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Why “service”?

Stephen L. Vargo · Robert F. Lusch

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Abstract “Service-dominant logic” appears to have found resonance in the marketing community since its introduction as the evolving, “new dominant logic” in the *Journal of Marketing* (Vargo and Lusch 2004a, *Journal of Marketing*, 68, 1–17 (January)). But, on occasion, so has the question of whether the concept “service” captures the essence of the new logic. This article addresses the role of “service” as the heart of value-creation, exchange, markets, and marketing, as well as its considerable implications for research, practice, societal well-being, and public policy. The purposes are both to clarify the issues and to foster the continuing dialog around the service-dominant logic for marketing, as well as for other disciplines.

Keywords Service-dominant logic · S-D logic · New dominant logic · Service marketing

Since identification of an emerging new dominant logic for marketing in “Evolving to a New Dominant Logic for Marketing”—which has subsequently become known as the “service-dominant (S-D) logic” of marketing—in the *Journal of Marketing* (Vargo and Lusch 2004a, see also b; Vargo and Morgan 2005), there has been considerable discussion, elaboration, and debate. On balance, the

responses have been supportive of the need for a reformulation of marketing logic and supportive of the specifics of S-D logic.

Even though we have not previously fully elaborated our rationale for making “service” the central organizing concept for this “new dominant logic,” there appears to be general support for its selection also. However, there have also been a few skeptics, most of whom agree with the logic but feel that the term “service” might have “baggage,” resulting from inappropriate and/or unfortunate connotations associated with traditional, goods thinking, and occasionally from some who appear to be motivated by alternative logics and/or designators. This skepticism is understandable and welcome. It is also to be anticipated; as Levy (2006, p. 61) notes, S-D logic “will continue to be met with interest...and mixed support.” In either case, a fuller elaboration of the appropriateness and importance of the role of “service” in S-D logic is a potentially critical issue, one that addresses the fundamental subject matter of markets and marketing.

What has become known as S-D logic, grew out of the identification within marketing thought of what could be characterized by fragmented logics (Vargo and Lusch 2004a), all sharing a common thesis of responding to the inadequacies of the more conventional logic. We have identified this conventional logic as “goods-dominant (G-D) logic.” Others have referred to it as the “neoclassical economics research tradition” (e.g., Hunt 2000), “manufacturing logic” (e.g., Normann 2001), “old enterprise logic” (Zuboff and Maxmin 2002) or, more specific to marketing, “product orientation” (Keith 1960), “marketing myopia” (Levitt 1960), “product marketing” (Shostack 1977), and more recently, “marketing management” (Webster 1992). Regardless of the designation, the logic is centered on units of output, historically considered to be goods—and more

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recently, “products,” to include both tangible (goods) and intangible (services) units of output—as prototypic of exchange.

This conventional logic is paradigmatic and paradigms, by the very nature of their “worldview,” prejudice views of their subject matter, as well as perspectives of competing logics. Within this conventional logic, “services” means intangible output of the firm—that is, intangible goods. Unfortunately, this conventional use creates some baggage for the term “service.”

However, we feel that “service” is the proper, accurate, and enlightening term, partly because so many of its denotations and connotations inform the correct vectors for marketing thought, but also because it captures the commonalities of various alternative logics and represents their intersection. Thus, we believe it can serve as an organizing concept for extending, elaborating, and synthesizing these logics. We also believe that it can properly inform academic and applied marketing and public policy.

The purpose of this paper is to clarify the meaning, centrality, and essential role of service in S-D logic specifically and exchange more generally. First we discuss the meaning of the term service as employed in S-D logic. Second, we address the rationale for the S-D logic designation, including instances of support and skepticism. Then, we offer more in-depth analyses in terms of the nature and appeal of the implications of the term “service” designation for marketing thought and the practice of marketing, in the firm and in society.

The service-dominant logic meaning of “service”

The term “services,” as it has been traditionally employed in marketing (or economic thought in general) is an outgrowth of Smith’s (1776/1904) treatise on what fosters the creation of national wealth (see Vargo and Morgan 2005; Vargo et al. 2006). For Smith, the key driver was national “productivity,” which he defined in terms of activities that create surplus tangible output that can be exported for trade. Other activities, while useful and essential to both individual and national well-being, were not productive by these tangibility and export standards. Over time and coupled with Say’s notion of “immaterial products” (see Lovelock and Gummesson 2004), the productive versus non-productive distinction morphed into today’s goods-versus-services distinction, with services being defined as a particular type of “product” (i.e., intangible goods).

Therefore, even in the service-marketing subdiscipline, service(s) has traditionally been defined residually (Rathmell 1966; Vargo and Lusch 2004b)—that is, by first

defining a good and then defining a service as anything else. Given the dominance of G-D logic, attempts at delineating service from goods have usually centered on the identification of their distinguishing (from goods) attributes that cause particular problems for marketers (Zeithaml et al. 1985)—intangibility, heterogeneity, inseparability, perishability (“IHIP,” as designated by Lovelock and Gummesson 2004). By most conceptualizations, service(s) is still treated in marketing as a unit of output, albeit somewhat deficient ones—that is, possessing the IHIP characteristics.

In S-D logic, *service* is 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. It is important to note that S-D logic uses the singular term, “service,” which reflects the *process* of doing something beneficial for and in conjunction with some entity, rather than *units of output*—immaterial goods—as implied by the plural “services.” Thus, in S-D logic, goods and service are not alternative forms of products. Goods are *appliances* (tools, distribution mechanisms), which serve as alternatives to direct service provision. Service, then, represents the general case, the common denominator, of the exchange process; *service* is what is *always* exchanged. Goods, when employed, are aids to the service-provision process.

