Service-dominant logic: What it is, What it is not, What it might be. The service dominant logic of marketing: Dialog debate and directions

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SERVICE-DOMINANT LOGIC

What It Is, What It Is Not, What It Might Be

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WHAT IT IS

Service-dominant (S-D) logic represents a departure from the traditional, foundational, goods-dominant (G-D) logic of exchange, in which goods were the focus of exchange and services represented a special case of goods—a logic that marketing inherited from economics a little more than 100 years ago. It represents a shift from an emphasis on the exchange of *operand resources,* usually tangible, inert resources, to an emphasis on *operant resources,* dynamic resources that act upon other resources.

Service-dominant logic views applied, specialized skills and knowledge as the focus of economic exchange and one of the fundamental foundations upon which society is built. Thus, it rests on the premise that, in order to improve their individual and collective well-being, humans exchange the service—the application of specialized skills and knowledge—that they can provide to others for the service that they need from others. If goods are involved in the exchange, they are seen as mechanisms for service provision.

Consistent with this shift, S-D logic challenges the joint, central logic of the G-D paradigm of (1) units of output being embedded with value and (2) units of output (e.g., "products," "goods," "services") representing the fundamental unit(s) of exchange. Instead, S-D logic specifies that it is *service*—defined as *the application of specialized competences (operant resources—knowledge and skills), through deeds, processes, and performances for the benefit of another entity or the entity itself*—that is exchanged for service. It is important to note that we use the singular term, *service,* which we feel better reflects the notion of *doing* something beneficial, for rather than units of, output—immaterial goods—as the more commonly used plural, *services,* implies.

As a corollary, we see S-D logic rejecting the traditional classification of goods and services (i.e., alternative forms of products). Service (or services) is not an alternative (to goods) form of product (cf. e.g., Ambler, chapter 22; Brodie, Pels, and Saren, chapter 25, Achrol and Kotler, chapter 26). Goods are *appliances* (tools, distribution mechanisms) that serve as alternatives to direct service provision. In this sense, S-D logic represents an inversion of G-D logic. Goods are a special case, or at least a special method, of service provision. Service, then, represents the general case, the common denominator, of the exchange process; *service* is what is *always* exchanged. The following eight foundational premises (Vargo and Lusch 2004a, reprinted as chapter 1 of this book) summarize S-D logic:

FP1. The application of specialized skill(s) and knowledge is the fundamental unit of exchange:
- Service is exchanged for service.

FP2. Indirect exchange masks the fundamental unit of exchange:
- Microspecialization, organizations, goods, and money obscure the service-for-service nature of exchange.

FP3. Goods are distribution mechanisms for service provision:
- "Activities render service; things render service" (Gummesson 1995, p. 251)—goods are appliances.

FP4. Knowledge is the fundamental source of competitive advantage:
- Operant resources, especially know-how, are the essential component of differentiation.

FP5. All economies are services economies:
- Service is only now becoming more *apparent* with increased specialization and outsourcing; it has always been what is exchanged.

FP6. The customer is always a co-creator of value:
- There is no value until an offering is used—experience and perception are essential to value determination.

FP7. The enterprise can only make value propositions:
- Since value is always determined by the customer (value-in-use), it cannot be embedded through manufacturing (value-in-exchange).

FP8. A service-centered view is customer oriented and relational:
- Operant resources being used for the benefit of the customer places the customer inherently in the center of value creation and implies relationship.

It should be noted that FP6 now uses the term *co-creator of value* instead of the original term *co-producer*. We now believe that the term co-producer brings forth too much of a goods-dominant and production-oriented logic. Rather, we prefer co-creator which is much more in line with service-dominant logic. Collectively, these foundational premises provide a framework for reexamining and potentially extending knowledge about the exchange process and its role, not only in commerce, but also in society.

Importantly, S-D logic makes the consumer endogenous to the value-creation process (see also Arnould, Price, and Malshe, chapter 7; Grönroos, chapter 28; Woodruff and Flint, chapter 14). Value, then, becomes a joint function of the actions of the provider(s) and the consumer(s) but is always determined by the consumer (see Venkatesh, Peñaloza, and Firat, chapter 19; Woodruff and Flint, chapter 14). This orientation has strikingly different normative implications for the way that the enterprise approaches the market than does G-D logic.

