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## Industrial Marketing Management



## It's all B2B...and beyond: Toward a systems perspective of the market

Stephen L. Vargo<sup>a,\*</sup>, Robert F. Lusch<sup>b</sup><sup>a</sup> University of Hawai'i at Manoa, Honolulu, Hawaii, USA<sup>b</sup> University of Arizona, Tucson, AZ 85719-5224, USA

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## ABSTRACT

The delineation of B2B from 'mainstream' marketing reflects the limitations of the traditional, goods-dominant (G-D) model of exchange and a conceptualization of value creation based on the 'producer' versus 'consumer' divide. Service-dominant (S-D) logic broadens the perspective of exchange and value creation and implies that all social and economic actors engaged in exchange (e.g., firms, customers, etc.) are service-providing, value-creating enterprises; thus, in this sense, all exchange can be considered B2B. From this perspective, the contributions of B2B marketing (and other sub-disciplines) can be seen as applicable to 'mainstream' marketing. This generic, actor-to-actor (A2A) orientation, in turn, points toward a dynamic, networked and systems orientation to value creation. This article discusses this systems-oriented framework and elaborates the steps necessary for developing it further into a general theory of the market, informed by the marketing sub-disciplines, marketing practices, and disciplines external to marketing.

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## 1. Introduction

A state arises, as I conceive, out of the needs of mankind; no one is self-sufficing, but all of us have many wants.... Then, as we have many wants ... and many persons are needed to supply them, one takes a helper for one purpose and another for another; and when these parties and helpers are gathered together in one habitation, the body of inhabitants is termed a state. And they exchange with one another, and one gives and another receives under the idea that exchange will be for their good.

As the global, networked economy becomes more pervasive and its nature more compelling, it is (should be) becoming increasingly clear that we rely on one another through the voluntary exchange of applied skills and competences (Vargo & Lusch, 2004, 2008a). Consequently, one might think that the above quotation is contemporary; it is, however, from Plato's *The Republic* (360 BCE/1930), published over 2000 years ago.

Despite a globally interdependent world, the simple truth behind Plato's words often seems to be missed: we are all similarly human beings serving each other, through exchange, for mutual wellbeing. Perhaps his statement therefore punctuates our (Vargo & Lusch, 2004, 2008a; see also Vargo, 2007) contention that it is important to develop a logic of and for the market (and society) and marketing that

transcends time, geography, and the sometimes myopic conceptualizations of academic silos. It was in the spirit of this contention that we previously used a 'linguistic telescope' to zoom out to a broader, more transcending view of economic exchange and suggested (Vargo & Lusch, 2008b) "It's all B2B."

Since our early collaborative work on what has become known as service-dominant (S-D) logic, we have tried to nudge marketing thought away from fragmentation and toward a more unified theoretical conceptualization and framework. A first step was to suggest *transcending the 'goods' verses 'services' divide* with *'it is all about service.'* More specifically and more recently, we recognized a need to overcome (mis)conceptual problems associated with the notion of a 'producer,' as a creator of value, versus a 'consumer,' as a destroyer of value, and have reflected this in one of the newer central tenets of S-D logic: *all social and economic actors are resource integrators* (Vargo & Lusch, 2008a – as captured in foundational premise (FP) 9). That is, all parties (e.g. businesses, individual customers, households, etc.) engaged in economic exchange are similarly, resource-integrating, service-providing enterprises that have the common purpose of value (co)creation – what we mean by *"it is all B2B."*

We initially picked 'B' because, given the most commonly used designations of 'B' (business) and 'C' (consumer), economic (and social) actors come closest generically to what is captured by 'business,' rather than 'consumer.' Stated alternatively, a business is thought of as enterprising, a characterization that we find also more fully captures the activities of those with whom they exchange, than is implied by 'consumer' – which has rather passive, final connotations of a 'target' with a primary activity of using stuff up, rather than creating and contributing. Additionally, B2B scholars have been

\* Corresponding author. Tel.: +1 808 956 8167.