The “service” rationale

The compelling reason that we view “service” as the appropriate designator for the “new dominant logic” is accuracy; it is the correct term. Marketing occurs as parties (individuals, organizations, etc.) exchange in markets. This exchange involves each party using its resources for the (current or eventual) benefit of the other party. This use of resources for another party’s benefit is, *precisely*, “service.” No other word fits as well; no other word captures the essential meaning.

This identification of service as the essential and transcending focus of exchange is not confined to our work with S-D logic. Others academics, both historically and contemporarily, have established the critical role of service in economic exchange. We also suggest that it is not a coincident that scholarly thought conducted under the rubric of “service marketing” has played a central role in the identification of the need for a transcending perspective (i.e., a new dominant logic). That is, in large measure, it is the insights from service marketing scholars that have led to a series of reconceptualizations that have been transforming mainstream marketing, if not our understanding of exchange in general.

Other scholarly support for “service”

Importantly, we are not the first to suggest a logic of exchange based on “service.” A number of the early economic philosophers and economic scientists advanced similar suggestions. For example, Fredric Bastiat (1848, p. 161–162) argued for a service logic over 150 years ago in his claim that “The great economic law is this: *Services are exchanged for services*....It is trivial, very common place; it is, nonetheless, the beginning, the middle, and the end of economic science.”

Walras (1894), who has been credited as the major force in turning economic philosophy into economic science in the form of marginal utility theory, similarly broke down the “services of capital goods” into “consumers’ services” that have direct utility and “producer services” that have only indirect utility. Like Bastiat (1848), Walras (1894/1954, p. 225) acknowledged, “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.” Notably, Walras reasoned that the failure of most economists to include the immaterial services of capital goods precluded the development of a pure science.

Actually, so many of the early economists argued for the primacy of service in exchange that it resulted in the following characterization and observation by Delaunay and Gadrey (1992, pp. 64–65):

According to the authors who wrote around the end of the 19th century, society is a “society of exchange of services,” an appellation that applies both to society’s basic structure and to the way activities function. They reckoned that one should not study whether activities are productive or not, but *how activities interrelate*. But how do we then explain theoretically and practically the surprising reality of the new services economy for which we were unprepared.

First we submit that the practice of discussing services primarily on the basis of a simple contrast between material and immaterial production has paradoxically resulted in a neglect of the specific material output from service activities. We submit that this is the paradoxical result of a theory that emphasizes the relevance of *utility and material aspects* over the *social and relational aspect*: the theory has lost sight of the particular *use value* of services (emphasis added).

Likewise, Penrose (1959), one of the initial economists to formulate a resource-based theory of the firm, suggested “it is never *resources* themselves that are the ‘inputs’ to the production process, but only the *services* that the resources can render” (pp. 24–25; italics in original).

More recently, and closer to marketing, Normann (2001, p. 99) said: “I must give myself some credit for switching to the *service logic*. It forces us to shift our attention: from production to utilization, from product to process, from transaction to relationship.” Though not employing the term “service logic”, Gronroos (2000) suggested:

The emerging principles of services marketing will become the mainstream principles of marketing in the future....The physical goods become one element among others in a total service offering....This means that physical goods marketing and services marketing converge, but services-oriented thinking will dominate. (pp. 87–88)

And Gummesson (1995, p. 250) has argued:

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.

Likewise, Hakansson and Prencert (2004, pp. 91–92) elaborating on Penrose (1959) argue:

Actors do business by performing boundary-crossing activities that generate business exchange. This business exchange is seen as stemming from the *realization of potential services in resources*, usually conceptualized as value (e.g., Snehota 1990). Hence, business exchange activity comprises engagement in the potential services inherent in resources and are coloured by the contextual situation in which the exchange occurs (emphasis added).

Even in the context of G-D-logic-driven marketing management, Kotler (1977, p. 8) notes the “importance of physical products lies not so much in owning them as in obtaining the *services they render*” (emphasis added). In short, there is both historical and contemporary support for the S-D logic thesis that service is the common denominator of all exchange phenomena. Thus, the service designation seems appropriate and well grounded.

Recognition of thought-leadership

We believe that an additional apposite, though not essential, justification for “service” as the proper designate for the new dominant logic is that service (or “services,” as more frequently used) scholars have been particularly instrumental in transforming marketing thought and laying the

foundation for the development of a new logic. As noted, this is not coincidental. Service marketing as a subdiscipline arose from an effort to overcome the constraints of G-D logic (see Dixon 1990; Vargo et al. 2006).

More important, the work of service scholars has resulted in a number of modifications in the way value creation and exchange are conceptualized, which have now become superordinated to their G-D conceptualizations for all of marketing. For example, service marketing scholars in the USA (e.g., Berry 1983) and Europe (see e.g., Gronroos 1982, 2000) were responsible for the movement toward thinking about exchange in terms of relationships, rather than transactions. Likewise, the shift from thinking about quality in terms of objective manufacturing standards to perceived, subjective consumer standards was initiated by service scholars almost simultaneously in the Nordic School (Gronroos 1982) and in the USA (Pararuraman et al. 1985). The shift to concepts like customer equity (e.g., Rust et al. 2000) from brand equity was also initiated in the service marketing literature. In each case, the service-marketing-originated concepts have generally become superordinated to the more traditional, G-D logic concepts, not just in “service marketing,” but for “mainstream” marketing as well.

Furthermore, concepts like service encounter (Bitner et al. 1990), experience (Pine and Gilmore 1999), internal marketing (Berry 1983), and servicescape (Bitner 1992) are service-marketing initiated concepts (see Fisk et al. 1993) that have now become primary concepts in mainstream marketing. Many of these concepts are at the heart of S-D logic and we argue that the emergence of these concepts in the service literature, and their current convergence and proliferation within mainstream marketing thought, supports the centrality of the role of service-marketing-research in the evolution of a new logic of marketing and further punctuates the choice of the term “service.”

