORICAL PERSPECTIVES ON SERVICE-DOMINANT LOGIC

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INTRODUCTION

Histories have no beginnings. Every history has its own history, usually a series of divergences and convergences that are in turn driven by other events. This pattern aptly describes the history of the treatment of exchange phenomena in academic and applied thought. It can, however, be characterized by a major bifurcation that resulted in the development of a paradigm of economic exchange built upon the idea of tangible goods being embedded with value and exchanged for other goods that are also so embedded, thus increasing each trading party's wealth by improving its assortment of goods.

In the development of this paradigm, some types of exchange phenomena, usually categorized as services, were mostly ignored and later partially dealt with as special cases of goods by forcing their conceptualization to comply with the then-established logic. This perverted view of services as "immaterial goods" has caused problems for economic scholars for more than 150 years, and marketing scholars for much of that time. We contend that dealing with this distorted view of services has required, or at least resulted in, more bifurcations in thought. These rifts reveal themselves in apparently divergent orientations, models, and theories of exchange, and the creation of subdisciplines that led to more and more fragmentation in marketing thought. Particularly for marketing, we argue that these distractions have inhibited the full understanding of the fundamental subject matter—exchange.

Recently, these seemingly divergent views appear to be converging on a more inclusive and integrative logic of exchange, one that is centered on the same phenomena that had been previously orphaned, if not ignored. We (Vargo and Lusch 2004a) label this emergent logic and potential paradigm "service-dominant" (S-D) logic in contrast to "goods-dominant" (G-D) logic. The purpose of this chapter is to explore the primary divergences, convergences, and forces behind S-D logic's emergence. The story includes bifurcations of goods and services, productive and unproductive activities, value-in-use and value-in-exchange, product orientation and consumer orientation, and transactions and relationships.

GOODS, PRODUCTIVITY, AND VALUE-IN-EXCHANGE: THE DEVELOPMENT OF AN ECONOMIC PARADIGM

Viewing exchange in terms of innate properties of tangible things that are only sometimes used as vehicles for exchange is a relatively recent paradigmatic development. The perspective is attributable to the convergence of the philosophical, sociopolitical, and scientific thought that dominated the Industrial Revolution and is a direct result of intellectual choice associated with the development of formal "economic science" that emerged during this period.

Adam Smith's (1776/1904) *The Wealth of Nations* marked the beginning of modern economic thought. Smith explicated and elaborated the dominant views of his era (see Bell 1953; Delaunay and Gadrey 1992; Schumpeter 1954; Vargo and Morgan 2005):

1. The Aristotelian view of *social virtue,* described in terms of how an individual's service contributed to the common benefit of society.
2. The mercantilist notion that society benefited from the production of surplus tangible commodities that could be exported in exchange for precious metals.
3. The physiocratic notion that activities other than agriculture were sterile because they did not create anything of value.
4. The philosophy that *natural law* governed social exchange and civilization and that the normative laws of society should be derived from the laws of nature.
5. The related view that humans could master the *laws of nature* through scientific discovery and rationality. *Newtonian mechanics* served as the model for this mastery of nature by providing that things (matter) have innate properties and relationships to other things that could be manipulated by human effort.

Smith (1776/1904) is commonly considered the "father of economic thought," though this was not his intention. His purpose was to integrate and expand the preceding views into a model of the *normative economics* of national wealth creation. In so accomplishing this objective, he created bifurcations in the treatment of the concepts of "productive" services and "value" that would influence economics and its descendent disciplines for the next several hundred years.

Smith derived his political economic views from the essential proposition of the efficiency of the "division of labor" resulting in the necessity of "exchange." For Smith (1776/1904, p. 1), labor is the "fund which originally supplies (the nation) with all the necessities and conveniences of life which it annually consumes." Thus labor, the application of mental and physical skills (parties doing things for other parties—what both Smith and we call *service*), served as the foundation for exchange.

Though he initially laid a foundation for a broad explanation of exchange and value, Smith then shifted attention to a normative explanation for how some services (types of labor) *could contribute to national well-being* through the production of surplus commodities that could be exported for trade. In effect, Smith, a moral philosopher, drew upon Aristotle's theme of virtuous services and the physiocrats' focus on agriculture and added the tangible products of the increasingly developing industry to derive a formula for *productivity* in terms of its contribution to national wealth.