WHAT IT IS NOT

From the time of the receipt of the initial reviews of our first submission of "Evolving to a New Dominant Logic for Marketing" to the *Journal of Marketing* (Vargo and Lusch 2004a), through the drafts of the commentaries invited by the editor following its acceptance, to the proposals and final essays for this volume, we have witnessed misstatements about the underlying thesis of S-D logic. This is not entirely surprising. No doubt some of this is partially a reflection of our own imprecision in composition. But, perhaps as important, it is also likely a reflection of the paradigmatic strength of G-D logic, or for that matter, any paradigm. As noted, at the heart of the G-D paradigm is the notion of tangible goods, output from "productive activity," as the unit of exchange and the co-notion of services as "immaterial goods." Although that notion has been modified fairly recently to portray goods and services as alternative forms of products, the contemporary term *product* is essentially equivalent in meaning to the term *goods*—output embedded with value—with *services* referring to productive output that is lacking in certain desirable characteristics (see Vargo and Lusch 2004b).

Given that S-D logic inverts a paradigm that has served as the foundation for not only the scientific study of economics, and subsequently marketing, but also as a foundation for more mundane musings, it is probably not surprising that the nuances of S-D logic are often overlooked, if not misunderstood. Necessarily, S-D logic is essentially always first encountered by peering through a lens honed by G-D logic (see, e.g., Achrol and Kotler, chapter 26). In the following sections, we highlight some of the most consistent misconceptions and misunderstandings that we have encountered.

S-D Logic Is a Reflection of the Transition from an Industrial Era to a Services Era

One of the most consistent restatements, and misstatements, of the S-D thesis is that because services, rather than goods, now dominate many economies, it is appropriate for marketing to adopt models that reflect this transition (see, e.g., Achrol and Kotler, chapter 26; Ambler, chapter 22; Brodie, Pels, and Saren, chapter 25). We, of course, have no argument with the idea that service dominates exchange today, but the statement does not go far enough. S-D logic implies that service is the foundation for *all* of exchange; the function of goods is to enable service—that is, goods represent a special case of service provision, one that has always been a fairly small subset. It is only from the perspective of a model that includes the fundamental assumption that exchange is driven by goods (G-D logic) that the importance of service is just now becoming apparent and that the economy is perceived to be transitioning from goods focused to service focused.

The fundamental subject matter of marketing is exchange (Hunt 1991). Exchange, in turn, is a corollary of the division of labor, or more precisely, specialization—Macneil (1980) calls it the "shadow of specialization." Specialization implies the refinement of operant resources, the ability to cause something to happen; it is about doing things, the application of specialized skills and knowledge; it is about service provision. This is not to say that operand resources—normally tangible matter—are not important. Many of them are extremely beneficial, if not essential, to human welfare. But we argue that the key to deriving their benefit resides with the knowledge and skills necessary to learn about, find, extract, cultivate, invent, manufacture, and use the operand resources. That is, the benefits are derived from the *application of operant resources* to operand and other operant resources—service as we define it.

From this perspective, industrialization or manufacturing is a form of service provision, the services concerned with the synchronized application of advanced specialized extraction, design, management, financial, accounting, and distribution of knowledge and skills, among others. Much of the *apparent* move to a service economy is nothing more than the further refinement and subsequent outsourcing of these operant resources.

This operant-resource-driven perspective of economic activity is not entirely new. Largely, G-D logic is the result of the confluence of several normative rationales that developed over the past several centuries and formed the foundation for economic science, rather than the result of more positive attempts at modeling exchange. This logic, which was later adopted by marketing, was grounded in the idea that goods were embedded with value and then exchanged in the marketplace.

As discussed more fully elsewhere (e.g., Vargo, Lusch, and Morgan, chapter 2), this goods-centered logic became dominant for two fundamental reasons. First, Adam Smith, on whose work economics was grounded, was primarily concerned with tangible things because they could be exported to increase the wealth of nations. Smith captured the fundamental role of the application of operant resources in his acknowledgment of the central role of the concomitant notions of the division of labor and exchange in value creation. But Smith did not know that he was eventually to become the "father of economics"; he was a moral philosopher concerned with a normative theory of national wealth accumulation rather than a positive theory of exchange.

Second, the model of tangible stuff, once the notion of its being embedded with utility, or value, was introduced, fit the proscriptive requirements of the economic scientists who followed Smith. It was compatible with the normative model for doing "real" science in the tradition of Newtonian mechanics. Even they wrestled with the difficulty of viewing productivity and exchange only in terms of these tangible goods, but having noted their objections, they acquiesced to what was becoming the accepted view. Thus, the G-D logic of exchange became the dominant logic of economics and its academic offspring, including marketing.