Perhaps ironically, even the traditional, primary goods-versus-service characteristics seem to capture much of the enlightened thinking concerning *desirable* characteristics of all market offerings, as opposed to what has traditionally been identified as *deficiencies* of “services.” As we (Vargo and Lusch 2004b, p. 333) stated:

even while professing to adhere to the prototypical service delineators, service scholars have been laying a foundation for a new and broader model of exchange, one that is grounded in the reality of the heterogeneous nature of both demand and supply, the reality, if not the advantage of consumer involvement in production, the constraints of tangibility, and the inflexibility and inefficiency of inventory.

That is, the intangibility, heterogeneity, inseparability, and perishability characteristics (IHIP) are probably emerg-

ing as more prototypical of appropriate, effective, and desirable characteristics for market offerings than they are typical of an inferior form of offering, as originally employed. Stated slightly differently, *value* is always intangible, heterogeneously experienced, cocreated, and potentially perishable.

“Service” skepticism

Despite compelling reasons for the “service” label for S-D logic, there are skeptics. Some of the questions raised about the appropriateness of “service” to characterize a new dominant logic appear to be motivated by a view that we are advocating something like: “services has won the goods versus services debate;” thus, S-D logic is just replacing one exchange referent for the other (i.e., service for goods). This contention inaccurately captures the S-D logic meaning of service and therefore misses the point. Arguably, no other objection points as directly to the paradigmatic potency of G-D logic.

As has been suggested, (Vargo and Lusch 2004b), the whole goods-versus-service-distinction debate is flawed since it is couched in a logic that treats “services” as a special kind of (intangible) product—that is, what goods are not. Also as noted, it is inconsistent with S-D logic. Perhaps ironically, in S-D logic, “services” becomes a G-D logic term.

A few scholars have argued that S-D logic uses a novel definition of service, one that is out of step and/or inconsistent with traditional definitions. We agree that it might be partially out of step—though, by itself, this is not an inherently pejorative designation—but are somewhat surprised by the suggestion that the definition of service—essentially, *the application of one’s resources for the benefit of another entity*—is either faulty or novel. That is, we acknowledge that this definition is inconsistent with circular or self-referencing definitions (e.g., services are intangible goods) but unless detractors are embracing these residual definitions, it is difficult to understand how the S-D logic definition is *inconsistent* with previously accepted ones. Actually, it is very consistent with how service is treated in most dictionaries and in everyday use. As important, it is also very consistent with the few more *positive* (i.e., non-residual) definitions of service in the academic literature. For example, Gronroos (2000, p. 48) defines services as “processes consisting of a series of activities where a number of different types of resources are used in direct interaction with a customer, so that a solution is found to a customer’s problem,” a definition that corresponds quite closely to that of S-D logic.

Likewise, the contention that replacing the term “goods” with “service” (e.g., Achrol and Kotler 2006) captures the essence of S-D logic mostly indicates that the true essence

of S-D logic is likely not being fully grasped. The “service” and “goods” in these logics are not about the different types of *units of outputs* firms exchange, but rather concerned with contrasting, *rival philosophies* about the whole process of value creation, commerce, and exchange.

S-D logic is built on a different rationale about the purpose and process of exchange from that of G-D logic, one that is foundationally distinct, rather than superficial or cosmetic. It is built on the idea that exchange is about the *process* of parties doing things for and with each other, rather than trading units of output, tangible or intangible. It is concerned with the *vertical relationship* between service and goods, rather than the *horizontal difference* between services and goods.

Likewise, the notion that S-D logic creates a false dichotomy (e.g., Brodie et al. 2006) is not only inaccurate in relation to S-D logic but it also ignores the fact that it is G-D logic that establishes the dichotomy by requiring a distinction between goods and service(s) in terms of two types of productive output. Therefore, while we agree that a false dichotomy exists, we believe that it is S-D logic that *resolves*, rather than creates, the dichotomy by *transcending* notions of goods and services with a higher-order concept of service.

Marketing theory implications of service

The service designation of S-D logic has a number of implications for marketing theory and thought. These include (1) its simplifying of the model of exchange by providing a common denominator, (2) its unique marketing origin, as opposed to an inherited origin, at least as employed, (3) its implicit shift to value-in-use rather than value-in-exchange, (4) its shift in focus toward resources, rather than products, with a particular emphasis on operant resources and resource integration, (5) its amenability to logical division based on how service is provided, (6) its ability to provide continuity through retention of the exchange paradigm, and (7) its unifying potential in relation to a number of apparently alternative, disparate logics.

Simplifying

Historically, one of the apparently appealing features of the goods-centered model is that the generalized good could serve as a common denominator for economic exchange phenomena. Together with the notion of embedded utility, this allowed the development of a science of economics (Vargo and Morgan 2005; Vargo et al. 2006) and a whole host of disciplines built on its rather straight-forward logic. As it became increasingly clear that much of what is exchanged cannot be modeled as a good, there was a

natural tendency to try to model these intangibles as a special type of good. Thus, service(s) were first modeled as a non-good product—that is, an intangible product. This understandable attempt led to the delineation of two classes of products that were exchanged, distinguished by the four IHIP characteristics (Lovelock and Gummesson 2004; Zeithaml et al. 1985).

The implication was that, since there are two types of products, there must be somewhat different logics for understanding marketing. Stated slightly differently, since product-marketing knowledge was not adequately translatable directly to the marketing of intangibles, a subdiscipline of services marketing had to be created to deal with this special class of goods. The original logic of this subdiscipline was that service marketers must adjust goods marketing principles to overcome these inadequacies.