Smith's (1776/1904) reasoning is evident in his discussion, often misquoted, of "productive" and "unproductive" services. Frequently credited with the view that services are not valuable, Smith (1776/1904, p. 314) asserted that

> The labor of some of the most respectable orders in society is . . . unproductive of any value, and does not fix or realize itself in any permanent subject, or venerable commodity which endures after that labor is past, and for which an equal quantity of labor could afterwards be produced. The sovereign, for example . . . produces nothing for which an equal quantity of service can be afterwards procured.

Smith (1776/1904) argued only that some services were *unproductive* in terms of his national wealth standard, not that services were unnecessary or not useful for individual well-being. He asserted that physicians and lawyers were "useful," "respectful," and "deserving of higher wages"; they just were not productive in terms of contributing to the national surplus. Smith did specifically identify some useful and productive services: those that were essential for the production and trade of commodities. These included retailers, wholesale merchants, manufacturers, and "those who undertake the improvement or cultivation of lands, mines, and fisheries" (pp. 340–341).

Smith (1776/1904, pp. 30–31) defined "real value" as the labor required to afford the "necessities, conveniences, and amusements of human life" through the labor of others. However, having established that labor, or service, was the fundamental value source, he moved his attention to "nominal value"—the price paid in the marketplace. Smith believed that people could more easily think about quantities of things rather than quantities of labor, and he was concerned with the former. Smith now faced the paradox of dual standards of *value-in-use,* based on consumption, and *value-in-exchange,* based on trade, which had been discussed since the time of Aristotle. This limited the generalizability of the economic philosophy, economic science, and other academic descendents of his work.

Not all who followed Smith agreed with his productive/unproductive standards. For example, Say (1821) saw production as the creation of "utility," not matter. Thus, he defined services as those activities that are "consumed at the time of production itself" and described them as "immaterial products," laying the groundwork for more contemporary conceptualizations (Lovelock and Gummesson 2004). Likewise, Mill (1848, p. 44) disagreed with political economists who classified labor as unproductive unless it resulted in some material object capable of being transferred. Mill (1848, p. 45) contended that production of objects represented the *rearrangement of matter* because "no human being can produce one particle of matter." Like Say, Mill (1848, p. 45–46) believed that the value of production was not in the objects themselves but in their *usefulness*; therefore, labor was "not creative of objects, but of utilities." He asked, "Why should not all labor which produces utility be accounted productive," including labor "consisting of a mere service rendered?" Nonetheless, he acquiesced to the dominant logic of productive labor, referring only to those kinds of exertion that produce utilities embodied in material objects. Like other political economists, he tried to *break free* from the developing paradigmatic constraint of production and value being centered on tangible resources, but could not. As Kuhn (1962) pointed out, paradigms are perceptually potent and normatively prescriptive.

Frédéric Bastiat did not accept the conventional wisdom. He criticized political economists' position tying value to tangible objects. For Bastiat (1860, p. 40) people had "wants" and sought "satisfactions" that could be appeased by (1) "gratuitous utilities," which were provided by Providence, and (2) "onerous utilities," which must be purchased with effort. A single person generated a want and its satisfaction, whereas the effort required for the associated onerous utility was seen to often reside in other individuals. Bastiat (1860, p. 43) believed "it is in fact to this faculty . . . to work the one for the other; it is this transmission of efforts, this exchange of services, with all the infinite and involved combinations to which it gives rise, through time and through space, it is *this* precisely which constitutes Economic Science, points out its origin, and determines its limits"(italics in the original). Value was thus seen as the "comparative appreciation of reciprocal services" exchanged to obtain utility. Bastiat, like Mill (1848), recognized that humans, rather than creating matter, transformed it through service into a state that could provide satisfaction.

Because the value of matter resided in the service rendered upon it by labor, and since material things that required no effort to provide utility (gratuitous) could not have value, material things could not possess value. Bastiat (1848/1964, p. 162) summarized his view:

> The great economic law is this: Services are exchanged for services. . . . It is trivial, very commonplace; it is, nonetheless, the beginning, the middle, and the end of economic science. . . . Once this axiom is clearly understood, what becomes of such subtle distinctions as use-value and exchange-value, material products and immaterial products, productive classes and unproductive classes? . . . Now since these reciprocal services alone are commensurate with one another, it is in them alone that value resides, and not the gratuitous raw materials and in the gratuitous natural resources that they put to work.