But as the division of labor increases, the fact that it is primarily concerned with operant resources, rather than the operand resources, on which they are acting only occasionally, becomes increasingly compelling. Specialization begets specialization—that is, operant resources create additional operant resources, which are increasingly refined, then outsourced, and finally exchanged in the market. As noted, we believe that the essential transition is not from a goods economy to a service economy; it is from internally supplied, applied operant resources to the outsourcing and exchange of applied operant resources.

Service(s) Is (Are) More Important Than Goods

S-D logic places service *superordinate* to goods in terms of classification and function, but not superior in terms of importance. Given the nested relationship between service and goods that is part of the fabric of S-D logic, it would be almost incoherent for us to suggest that service is superior to goods. Thus, we also are not saying that S-D logic is about substituting the concept of "service" for the concept of "good" (or product) (cf. Achrol and Kotler, chapter 26; Brodie, Pels, and Saren, chapter 25).

According to S-D logic, the function of goods is to deliver service. There is nothing in S-D logic that suggests inherently whether a particular service is best provided directly or through an appliance. The question is how to simultaneously optimize the benefits—the joint value co-created—for the exchange partners, and the solution is context and exchange-partner specific.

Service-Dominant Logic Is a Restatement of the Consumer Orientation

Some have suggested that S-D logic is not necessary because the "product orientation" of G-D logic now represents a "straw man." That is, although it may have been true that early marketing was "myopic" (Levitt 1960) in focusing on the product, this situation has long ago been corrected by adopting consumer orientation. We disagree. In fact, perhaps ironically, we suggest that the consumer orientation is evidence of the continued existence of the inherently myopic orientation of G-D logic.

G-D logic, by definition, puts goods, units of output, at the center of exchange. The consumer orientation represents an attempt, appropriately, at shifting the focus from the good to the needs and desires of the consumer, but it is a modification—arguably a contradictory one—of G-D logic, not a reconstruction of the foundation. Together, G-D logic and the consumer orientation say that goods are *embedded with value* during manufacturing (or extraction) and that value is *determined by the consumer*. At best, this co-foundational source of value is paradoxical; at worst, it is incoherent. Value cannot be created independently in manufacturing and consumption.

S-D logic, on the other hand, *implies* a consumer orientation. Because service is defined in terms of benefit being co-created with the consumer, rather than embedded in output, no separate explication or modification is necessary. The consumer, or more precisely, consumers—multiple parties in an exchange—are the foundation of S-D logic. With S-D logic, the consumer orientation becomes redundant.

Service-Dominant Logic Is Justified by the Superior Customer Responsiveness of "Service" Companies

Service-dominant logic is not necessarily the dominant logic of "service" enterprises and thus does not necessarily lead them to an implicit customer orientation or superior service provision. Goods-dominant logic is much more than an alternative philosophy or model of exchange. As noted, long ago it reached paradigmatic status. In fact, together with the Newtonian mechanics paradigm for doing science, with which G-D logic is closely tied, it might be one of the most deeply ingrained paradigms in both academic and managerial thought. Accordingly, enterprises that would be classified as service firms by most contemporary categorization schema, such as banks, hospitals, and universities, are just as likely to be guided by G-D logic as are "goods" firms. Consequently, they are just as likely to miss the customer's roles in value creation and value determination that are implied by a service-driven model, as are their goods-producing counterparts.

S-D logic, of course, implies that all firms are service firms. Thus, it has normative implications for all types of firms, including those that are traditionally classified as goods firms, such as manufacturers. Interestingly, many of these goods firms (e.g., Dell, GE, and IBM) are more service and customer oriented than firms that are more normally classified as service firms.

Likewise, academics with a specialization in service marketing and management are not necessarily guided by S-D logic. Nowhere is the paradigmatic power of G-D logic more evident than in the traditional academic treatment of the distinction between goods and services. Typically, service is treated as a kind of good (subset of product) that differs from other goods by lacking in certain qualities—tangibility, separability of production and consumption, standardizability, and inventoriability. Either implicitly or explicitly, these qualities are typically seen as advantageous, and thus, by implication, services (service provided directly) are somewhat deficient.