E-mail addresses: svargo@hawaii.edu (S.L. Vargo), rlusch@eller.arizona.edu (R.F. Lusch).

among those at the forefront in the conceptualization of generic 'actors' involved in value-creation processes.

However, we now intend to zoom out even more with our linguistic telescope and use perhaps a more abstract designation such as 'actor-to-actor' (A2A) (see Vargo, 2009), which Evert Gummesson also has recently indicated to us that he is adopting, and is consistent with our adoption of the generic term 'actor' (e.g. Vargo & Lusch, 2008a, FP9) in our writings, as well as the convention of most Industrial Marketing and Purchasing (IMP) Group scholars (e.g. Håkansson & Snehota, 1995). Interestingly, it is also consistent with Bagozzi (1974) who, in writing about marketing as an organized behavioral system of exchange, defined the exchange system as a "set of social actors, their relationships to each other, and the endogenous and exogenous variables affecting the behavior of the social actors in those relationships" (p. 78).

The A2A designation, taken together with another of S-D logic's tenets – value is always co-created (Vargo & Lusch, 2004, FP6) – point away from the fallacy of the conceptualization of the linear, sequential creation, flow, and destruction of value and toward the existence of a much more complex and dynamic system of actors that relationally co-create value and, at the same time, jointly provide the context through which 'value' gains its collective and individual assessment (Giddens, 1984, p. 25; Slater, 2002, P. 60). That is, they point beyond an anything-to-anything perspective to a systems orientation. A systems orientation is important to both academics and practitioners because it has different implications for understanding and applying principles of value co-creation, as is particularly essential in an increasingly interconnected, and thus increasingly dynamic, world. There is perhaps a certain irony in this position; it implies that we must move toward a more macro, systemic view of generic actors in order to see more clearly how a single, specific actor (e.g. a firm) can participate more effectively.

Our purpose here is partly to elaborate further the claim that it is all A2A (or B2B) – that is, at an appropriate level of abstraction, all actors are fundamentally doing the same things, co-creating value through resource integration and service provision. But, perhaps more important, it is also our purpose to point toward what becomes possible once we have normalized the actors: (1) cross-fertilization among what have been seen as fragmented sub-disciplines and (2) a better vision of the collaborative, systemic nature of value creation and the implications for marketing theory and practice.

To accomplish these purposes, we first establish the historical roots of the producer–consumer characterization and briefly explore the role of B2B and other sub-disciplinary scholars in shifting the focus toward a more complex and relational model of value creation. We then outline an S-D logic conceptualization of value creation and its implications for not only a network-based model, but also a systemic model. We then briefly discuss how practice can inform marketing theory and why a practice-informed and S-D-logic-based understanding of markets and marketing, that integrates sub-disciplinary knowledge, might provide better insights into the practice of marketing.

## 2. The producer–consumer divide

It is difficult to pinpoint the origin of the business-versus-consumer (producer–consumer) distinction. Undoubtedly, it has practical roots in the development of indirect exchange. That is, initially, when exchange was direct through barter, the producer–consumer distinction was trivial, if not nonexistent, since each party was clearly doing something for the other (i.e. 'producing') and benefiting from having something done for them (i.e. 'consuming'). However, once a monetary system was created and economic organization (i.e. 'business firm') separated from households, more and more exchange began to take place indirectly (e.g. through intermediaries, such as merchants) and, as a result, the symmetry of

the roles became blurred. Now one party ('producer') did something for another party ('consumer') relatively directly, while the latter provided indirect benefit (money) obtained by providing direct benefit to a third party. As the economy became 'industrialized' this usually meant that this direct benefit to a third party was provided through an individual household member opting to work exogenously to the home, for a business, in return for monetary wages which then were used to participate in the market. Thus, the parties appeared to be playing different roles, though each was providing and receiving benefit, albeit, not necessarily directly. We capture this in another tenet of S-D logic: indirect exchange masks the fundamental basis of exchange (Vargo & Lusch, 2004, FP2).