Fellow economists criticized Bastiat's views as not being economic theory (Schumpeter 1954). He had rejected the dominant paradigm and offered an alternative paradigm that challenged the fundamental logic of exchange. Thus, he was largely ignored.

ECONOMIC SCIENCE

By the middle of the nineteenth century, Say's concept of utility stood as the primary unit of analysis in economics and could be viewed as an embedded property of matter. Thus, the issue of use value versus exchange value could largely be ignored, since value-in-use had been transformed into an embodied property that was represented by, if not essentially equivalent to, value-in-exchange. This revised concept of utility set the stage for turning economic philosophy into economic "science" in the Newtonian tradition.

Leon Walras (1894/1954) described the function of pure economics as the theoretical determination of price and saw services as the source of all production. He separated "services of capital goods" into "consumers' services" that possess direct utility and "producer services" that have indirect utility. Walras's primary goal was the development of a pure theory of economics with pure economics as "a physio-mathematical science like mechanics and hydraulics and its practitioners should not fear to employ the methods and language of mathematics" (Walras 1894/1954, pp. 29–30).

Walras (1894/1954) derived a mathematical relationship among supply, demand, and price based on the then well-established "ideal-type" concept of utility, after employing a number of assumptions. Walras believed that economic thought had finally caught up with the Newtonian model of a mechanistic, deterministic, rational, and certain world; hence, economics could be deemed a legitimate "science." A hypothetical "economic man" had been fashioned and substituted for the "inanimate Newtonian body in motion." The former was motivated by utility and profit maximization, whereas the latter's behavior was determined by Newton's laws of motion.

Alfred Marshal, more than Walras, has been credited with the advancement of equilibrium theory (Schumpeter 1954). Marshall (1890/1927) saw "tendencies" toward equilibrium that were discernible through the science of economics. These tendencies could be written as normative "laws" if the caveat ceteris paribus, were applied. He did not dwell on the distinctions between unproductive and productive labor. Marshall used the word *productive*, but he cautioned "it is a slippery term, and should not be used where precision is needed."

Thus, by the beginning of the twentieth century, economics scholars often proffered parallel models describing economic activity (see Delaunay and Gadrey 1992). One perspective essentially touted a service-dominant model that viewed economics in terms of the discrete and collective relationships among specialized service providers exchanging services with other specialized services providers. Smith outlined and then abandoned the model in favor of his more immediate purpose. Political economists and economic scientists following Smith first acknowledged and then deserted the model, except for Bastiat, who actively elaborated upon and promoted it.

The second perspective featured a G-D model describing economics in terms of the demand and supply of "goods" to which consumers attribute an abstract property of utility or value. A demand function for a good represented the aggregation of consumers' utility curves for the good. A supply function for the good represented the aggregation of firms' cost curves for that good. The "good" was the unifying construct.

The G-D model of economic activity was more congruent with the political underpinnings of the political economists' view of materialistic virtue and with the economic scientists' desire to be compatible with the "scientific" and mathematical prerequisite of the natural sciences. Because of the desire for scientific respectability in the Newtonian tradition, the G-D paradigm survived and the S-D model was relegated to footnote status, at least temporarily. Economics and the derivative disciplines of marketing and management inherited this G-D paradigm.

THE IMPACT OF ECONOMICS ON MARKETING THOUGHT

Economic science provided the foundation for marketing thought and the impetus for its development. As production moved out of the household and into the factory, consumer and producer were separated. Marketing's role was to generate and fulfill demand. Marketing thought focused on all of the institutions, both title carrying and facilitating, that performed the marketing functions that brought buyers and sellers together. These functions included buying, selling, sorting, financing, transporting, storing, information gathering, and risk taking. Economic science largely ignored these and focused on a simplified model of production (manufacturing) and consumption. "Scientific management" had resolved issues of production efficiency and worsened problems regarding distribution and oversupply. Bartels (1986, p. 32) opined:

> There remained, therefore, a gap in the theoretical explanation as social and economic conditions departed increasingly from the assumptions concerning the market on which trade theory was built. Competition no longer characterized some markets; demanders and suppliers were further removed from each other; customary relations of demand and supply were becoming reversed; and new patterns of living were evolving. New interpretations of economic activity were needed, as were new applications of management science to distributive business. These needs nurtured the discovery of "marketing."