We have argued elsewhere (Vargo and Lusch 2004b) that these goods-versus-services distinctions are meaningful only from the perspective of G-D logic. From an S-D logic perspective, the distinctions are not only often mythical, but to the extent that they exist, *may* represent advantages rather than deficiencies. There is growing evidence and emphasis in the literature that tangibility is not what is typically being purchased, co-creation is preferable to separate production, heterogeneity in offerings is more likely to meet the idiosyncratic desires of consumers than homogeneity, and inventoriability is often expensive and a limiting factor in marketing efficiency. We suggest that, as with the consumer orientation, this literature reflects deficiencies in G-D logic, deficiencies that are corrected through the adoption of the fundamental model of S-D logic, rather than through patchwork modification to G-D logic.

Service-Dominant Logic Is an Alternative to the Exchange Paradigm

The exchange paradigm, grounded in the idea of exchange as the fundamental subject matter of marketing (e.g., Hunt 1991), has been increasingly questioned, if not maligned. Gummesson (1994, 1995), Grönroos (1994, 2000), and Sheth and Parvatiyar (2000) have called for a paradigm shift in marketing. Often, the suggestion is that the *exchange paradigm* should be replaced by a *relationship paradigm.*

Perhaps, given S-D logic's close alignment with relational models of exchange, it is natural to see it as an alternative to the exchange paradigm. However, we suggest that it should not be. Rather, we believe that the underlying discontent with exchange as the fundamental subject matter of marketing is actually a reflection of the inadequacies of G-D logic and its implication that exchange must be about output embedded with value (i.e., goods). Therefore, though we agree with relationship marketing scholars' (e.g., Grönroos 2000; Sheth and Parvatiyar 2000) call for a paradigm shift, we do not agree that the shift needs to abandon exchange—just the notion of the centrality of the good. We suggest that service is more fundamental than relationship. Given specialization, mutual service provision is required (desired); relationship, particularly in the normative sense in which it is most often used, is the means. That is, service is exchanged for service, *through* relationship.

Similar to our position, Gummesson (1995, p. 251) sees the need for a shift to a "service-centered" model as a necessary part of a relationship focus. We agree and argue that the shift in focus from the exchange of output to the exchange of applied, specialized competences (service) not only allows but also implies a relational perspective. We believe that S-D logic bridges the exchange and relationship perspectives and therefore obviates the apparent need for abandoning the exchange paradigm. As noted, we think the S-D logic of exchange is more fundamental than relationship. S-D logic is inherently relational; however, a relationship paradigm is not inherently service centered.

One additional clarification about relationship should be offered. Some see relationship as an optional strategy both on the part of the enterprise and the consumer. That is, in some cases only a transaction, rather than a relationship, is desired. If *relationship* has the limited meaning of multiple transactions, this argument might have some validity, but we use the term *relationship* more broadly in several ways. First, since S-D logic specifies that value is co-created by both parties and for both parties, it implies relationship, even when repeat patronage is not a goal. Furthermore, we (Vargo and Lusch 2004a, p. 12) have argued "even relatively discrete transactions come with social, if not legal, contracts and implied, if not expressed, warranties. These are promises and assurances that the exchange relationships will yield valuable service provision, often for extended periods of time."

Service Is Another Word for *Utility* or *Value-Added*

The term *utility* has two meanings. The first relates to usefulness, the ability to derive benefit from something. If its meaning was always so denoted, we would have no argument with the term being used as essentially equivalent with service. But that is not the case. Utility, as it is more frequently used in marketing, derives from economic science and, though its original meaning was tied to usefulness, the term has morphed to a connotation, if not denotation, of an embedded property of matter. That is, it suggests that things, usually extracted, cultivated, and manufactured goods, have various amounts of "utiles." This newer, morphed meaning of utility allowed the development of marginal utility theory by providing economic goods with a quasi-quantifiable, differentiable property. It also enabled economists to largely ignore the millenniums-old debate concerning value-in-exchange versus value-in-use.

Marketing, in an effort to legitimize itself, quickly adopted this newer meaning of utility, distinguishing the time and place utility provided by distribution from the form utility provided by manufacturing. Beckman (1954) more fully developed the idea of embedded utility into "value added," especially by marketing. *Service* subsequently became partially understood in terms of a form of value added, usually to manufactured goods.

We are uncomfortable with the notion of utility, at least as it is presently used to mean "embedded value," as well as the associated notion of value added. S-D logic implies that value cannot be embedded in either the factory or the distribution process. Value determination resides with the consumer. S-D logic directs the firm to make value propositions to potential customers who need the benefit of the firm's competences and then to heterogeneously co-create value with consumers.