But should or can there really be two types of marketing or two logics? As noted, some have suggested that S-D logic creates a false dichotomy. But the dichotomy was created by trying to fit G-D logic into a much broader (though not separate) domain of what is exchanged. S-D logic represents an attempt at reconciling the false dichotomy. “Service” is the unifier.

S-D logic also has the potential to unify and simplify apparently disparate thought between consumer and industrial or business-to-business marketing (Vargo and Lusch 2007, 2008), as well as domestic marketing and international marketing. For reasons similar to the rationale for not needing a separate theory and treatment of service and goods marketing, there is benefit for marketing theory and practice if business-to-business and business-to-consumer marketing and domestic and international marketing are unified and simplified under a common logic and lexicon. We believe that S-D logic and its associated concepts of operand and operant resources, cocreation of value, value proposition, etc. offer such potential. All entities exchange service for service, and organizations, money, goods and networks are merely the intermediaries in this process. Thus, organizations, households, and individuals can be viewed as resource integrators that cocreate value with other entities. This resource-integration model can be expanded for understanding markets, international trade, outsourcing, and marketing.

S-D logic’s approach is to identify—actually recapture Aristotle’s and Smith’s (1776) correct identification—the exchange of applied specialized skills and knowledge (service) as the heart of exchange. The notion is simple, too simple for some (e.g., Achrol and Kotler 2006)—*service is exchanged for service*—yet, ironically, it is too complex in the opinion of others (e.g., Holbrook 2006). This service can be provided directly between and among parties with specialized skills and knowledge or indirectly, through embedding some of that skill and knowledge in a

tangible good—what S-D logic calls an appliance (Vargo and Lusch 2004a). Thus, service becomes the unifying focus of exchange, rather than a poor stepchild to a good. Furthermore, goods-marketing principles are informed and elaborated by and become a subset of S-D logic. Goods still have a central role in S-D logic. Service is just the common denominator.

Unique marketing origin

The early scholastics (e.g., Barbon 1690) recognized the preeminence of value-in-use. Smith (1776/1904) set up value-in-use as the paramount orientation in value determination and Say (1821) clearly intended it to underlie the concept of utility. However, in the process of moving from economic philosophy to economic science, value-in-use has been dwarfed and “utility” has morphed into value-in-exchange.

Marketing inherited its logic and its lexicon from economics and manufacturing (Levitt 1960; Shostack 1977; Vargo and Lusch 2004b). There is nothing inherently wrong with this. However, both the fundamental logic and its associated lexicon were developed for another time and a somewhat different, more limited purpose than that of marketing, at least as it has evolved past a concern with the distribution of commodities and industrial output (Vargo and Lusch 2004b; Vargo and Morgan 2005). The inherited logic and the lexicon are confining, if not inappropriate.

Actually, the problems associated with the neo-classical economics and manufacturing models became evident almost immediately after marketing began to emerge as a discipline. They were revealed in attempts to justify marketing’s role in value creation. For example, Weld (1916, p. 317), an economist and early marketing scholar, characterized marketing as a *production function* and reasoned that since production was “the creation of utilities,” and manufacturing and agriculture created form utility, marketing must create time, place, and possession utility.

This dual source of utility bothered a number of marketing scholars who followed. For example, Dixon (1990, pp. 337–338) has noted that both Beckman and Alderson made calls for a single, unifying concept of utility. But he also noted that “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) further observed:

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) perhaps best captured the need for reorientation, as much as reconciliation, by advising: “What is needed is not an interpretation of the utility created by marketing, but a *marketing interpretation of the whole process of creating utility*.”

But economic theory based on the concept of embedded value was itself deeply embedded in marketing thought and it was not until, as Dixon (1990) noted, academic marketing was forced to deal with an increasing amount of its subject matter through models developed in the subdiscipline of service marketing that the tools, concepts, and models began to emerge. Rather than grounded in notions of value embedded in units of output, created apart from the customer in factories, based on objective, manufacturing standards of quality, and measured in terms of value-in-exchange, marketing began to redefine value in terms of processes instead of things, created in interaction with customers, based on subjective standards of performance, and measured by value-in-use. As we have noted, rather than being applicable to just a subset of market offerings, we believe that this higher-level, service-centered reconceptualization of value is leading us to the marketing-originated understanding of value (utility) creation that addresses Alderson’s call. Thus, “service” is not only an *appropriate* and *uniquely* marketing designation for the new dominant logic, but perhaps an *essential* designation.

Value defining

As indicated, the early scholastics recognized that value-in-use was a higher order concept than exchange value and Smith (1776/1904) and the other political economists endorsed this relationship. But in the subsequent development of economic science, value (utility) became to be understood in terms of value-in-exchange. Marketing adopted this embedded, exchange-value meaning and dealt with its role in value creation in similar terms (e.g., “value-added”). However, in the context of studying service, even when conceptualized as a special type of product (services), the notion of value added became relatively incoherent (see Dixon 1990, p. 342). Service marketing scholars were forced to deal with the reality that, at least in some instances, value-creation and consumption were “inseparable”—essentially, to acknowledge value-in use. This partial shift to a value-in-

use orientation can be seen creeping into marketing in general in the form of terms like “coproduction” and “value cocreation” and “experience economy”.

Making the term “service” the descriptive core of the new dominant logic makes it superordinate. By shifting service to a superordinate position in marketing, value-in-use also takes a superordinate position in relation to value-in-exchange and the service/goods relationship is clarified. That is, since service is defined in terms of customer-defined benefit, it is necessarily aligned with value-in-use, whether provided directly or through a good. Value-in-exchange remains important but it is primarily derived from value-in-use and, like goods, plays a role in indirect value-creation. This value shift is *inherently customer oriented* and, thus, has both academic and practical implications for approaching value creation. Perhaps most importantly, it implies that the consumer is endogenous to the value-creation process.