Typical of emerging disciplines, early efforts in marketing focused on justification, differentiation, and classification. The influence of G-D logic, emphasizing "productive" goods as opposed to "unproductive" services and the associated notion of value being embedded during the manufacturing (or agricultural or extraction) process, was apparent if not problematic.

Shaw (1912) is usually acknowledged to have written the first scholarly marketing article (Sheth and Gross 1988). This issue of the value-creation role of marketing occupied much of Shaw's early scholarly effort. The sway of the manufacturing perspective from economics was evident in Shaw's (1912, p. 12) contention that "industry is concerned with the application of motion to matter to change its form and place. The change in form we term production; the change in place, distribution" (see also Shaw 1994).

Similarly, Weld (1916, p. 317) viewed marketing as a production function. He contended that production was "the creation of utilities," specifically form, time, place, and possession utility, with marketing involved with the last three. For Weld, an economist, marketing was a further division of labor utilized for greater efficiency. He wondered why the division of labor was mistrusted when used in distribution but praised in manufacturing. Weld insisted that the problem was the absence of a body of knowledge about the role of marketing in creating utility in economic systems. He delineated the roles of wholesale and retail agents who specialized in different parts of the efficient marketing of commodities.

The positions established by these early marketing scholars were later designated the functional and institutional schools, respectively (Bartels 1986; Sheth and Gross 1988). A third school of analysis involved viewing marketing as the distribution of commodities. These perspectives centered on how marketing can have or add value given that marketing is a service.

For early marketing scholars the answer clearly had to do with how marketing added value to goods. That is, what were the functions (services) provided by marketers; what were the value-adding roles of the services of marketing? This goods-dominant, supporting role of services in the economy can be seen in the typical reference describing them in terms of "aids to the production and marketing of goods" (Converse 1930, p. vi; see Fisk, Brown, and Bitner 1993). Given that G-D logic of economic science was the dominant paradigm for understanding exchange and that marketing was initially focused on the distribution of goods, this supporting role is not surprising. Regardless, given the dominant logic of the time, much of the exchange taking place in the market was mainly being overlooked by the fledgling discipline.

Notable exceptions, at least on the surface, include Converse (1930, 1936), who included a chapter on the selling and marketing of intangible services in his texts. Converse (1936, p. 492) conceived service to include "all of those nonphysical things for which we spend money." He examined specific marketing methods applicable to these "radically different" types of services, including telephone and electric services, defined as intangible goods (e.g., Breyer 1931, 1934).

Additional references to other "service" businesses can also be found. Macklin (1922, pp. 26–28) provided a more integrative view, as well as presaging contemporary calls for co-production and co-creation of value, by identifying both production and marketing as "rendering of essential services." Macklin maintained that production is incomplete until all of these services have been provided. Even in these exceptions, however, services were viewed as a special type of good, that is, intangible goods.

Nonetheless, the attitude prevailed that value was in goods and that distribution (marketing) was something that added costs and waste. This view later motivated the Twentieth Century Fund investigation, "Does Distribution Cost Too Much?" (Stewart and Dewhurst, 1939/1976). This nationally debated study was published toward the end of the 1930s, which had witnessed one of the most prolonged economic depressions the United States and the world had ever experienced. Thus, prices consumers paid for goods were a major concern, and the free enterprise system of capitalism was beginning to be questioned by many. Stewart and Dewhurst (1939/1976, p. 3) open with the following:

> The idea that it costs too much to distribute goods and that modern methods of distribution are wasteful and inefficient has taken root in the public mind. Every day the consumer is exposed to sights and sounds which seem to confirm this impression—the spectacle of four gasoline stations, one on each corner of a crossroads, the constant bombardment of costly radio programs selling everything from cigarettes to pianos, and the frequent complaint of the farmer who gets only four or five cents of the fifteen cents we pay for a quart of milk.