S-D Logic Argues Against Value-in-Exchange

S-D logic embraces value-in-use and posits that only the customer can determine value; this occurs as the customer uses the offerings of the service provider (firm). It does not propose that value-in-exchange is irrelevant. First, S-D logic argues that value-in-exchange could not continue to exist if value-in-use did not occur. However, things can have value-in-use but not value-in-exchange; for instance, the biosphere has value-in-use but has generally not been subject to economic exchange.

Second, S-D logic recognizes the importance of financial feedback from the marketplace (exchange value) as a learning mechanism. In brief, S-D logic is compatible with the idea that financial feedback is tied to accounting systems that capture value-in-exchange. When a firm sells its service (with or without a tangible good), it receives a monetary instrument (cash or the promise to pay). These monetary instruments are used to acquire other service (with or without tangible good) from suppliers, including employees. Nonetheless, designing marketing strategy around this limited view of exchange (value-in-exchange) is myopic for reasons elaborated in Vargo and Lusch (2004a, 2004b, and this book).

Service Provision Relates Only to "Functional Benefits"

We have been presented with several objections to S-D logic that are based on an understanding that we are saying that our link between service and benefits is limited to functional benefits. These objections appear to become amplified when dealing with our contention that goods are service-delivery mechanisms, or appliances. Arguments range from something like "my car is much more than transportation; I like knowing it is in the garage and having other people know that I own it," to "I may not have a use for an object, but just knowledge that I own it and perhaps could get a loan for it at the bank, has value to me" (cf. Venkatesh, Peñaloza, and Firat, chapter 19).

Not only do we not make any claim that service benefits are limited to functional benefits, we embrace strongly the claim that hedonic, or expressive, benefits are often more important than more utilitarian ones. Actually, we find it odd, given our inversion of the goods-service relationship, that this emphasis on intangible benefits would be overlooked. We (Vargo and Lusch 2004a) have cited Prahalad and Ramaswamy's (2000, p. 84) reference to goods as "artifacts, around which customers have experiences" and Pine and Gilmore's (1999) *The Experience Economy* as support for our view of the service role of goods. We also tied the discussion to Gutman's (1982), contention that products are "means" for reaching "end-states, " or "valued states of being, such as happiness, security, and accomplishment" and pointed out that individuals often purchase goods because owning them and displaying them provide satisfactions *beyond* those associated with the basic functions of the product. We thus agree with Venkatesh, Peñaloza, and Firat (chapter 19) that "signs" play a critical role in value determination. We just believe that the co-creation of sign value is captured in S-D logic and that service is more primary than signs.

We suspect that our emphasis on service satisfying higher-order needs is missed because, as with many misperceptions about S-D logic, the dominant paradigmatic perspective is G-D logic. Arguably, G-D logic implies functional benefits, and its dominance is why the literature is just now evolving toward grasping the role of more experiential, expressive, phenomenological, and emotional benefits.

Financial Feedback Equals Profits

Given S-D logic's foundational model of service being exchanged for service, typically through indirect (usually monetary) exchange and its emphasis on the application of improvable operant resources (knowledge and skills) as the basis for the co-creation of value, financial feedback plays several important roles. Among these are providing information for resource improvement through learning and functioning as "rights" to additional applied resources—that is, service. Although this financial feedback might be reflected in profit to a firm, it does not necessarily do so. Financial feedback is a considerably more general concept than profit.

S-D logic is relevant for both profit-oriented and non-profit-oriented organizations. However, some who have critiqued S-D logic have equated its focus on financial feedback as either (1) a paradigm restricted to only profit-driven firms or (2) not encompassing the generally accepted broadened domain of marketing, comprising ideas, people, and places.

First, we intentionally stress, "[m]arketplace feedback not only is obtained directly from the customer but also is gauged by analyzing financial performance from exchange relationships to learn how to improve both firms' offering to customers and firm performance" (Vargo and Lusch 2004a, p. 14). For some firms, financial feedback is indeed "profit." However, for other firms it can be market share, sales growth, or cash flow. However, over the longer term "cash in" must exceed "cash out." And for this reason many scholars are emphasizing the importance of cash flow (Ambler, chapter 22; Srivastava, Shervani, and Fahey 1999). Although we do indeed argue that value is only created through co-creation and in interaction with the customer, we recognize that monetary flows are critical. Cash (or its equivalent) provides the firm options on future service flows and relationships. Importantly, S-D logic also places the responsibility for firm financial performance on the marketing function and for "increasing the market value rather than the book value of the organization as it builds off-balance-sheet assets such as customer, brand, and network equity" (Vargo and Lusch 2004a, p. 14).