Resource-centered, redefining, and integrating

The “service” in S-D logic is defined in terms of applied resources. Further, the “applied” designation makes operant resources—resources that can act on or in concert with other resources to provide benefit (create value), as distinguished from operand resources—resources which require action to create benefit—primary. This resource focus and distinction are important in several regards. First, it ties S-D logic to the continuing movement toward resource-based views of exchange and theories of the firm (e.g., Penrose 1959; Barney 1991; Wernerfelt 1984), and competition (e.g., Hunt 2000). Thus, these research traditions inform S-D logic (and vice versa), as noted by Hunt and Madhavaram (2006; Madhavaram and Hunt, this issue).

Second, it shifts focus away from units of output - products (goods and services)—toward mutually satisfying interactive processes. Third, it similarly shifts the focus from static resources like plant and equipment (balance sheet resources) to the employees, the competences of the enterprise, other value-creation partners and, as noted, customers (i.e., to off-balance-sheet resources).

Finally, service points toward cocreation of value through resource integration. This redefines the role of the firm and the customer, and the role of marketing, and informs innovation and competition differently from the traditional manufacturing model in terms of the combination of static resources—that is, manufacturing. It thus puts marketing, and both the firm and service beneficiary, at the heart of value creation, rather than marketing in its more traditional, value-distribution role, with the customer or beneficiary in an exogenous, receiver role.

Logically divisible into service provision approaches

Several recent articles (e.g., Lovelock and Gummesson 2004; Vargo and Lusch 2004b) have questioned the conventional, goods-versus-services distinctions (IHIP). Others (e.g., Gummesson 2000; Shostack 1977) have argued that the goods-versus-services debate is fundamentally flawed, in part because all offerings have some tangibility and also because most definitions of services require first identifying what “good”-ness is and then allocating service-ness to what can not be defined accordingly.

But clearly, the goods/services distinction captures something. Lovelock and Gummesson (2004), asked: if not goods versus services, what is the subject matter of service marketing? While in part, as discussed, S-D logic argues that the delineation of service marketing as a subdiscipline is based on a false dichotomy, there do seem to be two somewhat alternative, though complementary, paths to value cocreation: direct and indirect (i.e., through a good) service provision.

It is important to note that this direct versus indirect distinction does not imply that value creation itself is defined differently. In each instance, value is defined in terms of service and, in both, value is cocreated. What is different is the manner in which the firm and the customer interact—essentially, which party is in control of which resources.

The distinction is close to that made by Normann (2001) between “enabling” and “relieving.” Normann’s distinction is essentially based on which party’s operant resources are most central to value creation. In relieving processes, the firm is using its operant resources to provide relatively direct service for the consumer and in enabling processes, the customer is primarily using relatively more of his or her operant resources to act upon resources provided by the firm. For example, going to someone’s home and preparing a breakfast meal would be a relieving process (direct service provision), while providing a toaster so that the customer can provide self-service is an enabling (indirect service provision) process. We argue that this service-route distinction is more useful and more logically derived than the goods-versus-service distinction that has been employed traditionally.

Continuity enabling

Several marketing scholars (e.g., Gronroos 1994, 2006; Gummesson 1994; Sheth and Pravatiyar 2000) have called for a shift from an exchange paradigm to a relational and/or interactional paradigm. This call reflects a position that exchange *implies a transactional orientation*. We disagree. The notion of exchange implies *reciprocity* and thus,

actually implies relationship, *despite* the constraints imposed on understanding exchange by the transactional orientation of traditional marketing thought. Furthermore when one considers the idea of an exchange in the context of S-D logic, with its focus on value-in-use, then even a transaction continues into the future as customers benefit from the acquired resources.

The transactional orientation was a natural outgrowth of a focus on units of output—products (e.g., goods) as the subject matter of exchange and the price put upon this output (value-in-exchange). The centrality of service in S-D logic shifts the focus from *units of output* to a *process*—with the implication that this service is provided *in exchange for* the other party's provision of reciprocal service. It is the fundamental model of specialization and exchange in society (Smith 1776/1904), revisited with attention shifted from the intermediate good (unit of output) to reciprocal value cocreation. The service-for-service designation of S-D logic makes it *inherently relational*—the creation of mutual value. It also recognizes that the most relevant value is value-in-use, which in virtually all situations occurs over time.

Therefore, one of the advantages of service as a focus is that it does not require abandonment of the exchange paradigm and all that has been learned within this rubric. It simply implies that the exchange modeled as transactions involving the trade of goods is but a subset of a broader, more relational exchange—service-for-service. S-D logic expands the domain of exchange, temporally—that is from momentary as measured by value-in-exchange, to unfolding and emergent, as measured by value-in-use. It also expands it comprehensively—that is, from dyadic, as transacted between a producer and a consumer to extended, as suggested by value constellations and networks.

Unifying

In addition to a relational paradigm being proposed as a replacement for the exchange paradigm, there have been a number of logics or theories that could be considered as alternatives to S-D logic. Examples of these are Hunt's (2000) "resource-advantage" (R-A) based theory of competition, various cultural based theories—for example, "sign systems" (e.g., Venkatesh et al. 2006) and "cultural resource" theory (e.g., Arnould and Thompson 2005; Arnould et al. 2006), "network" and "interaction-based" theories (e.g., Gronroos 2006; Gummesson 2006; Hakansson and Snehota 1995); and Holbrook's (1999, 2006) "customer value" perspective. While not reviewing all these logics and theories here, we argue that generally each is correct in important regards and each can inform S-D logic in ways that will lead to better theories of markets and marketing.