This report manifests vivid indicators of how strongly G-D logic and the Newtonian elegance of equilibrium economics had pervaded thinking. Recognizing the difficulty in determining the excess cost or waste due to marketing and distribution, Stewart and Dewhurst (1939/1976, p. 346) propose a workable criterion: "to prepare a blueprint of the potential efficiency of an imaginary, perfectly functioning planned economy, and draw a contrast." They believed that the analysis would show tremendous waste in the economic system of that era.

That services were generally wasteful was deeply ingrained in the thinking of the day. The ideal—to help identify waste of distribution (marketing)—would be a perfectly planned equilibrium economy that featured mass-produced high-efficiency production that limits consumer choice—which shortly thereafter the Soviet Union attempted to implement.

Mid-Century Perturbations

Beginning approximately with the second quarter of the twentieth century, the world of exchange progressed through a series of important changes. The late 1920s saw rapid economic expansion; the 1930s a worldwide depression; the 1940s a major world war; and the late 1940s and 1950s a rapid recovery and the beginning of a new prosperity. The changes affected markets and the way marketing was approached, both practically and academically. With economic expansion came increased specialization. Activities that had traditionally been classified as manufacturing were increasingly outsourced and classified as services. During the depression, governments' role in what had previously largely been communal and market activities was amplified, accelerating what was normally classified as the service sector.

Partly in response, Fisher (1935) differentiated among the roles of primary (agriculture), secondary (manufacturing), and tertiary stages or sectors in evolutionary economics. He did not argue that services correspond to the tertiary sector. Fisher declared that some of Smith's unproductive activities could be considered productive—for example, useful labor in societies that have advanced beyond basic agriculture and manufacturing. Still, the views that services are tertiary and of growing importance are often attributed to Fisher.

The postwar years brought an additional rapid economic expansion. Consumer demand increased, as did production and competition. Marketing thought shifted toward issues focused on the exchange process and away from aggregate analyses (e.g., Alderson 1957; McInnis 1964). Two influential initiatives emerged: the "consumer behavior" and "marketing management" schools of thought (Sheth and Gross 1988). The "marketing concept"—the belief that markets are energized by consumers' desires (consumer orientation), that firms seek profitable sales, and that all activities of the firm should be directed toward satisfying these desires—underlies both schools.

A similar shift in thought was later attempted from deep within the walls of the factory where G-D logic had thrived and motivated mass production, emphasizing efficiency in manufacturing techniques. Effectiveness was a second or third priority. A low enough price would move consumers to compromise and accept a good not composed of their ideal set of attributes. The emphasis on efficiency overwhelmed other goals, including quality. Customers had to check for quality and return defective goods for replacement.

The emergence of the total quality management (TQM) framework placed customers' perception of quality as a prime driver of production techniques (Garvin 1987; Juran 1988). TQM, had it worked, was supposed to improve quality and lower costs by orienting the firm toward customer satisfaction and customer perceptions of quality. Costs would be decreased because repairing goods in the factory is cheaper than waiting until customers found defects and either returned goods for replacement or switched to competitive offerings. TQM was generally applied within functional areas of the firm and not across functions, processes that S-D logic emphasizes. Workers continued to be specialized and were not cross-trained and developed to perform more broadly defined skills (Schonberger 1992).

Presumably, these shifts to the consumer orientation and TQM represented a major reorientation not only from manufactured quality to customer perception of quality (satisfaction) as the major determinant of exchange but also conceivably toward a correction in the underlying economic model. These shifts appeared to represent significant departures from economic thought and the foundation upon which economic science was built. For marketing, the orientation was becoming not so much national well-being as the individual's perception of well-being.

But did these shifts represent corrections in the foundation of the model or just a superficial change to the facade? In part, the answer can be seen in another schism regarding the meaning of *value*, even as a more marketing-relevant, unified meaning was being sought. The evolution in orientation that marketing was experiencing implied the need for a parallel shift in the concepts of value and utility toward *usefulness* or *value-in-use* and away from *value-in-exchange*. However, as Dixon (1990, pp. 337–38) noted, although scholars like Beckman and Alderson both called for a unifying concept of utility, "each writer uses a different concept of value. Beckman is arguing in terms of *value-in-exchange,* basing his calculation on value added, upon 'the selling value' of products. On the other hand, Alderson is reasoning in terms of *value-in-use.*" Dixon (1990, p. 342) remarked that

> The "conventional view" of marketing as adding properties to matter, caused a problem for Alderson and "makes more difficult a disinterested evaluation of what marketing is and does" (Cox 1965). This view also underlies the dissatisfaction with marketing theory that led to the services marketing literature. If marketing is the process that adds properties to matter, then it can not contribute to the production of "immaterial goods."