More academically, the term 'produce' had a rather specific meaning that could be contrasted with consumption in the context of agricultural activity. This meaning became abstracted in the discussion of the activities that contributed directly to national wellbeing, perhaps most notably by the Physiocrats (Gilbert, 1987, p. 990) in the 18th Century. As discussion turned toward industrial activity during the Industrial Revolution, this distinction continued, in part because the indirect nature of exchange accelerated during this period as the beneficiaries and direct contributors of an exchange became even more separated.

Smith (1776/1904) used the terms 'producer' and 'consumer' but, for the most part, rather casually, in making the point that consumption was the sole purpose of production. But for Smith, the relationship between these two abstracted parties in the 'division of labor' was more of a circular one, as might be associated with bartered exchange. That is, producers and consumers were not seen as characteristically different kinds of actors with a unidirectional relationship but rather as representing the joint characterizations of all parties involved in exchange relationships (Gilbert, 1987, p. 991) – in other words, all are, at the same time, 'producers' and 'consumers.' By implication, producers and consumers were distinguishable only from the limited perspective of a respective party for a particular benefit provided and obtained through the division of 'labor.'

Smith did, however, play a pivotal role in establishing the producer–consumer divide by attaching a very specific meaning to 'productive' (and thus to 'producer,' though perhaps inadvertently). Generally in line with the Physiocratic focus on national wellbeing, he recognized 'productive' activities as those that contributed to the creation of surplus tangible goods that could be exported. This meaning of 'productive' was carried forward, albeit reluctantly, by the economic philosophers that followed (Vargo & Morgan, 2005), thus contributing not only to the producer–consumer divide, but also to the traditional, goods-dominant (G-D) paradigm of exchange.

The producer–consumer divide became more pronounced in the work of the economic scientists. It is evident in Walras (1926/1954) conceptualization of 'producer services' and 'consumer services' and was foundational, if not essential, to the development of a neoclassical economic theory based on the equilibrium of supply and demand moderated by price. It was this neoclassical model that characterized economic thought at the beginning of the 20th Century as academic marketing emerged from it (Vargo & Morgan, 2005) – a model represented by the good (product), embedded with value, as the focus of economic exchange – what we (Vargo & Lusch, 2008a) have referred to as G-D logic.

In terms of formal marketing thought, it is similarly difficult to pinpoint the origin of the business-versus-consumer distinction. The early textbooks in B2B, published under the rubric of industrial marketing, appeared in the early 1930s. Copeland (1930) published a case book and Frederick (1934) published a textbook on industrial marketing during this decade. However, B2B teaching and scholarship remained relatively dormant for a long period. It was not until 1957 that the first course in industrial marketing was developed at the Harvard Business School by Ray Corey, who five years later, published *Industrial Marketing: Cases and Concepts* (Corey, 1962). A little more

than a decade later *Industrial Marketing Management* was launched in 1972 as an outlet for publishing scholarly work in the B2B sub-discipline. Relatively recently, Reid and Plank (2000) published a very comprehensive 175 page review of the B2B marketing literature including nearly 2200 articles and pronounced that B2B had come of age.

We have suggested elsewhere (Vargo & Lusch, 2008b) that the impetus for the beginning of the industrial- or business-marketing sub-discipline was not so much attributable to B2B phenomena being different from that of mainstream marketing as it was that the model underlying the latter was inadequate (see also Cova & Salle, 2008), if not flawed — perhaps most notably in the idea of one party producing value and another consuming it. By definition, in the B2B domain, of course, there is no (endogenous) 'consumer'.

It is important to note that we are not suggesting that nothing like consumption exists; it is just that it is neither unique to 'consumers,' nor 'final.' Clearly, energy sources, such as food and electricity can be thought of as consumed, but even this is not any more characteristic of what we have called the consumer than of what we have called business (the producer). Furthermore, even in this 'consumption' event, what is more generally descriptively taking place is the integration of certain types of resources (e.g. proteins, carbohydrates, hydrocarbons, etc.) with other available resources to create useable ('consumable') forms of energy by an actor (individual organism, family, firm, etc.), which, in turn, provides ('produces') input to the value-creation activities of other actors, ad infinitum. Early forms of this (dual) flow model of 'productivity' date back at least as far as Physiocratic thought in the mid 18th Century (Kuczynski & Meek, 1972), even as they were extolling the virtues of agricultural 'produce.' The model also resonates well with the opening citation of this article by Plato (360 BCE/1930).