But each also has limitations that can be informed by the service focus of S-D logic. For example, network-based

theories (e.g., Hakansson and Snehota 1995) develop the models and generalizable relationships among parties in interactions beyond the dyad. As such, they should be an integral part of any study of markets. But, they do not inherently address the question: *interactions for what purpose?* The service-for service foundation of S-D logic provides the motivation for interaction and network development. That is, we serve—use our network of resources for others' benefit—(individually and collectively) in order to obtain service from others. Service, as used in S-D logic, identifies the logic of interactivity. Likewise, it informs the R-A theory of competition by identifying the competitive context. Similar claims of reciprocity and synergy can be offered in relation to other apparently alternative logics and theories.

Thus, we suggest that "service," or more precisely the service-for-service foundation, of S-D logic provides a common lens for viewing and perhaps linking a host of theories and logics. Importantly, we do not claim that S-D logic is a theory itself but, rather, as indicated, a logic, perhaps one that can unite other logics and form the foundation and lexicon for a unified theory.

Implications of service for marketing practice

If the purpose of economic exchange is mutual service provision, it follows that there are a number of managerial implications that are not native to G-D logic. That is, the idea of service being the foundational concept of exchange and marketing has some strong and, arguably, very important, normative implications. It intimates a very different kind of purpose and process for marketing activity and for the firm as a whole—to provide service to stakeholders, including customers, stockholders, and employees. It points almost directly to normative notions of investment in people (operant resources), long term relationships, quality service flows, and only somewhat less directly toward notions of transparency, ethical approaches to exchange, and sustainability. Arguably, these directions have advantages for both the enterprise and society that cannot be found in G-D logic and are not as well reflected by any other term. These societal implications are discussed in later sections.

Compared to G-D logic and the neoclassical economic theory of the firm, the service focus of S-D logic has an important advantage related to ethical and normative behavior. In G-D logic and the neoclassical economic theory of the firm, one needs to import a theory or code of ethics for operation of the enterprise; driven by the service designation, it is implied by S-D logic (Abela and Murphy 2008; Vargo and Lusch in this issue). As intimated in

Vargo and Lusch (2004a) and amplified by Lusch and Vargo (2006), S-D logic suggests the firm should do the following: (1) strive for transparency and symmetry in information and exchange processes, (2) develop relationships with customers to enhance their long-term well-being, and (3) recognize both employees and customers as valuable operand resources and invest in the development of both.

Obviates need for customer orientation

We have argued elsewhere (Vargo and Lusch 2006) that the customer orientation is evidence of G-D logic, rather than a correction of it. That is, it is only because marketing was originally framed in terms of an activity that participates in the creation of utilities to be delivered to the customer, that a customer orientation is necessary. Stated alternatively, G-D logic views the firm and customer as separate (and operand) and thus marketers had to try to fix the logic by adopting a customer orientation philosophy. This customer orientation philosophy implies that value created by the firm must be determined valuable when used by the customer. This joint locus of value creation is, at best, redundant and, at worse, incoherent.

The service orientation of S-D logic makes the customer orientation unnecessary; its superordinate positioning of value-in-use in relation to value-in-exchange *inherently demands* a customer orientation. In S-D logic, there can be no other orientation.

Implies relationship marketing

As with the customer orientation, “service” makes S-D logic inherently relational. Not just coincidentally of course, the notion of relationship marketing originated with service marketing. As with the customer orientation, from a service perspective, relationship is not an option. Relationship in this sense does not merely mean repeat patronage; it means interactivity and collaboration (Gronroos 1994; Gummesson 1994). Service implies doing things with and for someone. It implies relieving and enabling them in the joint process of value creation. Thus, the service perspective compels the firm to consider a relational approach.

This relational and collaborative orientation does not just apply to the cocreation of the core offering. Potentially, it extends to the relational creation of the value-proposition, the communication, the pricing structure, and the brand. It also applies to the creation of value for the firm. That is, the service-for-service notion implies that the customer cocreates firm value. In S-D logic, service is the source of all value—service is exchanged for service. Firm value is, therefore, also an inherently relational concept.

Emphasizes the primary role of operand resources

Traditional concepts of value, including marketing’s role in its creation and distribution, point toward operand resources, the vessels of utility. With few exceptions, firm-value metrics are also based on operand resources. Service points firms to the superordination of operand resources, the resources necessary for the process of serving. Thus, knowledge and skills (i.e., competences) are primary resources that are not only seldom found on the balance sheet, but also often undervalued in the process of trying to improve the balance sheet.

In G-D logic, not only are these resources—employees—often undervalued, they are often under-cultivated, if not mistreated. That is, as directed by G-D logic, they are considered operand resources, and thus potentially viewed as replaceable and treated transactionally. By contrast, the service component of S-D logic points to all participants in the value-creation process as being operand resources. Thus, it implies that employees should be empowered in their value-creation role and considered the primal source of innovation, organizational knowledge, and firm value. It points to the role of the leader as that of a *servant-leader* who is there to serve the employees, rather than the employees serving the leader.

Likewise, in G-D logic and the traditional marketing management model related to it, customers are normally treated as operand resources. They are objects to be segmented, targeted, and manipulated through judicious maneuvering of the marketing mix. The service orientation of S-D logic requires that they be considered operand resources that are endogenous to the value-creation process. Arguably, it also makes them, along with employees, the central assets of the firm. This notion can be seen in the suggestion that customer equity is superordinate to brand equity (e.g., Rust et al. 2000), a notion that originated, as noted, not coincidentally, from service research.