Alderson (1957, p. 69) claimed, "What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating utility." During this time Drucker (1958, pp. 253, 255) identified marketing, itself a service, as the catalyst in economic development and rejected standard theories focused on production, labor, and government policy.

> Marketing is thus the process through which economy is integrated into society to serve human needs . . . the essential aspect of an "underdeveloped" economy and the factor the absence of which keeps it "under-developed," is the inability to organize economic efforts and energies, to bring together resources, wants, and capacities, and so to convert a self-limiting static system into creative, self-generating organic growth.

Drucker identified a major issue in these underdeveloped countries as a "strong, pervasive prejudice against the 'middleman'" (p. 255). In brief, marketing and distribution were viewed as relatively useless and wasteful services, with wealth coming from embedding goods with value during the production process.

Alderson and Drucker had it "right," but economic theory, based on the concept of embedded value, was itself deeply embedded in marketing thought. Thus, two logics of exchange coexisted, one built upon economic theory inherited by marketing and the other emerging as marketing scholars began rethinking their orientations. Within this context, as noted by Dixon (1990), service marketing as an academic marketing concern began to take on an increasingly separate identity from goods marketing, and thus we see a further bifurcation.

SERVICE MARKETING AS A SUBDISCIPLINE

Services marketing began to take shape as a subdiscipline in the context of the following:

1. The consumer behavior movement and the recognition that consumer choice was more than just a function of the utilitarian benefits of goods and the motivation to maximize utility;
2. The apparent increased salience of services in society and exchange and the related view that economies evolve into services economies;
3. The realization that marketing was concerned with the process of exchange, which could not be adequately understood from the economic science perspective of goods embedded with utility; and
4. The idea that the customer and producer could not be necessarily separated and viewed as distinct entities but were involved in co-producing.

Services marketing emerged slowly as a subdiscipline. Fisk, Brown, and Bitner (1993) labeled the pre-1980s as the "crawling out" period for services marketing. Early scholars sought to delineate services from goods and to understand management of the marketing of intangibles. The influence of G-D logic, with its manufacturing perspective, is apparent in the way service was initially defined. Definitions first involved an explicit description of a "good" and then depicted services as anything else (e.g., a process rather than a thing). Judd (1964, p. 58) called it "definition by exclusion" (see also Rathmell 1966). Still relying on residual approaches, Lovelock (1983, p. 13; see also Solomon et al. 1985) added more positive terms such as "performance," and Bateson (1991, p. 7) added "interactive experience" on the part of the consumer. However, generally, services were considered to be what goods were not.

The G-D logic and manufacturing-based frame of reference are also evident in the four commonly cited differences between goods and services condensed from the service marketing literature by Zeithaml, Parasuraman, and Berry (1985):

1. Intangibility—lacking the physical or concrete quality of goods;
2. Heterogeneity—the relative difficulty of standardizing services in comparison to goods;
3. Inseparability of production and consumption—the simultaneous nature of service production and consumption as compared to the sequential nature of production, purchase, and consumption that characterizes physical products; and
4. Perishability—the relative inability to stockpile services as compared to goods.

These characteristics are usually thought to be disadvantages of services relative to goods and thus suggest normative steps for service marketing managers to take (Zeithaml, Parasuraman, and Berry 1985, p. 44).

Others have questioned defining services as the antitheses of goods and utilizing these four characteristics. Gummesson (1993, p. 32) notes that using physical products as a definitional foundation "presupposes that there is a fairly unambiguous definition of goods" and "forces services to exist on goods' conditions instead of allowing them to exist on their own conditions." Beaven and Scotti (1990, pp. 7–8) believe that common descriptors fail "to differentiate between these two production processes and confuse(s) outputs with outcomes" and "inhibits the development of services as a truly distinct subdiscipline."