Nonetheless, the first task in academic B2B marketing was to attempt to identify the characteristic differences between it and B2C (derived demand, professional buyers, product categories, etc.). It is noteworthy that, since that time, the validity of the characteristics have been challenged on numerous occasions (e.g. Fern & Brown, 1984; Cova & Salle, 2008), as has the divide in general (e.g., Gummesson & Polese, 2009; Dant & Brown, 2008), yet they persist. As we have found repeatedly in our development of S-D logic, it is difficult to escape a language and linguistic structure that has been so heavily influenced by G-D logic.

Subsequent to this early period of demarcation, B2B scholarship turned toward more substantive conceptual development and theory building; much of this work has migrated to mainstream marketing, replacing more traditional concepts that were often limited to 'consumer' marketing. Of particular note is the interactive, network orientation introduced by the IMP group (e.g. Håkansson & Snehota, 1995), which began to replace the dyadic perspective. Likewise, interactivity and relationship (e.g. Gummesson, 2006) began to supersede the one-way flow models and to supplant the model of one entity acting on the other (Ulaga & Eggert, 2006; see also Ballantyne & Varey, 2008). Perhaps most directly, similar to the stance we take here, is the emergence of economic-actor-to-economic-actor perspective (e.g. Håkansson & Prenekert, 2004), replacing (at least partially) the producer–consumer perspective.

Business-marketing scholars have also been at the forefront of the shift from understanding exchange in terms of products to concepts of value (e.g., Moller, 2006; Lindgreen & Wynstra, 2005; Ulaga, 2003) and extending the sources of value creation to relationships and networks (e.g., Moller & Torronen, 2003; Kothandaraman & Wilson, 2001; Tuli, Kohli, & Bharadwaj, 2007). In brief, much of the B2B literature has contributed significantly to mainstream marketing thought (see Wind, 2006) because it became clear that its findings and frameworks were applicable to all of marketing, rather than to just a subset. Thus, our contention that it is all B2B is a suggestion that it was the B2C model that was flawed.

## 2.1. Fractal subdivision and convergence

In Vargo and Lusch (2008b), we noted the similarity in this B2B developmental pattern and that of service marketing (and other areas of inquiry) as a sub-discipline — first, a delineation of the domain by contradistinction from the focus of traditional phenomena (and models) studied in marketing, followed by more positive conceptual development and theory building that later migrated to mainstream marketing. Examples can be found in exchange being conceptualized in terms of relationships rather than transactions (Berry, 1983) and quality conceptualized in terms of customer perceptions rather than engineering standards (e.g., Grönroos, 1983). There are numerous others.

We (Vargo & Lusch, 2008b) have suggested that this similarity was not mere coincidence but rather a reflection of the inadequacies of G-D logic, perhaps amplified in the producer–consumer divide. Arguably, this has led to a sub-disciplinary driven fragmentation in marketing thought, based on what have been considered distinctive qualities about rather specific, contextual aspects of the economy and exchange systems. As such, separate and somewhat distinct bodies of thought developed around international marketing, retail marketing, industrial or B2B marketing, services marketing, not-for-profit marketing, societal marketing, and entrepreneurial marketing and has been moving marketing increasingly away from building a unified body of theory and thought about markets, upon which (applied) marketing science could then be built.

However, as we have also noted, the advances from this activity also seem to be resulting in a stealthy reconstruction of the core, traditional, G-D logic framework of marketing and that the convergence of these and other, non-marketing, academic activities is pointing toward the revised framework that we call S-D logic. Thus, while the business disciplines, including marketing and its sub-disciplines, should generally be proud of the focused gains they have made in their areas of scientific investigation, it is time to look more broadly for *commonalities* in what we have learned, rather than the *differences*, as well as the *systemic interplay* of actors in an interrelated system of reciprocal service provision. This convergence and zooming out, in conjunction with getting rid of the producer–consumer distinction, allows us to explore possibilities of cross-fertilization in concepts, models, and theories.