Likewise, S-D logic points to value creation for the firm through operand resource enhancement for both its employees and its customers. That is, the cocreative nature of service directs the firm to increase employees’ operand resources—through continual education—to enable innovation and also to continually foster increased customer operand resources to enable them to take advantage of increasing value-creation opportunities through resource integration.

Motivates cross-functional integration

Further evidence that the G-D model was not working well was the explicit attention given to cross-functional integration in the development of the marketing concept (McKitterick 1957). The marketing concept advocated

that firm activities should be integrated around a marketing perspective with everyone in the firm becoming customer oriented. We argue that this prescription amounted to a fix, one intended to cure a flaw in the G-D paradigm. On the other hand, the framework of S-D logic, with its conceptualization of service as the application of resources for the benefit of another entity, points the firm toward active, collaborative problem solving (e.g., Sawhney 2006), not just externally with customers, value network partners and other stakeholders, but also internally within and across the various business functions, in the process of integrating firm resources to be used in service provision. Stated alternatively, to serve effectively (and efficiently) necessitates cross-functional and inter-organizational and network integration.

Service, as a unifying concept, also points the firm toward focusing on social and economic processes and cocreation of value. Vargo and Lusch (2004a) pay particular attention to the importance of social and economic processes in the development of the S-D logic of marketing. For example, we note that starting between 1980 and 2000 marketing was increasingly being viewed as a social and economic process. Most social and economic processes have no beginning and end but continue, as one process feeds into another process. Marketing, thus, is not something that occurs in a department of an organization, or something that is restricted to the other departments of the organization; it is something that bridges to other organizations, households, and other economic and social entities and, as we will discuss, becomes intertwined with all of society and thus encourages the study of macro-marketing systems.

Finally, the concept of service views value as cocreated, rather than produced in the factory. S-D logic's assertion that the firm can only make value propositions (Vargo and Lusch 2004a, 2006, this issue) informs the firm that the focus of its mission should be on a proposition to use its resources for specific kinds of human problems, needs, desires, and solutions rather than making things. These resources can not be restricted to one business function or department and thus, again, the concept of service encourages a cross-functional orientation.

Macro marketing and the societal role of marketing

The societal purpose of marketing and the meaning of societal well-being that is informed by a goods-centered model point us in at least two directions. G-D logic implies that value is created in the factory and through the marketing channel and thus societal well-being can be enhanced: (1) positively, through some derivative of Smith's (1776/1904) original notion that "producing" excess tangi-

ble goods for export increases national well-being (actually national wealth) or (2) negatively, through notions that marketing functions decrease societal well-being by excessively increasing costs (Stewart and Dewhurst 1939; Cox 1965).

Arguably, both of these conceptualizations are incomplete, if not inaccurate. The first points society in a questionable, a priori, normative direction: an emphasis on creating more and more operand resources, rather than creating higher-level operant resources. At a minimum, the G-D logic notion of societal well-being resulting from making and exporting more and more stuff is not in concert with contemporary notions of sustainability.

The second contention, that the costs of marketing are negative with respect to societal well-being, implies the normative goal of lower marketing costs which, likewise, may be questionable. If marketing functions and costs support a collaborative effort with customers and other entities in the value network to cocreate value, then why would one want to lower these costs, a priori? The real issue becomes not the division of costs and their allocation to different business functions but the total benefits or experiences the customer obtains in the use of a firm's offerings. *Efficiency* is important for firm well-being, but it should follow *effectiveness* in creating customer well-being in priority, rather than precede it.

This effectiveness criterion has of course not been ignored by either marketing academics or practitioners. But we argue that this attention has been more in spite of the underlying (G-D) logic through temporary overrides—for example the consumer orientation—than inherent in or a permanent repair of the underlying logic.

The service designation of S-D logic, on the other hand, defines value creation in terms of parties doing things for and with each other. Accordingly, marketing's role is the facilitation of this co-provisional service process. This service-driven, mutual-facilitation-of-exchange conceptualization is a far cry from marketing according to G-D logic and from the related, traditional marketing management model. Clearly, both the centrality of service in S-D logic, with all of its connotations, has implications for macro-marketing and societal well-being. This is because S-D logic can be a framework for: (1) value defining and creation in society, (2) resource expansion in society, (3) fostering sustainability, and (4) informing public policy.

Value creating and role defining

The G-D logic notion is that manufacturing is value creating and consumption is value destroying. Despite a century of academic attempts at justification for marketing being a value creator, it is often seen as a value destroyer by the enterprise, the customer, and society alike. However,

the interactive, cocreative service focus of S-D logic implies that “consumption” is an essential part of value creation (and vice versa) and that marketing is essential to value creation through facilitation of value cocreation.

Driven by its reciprocal service perspective, S-D logic implies that the customer is endogenous to both its own value-creation and that of the firm. Thus, it implies that the firm and the customer have a common mission and that marketing is a firm-wide, resource-linking function (rather than a functional division primarily concerned with value distribution).

However, at a societal level, S-D logic and its focus on value cocreation, not only with the customer but all entities in the value-creation network, performs an important macro-role. Although this role is not the fundamental purpose of marketing, it is an important positive externality or side effect of S-D logic. Essentially, the active focus on cocreative processes allows the intermediaries of goods, money, organizations and networks that entities use to exchange service for service to be more collaboratively created by the customer and all stakeholders. These intermediaries (goods, money, organizations and networks) are the means by which society attempts to enhance its social well-being. For the firm, it involves the central, essential function of service provision through resource linking and integration.