Ironically, Berry and Parasuraman (1993) compared the evolution of services marketing to the "growth of a new product," though an intangible one. As Shostack (1977) concluded, "The classical 'marketing mix,' the seminal literature, and the language of marketing all derive from the manufacture of physical-goods" and urged services to "break free from product marketing."

Following this period of unresolved goods versus services debate, the focus turned toward more substantive issues. In the United States, Zeithaml, Parasuraman, and Berry (1985) proffered a conceptual model and standardized instrument for assessing perceptions of service quality. Solomon et al. (1985) sketched the elements necessary for understanding the service encounter; and Berry (1983) coined the term *relationship marketing*.

At the same time, European scholars, particularly in the Nordic countries, were rethinking the concepts of service quality (Grönroos 1984) and relationships independent of similar work in the United States. European service marketing scholars extended the notion of relationship to the development of an interactive logic of "service management" (Grönroos 2000b; Normann 1988).

To appreciate fully the significance of these developments, both their antithetical intentions and subsequent impact should be studied. Concepts like service quality, relationship marketing, and service management were intended as perspectives for understanding service and service marketing, which were necessitated by the inadequacies of their G-D logic counterparts. Service quality, as well as TQM, shifted the focus from engineering specifications of goods to the perceived evaluations of the consumer. Relationship marketing shifted the focus of successful exchange from the discrete transaction to ongoing interactivity. Service management shifted the focus from the highly structured, mass production, and standardization economies of scale of Taylor's (1947) "scientific management" to the "teamwork, interfunctional collaboration, and interorganizational partnership" (Grönroos 1994) perspective necessary for "service firms."

In each case, these "services" conceptualizations gradually began to displace, or at least subordinate, their G-D logic counterparts. Instead of serving as differentiators of service from goods phenomena, as originally intended, they took on the role of unifiers as they were adopted and applied by marketers who did not identify themselves as having a service focus. Now these same concepts are reshaping the logic of mainstream marketing.

Fisk, Brown, and Bitner (1993) and Berry and Parasuraman (1993) specify that services marketing succeeded in "breaking free from products marketing" (Shostack 1977). The major contributions of service scholars ensured that service marketing had evolved into a full-fledged subdiscipline. Perhaps a more general breaking free was also taking place (see Vargo and Lusch 2004b) or at least being signaled. Perhaps marketing in general was beginning to show signs of breaking free from G-D logic.

SIGNS OF DIVERGENCE FROM G-D LOGIC

As marketing was adopting service marketing perspectives, other signs of change in marketing could be observed. For example, Pine (1993) argued that mass customization as opposed to mass production was becoming the new frontier of competition. Prahalad and others (e.g., Prahalad and Ramaswamy 2000) shifted attention away from the notion of separately produced value to the idea of value being co-produced. Pine and Gilmore (1999) urged a focus on experiences and away from goods, even when tangible products were involved. Prahalad and Hamel (1990; see also Day 1994) espoused core competency (collective learning in the organization) theory, in which competitive advantage resulting from competence makes a "disproportionate contribution to customer-perceived value" (Hamel and Prahalad 1994, pp. 202, 204).

Hunt (e.g., 2002) offered a resource-advantage view of competition as a framework for a more market-relevant general theory of competition while identifying specific problems with the microeconomic model that had served as the foundation for marketing. Zuboff and Maxmin (2002) took exception with the "old enterprise logic" and its "managerial capitalism" (p. 280) that had provided the value-distributing, transactional logic for approaching markets for the past century and suggested a new relational logic of "distributed capitalism" (p. 323) in which value originated with the individual and marketing's role is to provide "deep support." Sheth and Parvatiyar (2000, p. 126) noted a "change in focus from value exchanges to value-creation relationships," pointing to "partnering relationships."

As the Nordic service scholars were moving toward relationship rather than transaction as the core marketing process, almost independently, an alternative relational approach, developed under the rubric of the "network approach," was being developed by the Industrial Marketing and Purchasing (IMP) Group in Sweden. This IMP-inspired model also was gaining wider acceptance and application. For example, Achrol and Kotler (1999, p.162), advocating a network perspective, suggested, "The very nature of network organization, the kinds of theories useful to its understanding, and the potential impact on the organization of consumption all suggest that a paradigm shift for marketing may not be far over the horizon." Much of this appeared under the heading of supply and value chain management or value constellations (Normann and Ramirez 1993), a significant move away from the standard integrated logistics management model of moving "matter" to market.