Second, S-D logic and the role that financial feedback and off-balance-sheet assets (e.g., customer, brand, and network equity) play are very relevant for the marketing of ideas, people, and places. In contemporary society the marketing of ideas, people, and places occurs through organizations that have inflows and outflows of cash and other financial resources (i.e., debt capacity). For instance, political candidates do frequent political polling and use this to better position and establish their political platform. However, these candidates usually do not drop out of political races due to polling statistics; they drop out because they run out of financial resources. S-D logic is interactive; it requires and depends upon constant feedback from customers, and customers vote with their dollars regardless of if one operates a non-profit- or profit-directed organization.

However, one must recognize financial accounting systems, by their very nature, are transactional, and financial accounting standards do not enable a firm to capitalize most marketing investments. Thus, the financial feedback a firm receives from the marketplace is a fuzzy signal and should be treated as lacking in substantive validity. This opens up a huge research opportunity for integrating financial, accounting, and marketing theory.

Service-Dominant Logic Is Primarily Managerially Oriented

Some (e.g., Venkatesh, Peñaloza, and Firat, chapter 19; Wilkie and Moore, chapter 20) have either implicitly or explicitly indicated that S-D logic does not go far enough because it does not move marketing beyond its present managerial, or firm-centric, orientation. We agree that marketing is largely managerial. This is understandable given its origin and its original focus on application. Even the word *marketing* implies doing something—going to market, acting on the market, and so on—as opposed to a more positive term like *market science*. Also, we originally wrote "Evolving to a New Dominant Logic for Marketing" for the *Journal of Marketing,* which has an editorial policy of managerial relevance. Even then, we had focused much of the effort toward macro-positive implications but had to cut most of that material because of space limitations.

We believe, however, that S-D logic has much broader relevance than managerial. The basic premise that it is the mutual application of specialized skills and knowledge that is exchanged has implications not only for a better grounded theory of the firm, but also for a general theory of marketing or, as Venkatesh, Peñaloza, and Firat (chapter 19) probably appropriately suggest, of "markets," and possibly for a process-centered theory of economics and society (see the following section). Thus, though we freely acknowledge that some of our initial presentation of S-D logic was couched in managerial terms, we do not agree that it is *inherently* managerial and completely agree that its nonmanagerial implications need to be more fully explored (see e.g., Gummesson, chapter 27; Laczniak, chapter 21; Venkatesh, Peñaloza, and Firat, chapter 19; Wilkie and Moore, chapter 20; and Lusch and Vargo, chapter 32).

WHAT IT MIGHT BE

S-D logic represents a somewhat subtle but, we believe, potentially significant departure from the way that we have been taught, both explicitly and implicitly, about exchange. As we have noted, it shifts the focus away from goods to service, from operand resources to operant resources, from being to doing, and, somewhat less precisely, from what is exchanged to the process of exchange and from the tangible to the intangible. Arguably, it also refocuses us on the role of exchange in general, not only as it relates to marketing, but also in terms of its role in commerce and society. As such, S-D logic might provide insights useful for reconsidering and reformulating the models, theories, and paradigms that guide thought about these activities and institutions.

We stress the use of the terms *potentially* and *arguably* here. S-D logic is a work in progress. We do not claim to have invented it and do not claim ownership. We only claim to have identified what we consider to represent the convergence of previously apparently divergent streams of research in academic marketing—the migration from operand resources to applied operant resources as the primary focus of exchange. S-D logic is still evolving and in "open source" development—thus the purpose of and approach to this book. It is too early to make claims about S-D logic being a new theory, let alone a "general theory" or a paradigm shift for marketing. However, arguably, it might be worthwhile to muse about the *potential* of S-D logic in these regards.

The Foundation of a Paradigm Shift in Marketing

We have characterized G-D logic as paradigmatic. Kuhn (1970, p. 10) defines *paradigms* as "accepted examples of actual scientific practice that provide models from which spring particular coherent traditions of scientific research." Drawing on Kuhn, Arndt (1985, p. 11) views paradigms as "social constructions reflecting the values and interests of the dominant researchers in a science and their reference groups." Hunt (1991), in keeping with popular use, uses the term in the broad sense to connote weltanschauung, or worldview.