Resource expanding

Similarly, the value-creating implications of the service focus, given its operand resource foundation, also points toward possibilities for resource generation and expansion for society. That is, in Normann’s (2001) terms, the process of mutual service provision is enabling, at least net-enabling by allowing more efficient self-service. For example, as goods enable users to do things more easily for themselves, they also *relieve* them from some of the related activities, thus *enabling* them to develop additional operand resources—it is a Normannesque (e.g., Normann 2001) interpretation of specialization begets specialization.

Vargo and Lusch (2004a) stress the point that resources are not innately useful or beneficial; they have beneficial potential as a function of human appraisal and learning, and action. That is, operand resources can transform potential resources into useful resources. The growth of useful resources is generally thought to enhance societal well-being.

Likewise, operand resources can create other operand resources—for example through education and research. Consequently, the operand resource emphasis implied by the service designation has resource-expanding implications as compared to the resource-depleting implications of the operand-resource focus of G-D logic. That is, while operand

resources are depletable, operand resources can be renewed, replenished, and created. This suggests that firm, customer, and societal well-being can be viewed and/or designed to be complementary, rather than competing.

Fosters sustainability

There is perhaps no stronger, more contemporary, pervasive, stream-of-consciousness, shared focus in the business literature and in the general press, than issues of sustainability. Yet, G-D logic not only offers little positive prescriptive direction, but can be argued to be normatively negative (Abela and Murphy in this issue). That is, the implied G-D logic emphasis on the primacy of selling tangible units of output, points toward a continual stream of natural resources being incorporated into goods, which are ideally disposed of and replaced with some regularity. This make-sell-discard-rebuy emphasis is clearly contrary to most notions of sustainability and social responsibility. Likewise, the selling emphasis alone has raised issues of societal and ethical responsibility.

“Service” inherently implies different normative directions. By definition (at least S-D logic’s definition), service moves the emphasis away from operand resources, tangibility, units of output, ownership, and disposability to operand resources, intangible benefit, relationship, and responsiveness. While it does not inherently imply non-ownership, it does shift the emphasis to providing service flows rather than selling goods (Vargo and Lusch 2004a). The selling of service flows can foster sustainability because it focuses the firm on providing these flows while efficiently maintaining and recycling tangible operand resources. Thus, the firm will need to explicitly consider the lifecycle and/or total costs of tangible goods, rather than trying to maximize profit and/or cash flow by selling large quantities of tangible stuff, while ignoring the customer’s lifecycle and/or total costs of ownership.

Informs public policy

When marketing scholars conduct research on the public policy implications of marketing, they generally are not informed by marketing theories and concepts but, rather, by theories and concepts imported from other disciplines. In large part this is because marketing is grounded on a G-D logic foundation and G-D logic does not adequately inform public policy. On the other hand, the service-for-service focus of S-D logic is public policy informing (Lusch 2006).

Some of this direction is provided relatively directly in the foundational premises (Vargo and Lusch 2004a, 2006). For example, FP1, as restated by Vargo and Lusch (this issue) states “Service is the fundamental *basis* of exchange.” Since service is defined as the application

of specialized skill(s) and knowledge for the benefit of another party, this suggests that public policy should be directed toward the encouragement of enhancing and developing both the mix and level of skills and knowledge of the citizenry. FP3, “Goods are distribution mechanisms for service provision,” implies fairly directly that public policy should encourage (or at least not discourage) firms to sell service flows in lieu of tangible goods in order to motivate firms to consider the total systems costs, especially when the goods require scarce natural resources and/or their disposal results in environmental harm. FP4, “Operant resources are the fundamental source of competitive advantage,” implies that public policy should encourage competitive and legal systems that in turn encourage knowledge discovery and protect investment in that discovery process (c.f. Hunt 2000). FP7 says “The enterprise can not deliver value but can only make value propositions.” Coupled with FP 6, “The customer is always a co-creator of value,” these FPs suggest that public accounting of productivity and economic health should include metrics of the perceptions of value-in-use for both private and public-service offerings.

Other foundational premises have somewhat less direct implications. For example, FP2, “Indirect exchange masks the fundamental basis of exchange,” coupled with FP5, “All economies are service economies,” point (1) toward the need for rethinking most national accounting statistics (e.g., GDP) and employment categories and (2) toward the possibility of increased governmental incentives for innovation.

Concluding comments

Challenging the conventional wisdom and worldview is problematic, by the very nature of worldviews. In part this is because the words required for the challenge often are part of the lexicon of the paradigm being challenged and have nuanced connotations that emanate from that very paradigm. But those same words often have denotative meaning for which there is often no equivalent. We believe that this is the case for the term “service.” It is the correct term to capture the process of using resources to benefit some entity. Thus, its use to characterize a “new dominant logic” is based on a desire for precision more than a default to preference.

Ironically, service is a term used by Smith (1776/1904) to convey a meaning very similar to the way we intend as the designated focus of S-D logic. This was of course before his bifurcated detour toward development of a normative theory of national wealth creation based on making surplus tangible goods for export, which eventually

led to G-D logic. In a real sense then, a turn to service as a central concept of exchange is a return to a more foundational, positive, economic philosophy than the normative one employed in the development of economic science (Vargo 2007). In fact, as discussed, calls for the recognition of the role of service can be heard throughout the development of economics (see Delaunay and Gadrey 1992; Vargo and Morgan 2005). Therefore, rather than S-D logic attaching new meaning to service, as some have argued, it actually recaptures an old meaning and amplifies the call for understanding its centrality in economic and social exchange.

We believe that service is a simple, yet powerful and multifaceted construct and that it is the correct designation, not only to characterize emerging and converging marketing thought, but also to accurately inform and motivate the associated research, practice, and public policy. Therein lies the answer to “why service?” It is in its precision and its power to inform and stimulate the evolution of marketing thought and practice.

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