Parallel shifts in related disciplines can also be seen, some of which served pedigree roles for emerging marketing thought. Resource-based views of the firm (e.g., Penrose 1959) had been developing for some time. Some economists challenged "orthodox" economic theory and suggested a model of evolutionary economics based on capability-driven organizational "routines" (see, e.g., Nelson and Winter 1982). Teece and Pisano (1994, p. 537) suggested that "the competitive advantage of firms stems from dynamic capabilities rooted in high performance routines operating inside the firm, embedded in the firm's processes, and conditioned by its history." By the end of the twentieth century, Webster (1992, p. 1) contended, "The historical marketing management function, based on the microeconomic maximization paradigm, must be critically examined for its relevance to marketing theory and practice." Similarly, Day and Montgomery (1999, p. 3) thought the logic of the Four P's should now be "regarded as merely a handy framework." Sheth and Parvatiyar (2000, p. 140) believed that "an alternative paradigm of marketing is needed, a paradigm that can account for the continuous nature of relationships among marketing actors."

These and other divergences from conventional thinking and calls for new paradigms can alternatively be interpreted as signaling the fragmentation of logics or a convergence on a newer, more integrative logic of exchange and related phenomena. We believe the latter is indicated.

Alderson's (1957, p. 69) request for "a marketing interpretation of the whole process of creating utility" and Shostack's (1977) call to "break free from product marketing" argued for more than the recognition of a subdiscipline. Likewise, Gummesson (1993, p. 250) argues that:

> Customers do not buy goods or services: they buy *offerings* which render services which create value. . . . The traditional division between goods and services is long outdated. It is not a matter of redefining services and seeing them from a customer perspective*; activities render services, things render services.* The shift in focus to services is a shift from the means and the producer perspective to the utilization and the customer perspective. [emphasis ours]

In agreement with Alderson, Shostack, and Gummesson, we see a movement toward a value-in-use perspective and away from the good-centered, value-in-exchange model of economics. We also agree with Rust's (1998) and Grönroos's (2000a) call for convergence of goods and services thinking. We believe that all of this apparently disparate thought is converging on a unifying logic of exchange, one in which service plays a more central role.

TOWARD CONVERGENCE ON A NEW DOMINANT LOGIC

These shifts share common features:

1. What parties exchange is less well characterized as "goods" than as applied specialized resources;
2. Most critical resources are often not tangible but rather intangible resources like human knowledge and skills (competences);
3. Value creation cannot occur in factories or through distribution but rather only through the interactions of the parties sharing these resources—that is, through service provision;
4. Marketing is less about units of output than the process of sharing of the application of resources among parties;
5. Customers are not static resources to be targeted or marketed to but active and creative resources to be collaborated and marketed with;
6. Competitive advantage is a function of resources that are better able to provide service for some portion of the market;
7. Value is co-created and ultimately can only be determined by the customer;
8. Markets represent opportunities for value creation and value sustainability rather than value delivery; and
9. When goods are involved, they are tools for the delivery and application of resources—that is, service provision.

We believe that these commonalities can be integrated via a new dominant logic, one in which service—*the application of specialized competences (knowledge and skills), through deeds, processes, and performances for the benefit of another entity or the entity itself* (Vargo and Lusch 2004a)—replaces goods as the common denominator. We intentionally use the singular word *service*, rather than the plural *services*. The former represents S-D logic and implies doing something for and with another party, whereas the latter, as normally employed, implies an intangible unit of output and has meaning only in the context of G-D logic.

We believe that S-D logic represents the convergence of contemporary marketing thought. Importantly, it therefore represents a view of exchange and marketing that has been generated by marketing scholars, rather than inherited from economics and industrialization. Perhaps it is what Alderson (1957, p. 69) had in mind: "a marketing interpretation of the whole process of creating utility." But it also represents a logic that is consistent with the logic of exchange from which economic models were derived, though for more limited purposes. Thus, we suggest it is also a broad, confirmatory convergence that provides a better foundation for marketing and for understanding exchange in general and its role in society.

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