By either of these definitions, we believe that G-D logic represents a paradigm for marketing. As Shostack (1977, p. 73) notes, "The classical 'marketing mix,' the seminal literature, and the language of marketing all derive from the manufacture of physical goods." The impact of this G-D paradigm can be seen in the basic language of marketing. For example, the terms *product*; *form*, *time*, *place*, and *possession* utilities; *distribution*; *channels of distribution*; *targeting*; the *marketing mix*; *producer*; and *consumer*, in the dominant ways they have been used, all imply to varying extents that the tangible good is the central focus of marketing. Elsewhere (Vargo and Lusch 2004b), we argue that the view that services are characterized by nongoods characteristics such as intangibility, perishability, heterogeneity, and inseparability of production and consumption (Zeithaml, Parasuraman, and Berry 1985) is further evidence.

Does S-D logic represent a paradigm shift? We do not think it does, at least not presently. Although we argue that S-D logic provides a broader, more generalizable framework than G-D logic of exchange and even note that some marketing scholars seem to have adopted an S-D logic view, at least at the present time S-D logic does not meet the criterion of reflecting the values and interests of the dominant researchers in the science of marketing as a whole and does not represent a worldview (see Levy, chapter 4). However, as we have discussed, except for the convergence of a particular set of events and preexisting paradigms, S-D logic *could* have emerged as the basis for the guiding paradigm of economics and thus for marketing and, as S-D logic evolves, it might serve as a more solid foundation than G-D logic for the better understanding of marketing, both academically and strategically. Thus, S-D logic *might* be a candidate for the foundation for the paradigmatic shift that has been called for by a number of marketing scholars (e.g., Grönroos 1994; Gummesson 1995; Hunt and Morgan 1995; Schlesinger and Heskett 1991; Shostack 1977).

Theory of the Firm

Coase (1937) theorized that organizations exist and get larger because the costs of market transactions often exceed the costs of internal organization. We believe S-D logic offers a different perspective on this. S-D logic recognizes that there is an acceleration in the division of labor in society as individuals become increasingly microspecialized. As entities become more and more specialized, their marketplace options become restricted. That is, if one becomes highly specialized (as opposed to a generalist), there often is no efficient market for the direct exchange of his or her specialized competences for the competences desired from another entity. For instance, consider a person who is an expert on multivariate statistics, theoretical physics, or counseling students about their curriculum. This person will infrequently run across people who want the direct application of his or her services and, if so, the other party will seldom have the bundle of competences that the microspecialist needs. In contrast, S-D logic views the microspecializations of individuals as inputs the entrepreneur combines to create service that people want (e.g., a market research study, a computer system, transportation, or a college education). Organizations are thus integrators of individual competences that they transform into service people want and/or need. For this reason, S-D logic is heavily grounded in and aligned with resource advantage theory (Hunt 2000) and Penrose's (1959) resource-based theory of the firm.

S-D logic suggests that organizations exist because the entrepreneur, with his or her bundle of skills, is able to (1) envision service that people want and will pay to obtain and (2) integrate together microspecialists to offer and provide this service. In this sense one of the most important operant resources in society and the economy is the entrepreneurial spirit, and mental skills of individual entrepreneurs and their collectivity. These entrepreneurs can multiply resources by combining them in an organization and exchanging applied organizational competences with customers.

All of this boils down to what might be considered to be a ninth foundational premise of S-D logic that we did not report in our initial publication.

FP9. Organizations exist to integrate and transform microspecialized competences into complex services that are demanded in the marketplace.

This foundational premise implies that S-D logic could provide a framework for a theory of the firm.

A Reorientation for Economic Theory

If marketing inherited its G-D logic from economics and if G-D logic is flawed, as others and we have suggested, it is natural to consider the following question: Would S-D logic provide a better foundation, not only for marketing, but also for economic science? We believe that there are compelling reasons to think that the answer is yes. Perhaps one need look no further than Smith's (1776/1965) work, on which economic science is based. As we have argued here and elsewhere, Smith actually comes very close to S-D logic in the beginning of *The Wealth of Nations*. Consider the first paragraph in chapter 5 (Smith 1776/1965, p. 30):

> Every man is rich or poor according to the degree in which he can afford to enjoy the necessities, conveniences, and amusements of human life. But after the division of labour has once thoroughly taken place, it is but a very small part of these with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people, and he must be rich or poor according to the *quantity of that labor which he can command* or which he can afford to purchase. *The value of any commodity,* therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, *is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchange value of all commodities* [emphasis added].

Compare this with our first two foundational premises, which say essentially that service (the application of competences) is exchanged for service, and indirect exchange, including monetary exchange, obscures the service-for-service nature of exchange. All one has to do is substitute "the application of competences" for "labor" and Smith's initial arguments translates into S-D logic.

Or compare it to Bastiat's (1860, p. 43) attempt to restate the nature of exchange:

> It is in fact to this faculty . . . *to work the one for the other* [italics in the original]; it is this *transmission of efforts, this exchange of services* [emphasis added], with all the infinite and

> involved combinations to which it gives rise . . . which constitutes Economic Science, points out its origin, and determines its limits.

Value therefore is seen as the "comparative appreciation of *reciprocal services*" (p. 44)

And consider the similarity of the views of Walras (1954, p. 225)—generally considered the father of equilibrium theory, if not economic science: "We may . . . simply consider the *productive services* as being *exchanged directly for one another,* instead of being exchanged first against products, and then productive services" [emphasis added]. He acknowledged that this had been Bastiat's original concept but felt that Bastiat "meant only personal services."

The point of this is to suggest that a call for S-D logic is not so much a call for the abandonment of all economic thought as it is a call for the return to a logic of economics that had been previously abandoned for G-D logic's simplicity, normative purposes, and fit with the Newtonian model of science. The early economic philosophers and scientists understood S-D logic; in the social and scientific milieu of the time, they just did not fully embrace and elaborate it. As many of them implied, if not acknowledged, S-D is more fundamental than G-D logic. Thus, it might provide a basis for a richer and more robust science of economics.

A Reorientation for a Theory of Society

The central notions of S-D logic are that fundamental to human well-being, if not survival, is specialization by individuals in a subset of knowledge and skills (operant resources) and exchanging the application of these resources for the application of knowledge and skills in which they do not specialize. In short, the fisherman fishes for the farmer in exchange for the farmer farming for the fisherman. These joint ideas of specialization and exchange are not new. But the contention that it is the application of operant resources that is exchanged for the application of other operant resources—rather than the operand resources on which operant resources have acted being exchanged for other operand resources—is relatively new, if not unique. S-D logic further suggests that organizations and money emerged in societal evolution as vehicles to help accomplish the exchange of service for service. This shift in focus from operand to operant resources has implications for understanding social interaction and structure that are markedly different from the ones suggested by a focus on the exchange of operand resources and potentially has ramifications for understanding exchange processes, dynamics, structures, and institutions beyond commerce.

As we explore in chapter 32, "Service-Dominant Logic as a Foundation for a General Theory," S-D logic is very rich as a foundation for the development of macromarketing theory and ultimately a theory of society. There are many things that hold a society together, but four are language, norms, paradigms, and institutions. For each of these, co-creation is determinant. A language cannot be developed without co-creation of the parties that will use the language to communicate. Norms require a co-creation by definition. A paradigm involves a worldview and social construction that is co-created and provides the lens upon which a domain is viewed by a society or a dominant group in society. And institutions involve a complex web of interactive behavior directed at co-creation of regulatory mechanisms in society. Language, norms, and institutions are emergent phenomena that result in macrostructures. Furthermore, these emergent phenomena converge with other phenomena, proliferate, and finally decouple and diverge to create new emergent forms. This cycle repeats over and over again to evolve new macrostructures. Thus, S-D logic, with its focus on the micro-activity of the exchange of service for service, is the building block via co-creation for the creation and development of society.

SUMMARY

Necessarily, for most people, the first glance at S-D logic occurs by focusing on the concepts that are familiar from G-D logic, as seen through a lens honed by G-D logic. The most common error is to think that S-D logic represents the replacement of one form of output or product, goods, with another form of output, services. S-D logic is a shift in logic in a real sense. It represents an inversion that places activities driven by specialized knowledge and skills, rather than units of output, at the center of exchange processes. Hunt (2004, p. 22) argues that S-D logic "deserves a careful read and thoughtful evaluation, not a quick skim and hasty judgment." Given its work-in-progress status, this may be especially true. A full understanding of its substance and complete grasp of its nuances require re-honing and refocusing. We hope this chapter adds illumination for that process.

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