## 3. Islands and bridges

Understanding value creation from an S-D logic viewpoint encourages a wider perspective than is typically found in the mainstream marketing literature (Vargo, 2009). It brings into view not only focal actors — the focal service provider (e.g., firm) and beneficiary (e.g., customer) — but also the context — the networks of resources and resource-providing actors — available to these actors. Fortunately, the great, ongoing work in studying these actors, in various combinations, provides a rich knowledge base for exploring the broader perspective as a whole.

The firm of course has been the traditional focus of the marketing management model (e.g., Kotler, 1967; see Webster, 1992) that has represented mainstream marketing thought for the last 50 years or so. The firm's interaction with other firms has been the focus of B2B marketing, as discussed.

The view of an 'extended firm,' as an interlinked behavioral and economic system comprising suppliers, distributors, facilitating agencies and customers, under the general rubric of marketing channels, has a long tradition that began to grow rapidly in the 1960s (Mallen, 1967; Stern, 1969) and became more dominant in the 1970s (Bucklin, 1970; Little, 1970; Walters, 1974; Stern & El-Ansary, 1977), and then fell out of favor in the 1980s and was replaced by the supply chain concept in the 1990s. However, even before the advent of the term marketing channels, the term distribution channel was

prevalent. An important part of the distribution channel is the performance of the warehousing and transportation function, which traditionally was known as business logistics and grew out of the quantification of inventory and transportation decisions in the 1950s. By the 1970s business logistics became known as integrated logistics management and began to include customer service (LaLonde & Zinszer, 1976). By the 1980s, integrated business logistics became heavily influenced by information technology. Thus, in the 1990s supply chain management (SCM) was born to deal with the flow of materials and information both within and across firms and the use of information technology became a central feature (Tayur, Ganeshan, & Magazine, 1999; Mentzer, 2001). During this period, both marketing channels and supply chains began to be viewed as 'value networks' and 'constellations' (Bovet & Martha, 2000; Normann & Ramirez, 1993). Overlapping this work, the B2B sub-discipline has taken a broader, more holistic approach, perhaps particularly in the network, interactive orientation of the IMP group (e.g. Håkansson & Snehota, 1995).

The customer has been the focus of consumer behavior (e.g., Howard & Sheth, 1969), albeit, arguably, often from a rather firm-centric perspective. Understanding firm-customer interaction has been a more recent focus, largely centered first in service marketing (Berry & Parasuraman, 1993), and then relationship marketing, which grew almost simultaneously from both service marketing and B2B marketing (e.g. Berry, 1983; Gummesson, 1994; Sheth & Parvatiyar, 2000) and the self-service literature (e.g., Meuter, Ostrom, Roundtree, & Bitner, 2000) (see also Vargo, 2009 for a more detailed discussion). Further on the other ("consumer") side of the divide, a loose amalgam of consumer culture theorists (CCT) have looked beyond the customer's buying decision and interaction with the firm to the customer's context by focusing on the customers' network, including the broader marketplace and culture, and their interplay in creating experience, meaning, and action (Arnould & Thompson, 2005).

Recently, there has been increased attention to bridging this divide. Notable work in this area is represented by Cova and Salle (2008) who discredit the divide directly, Gummesson (2006) in his conceptualization of many-to-many marketing, and Layton (e.g., 2007) in his study of marketing systems. Prahalad and Ramaswamy (2003) have focused attention on creating customer experiences through innovative approaches to value co-creation, supported by company networks and customer communities. Related work can be found in the brand-community literature (e.g. Muniz & O'Guinn, 2001; Schau, Muniz, & Arnould, 2009; see also Merz, He, & Vargo, 2009) and the stakeholder literature (e.g. Donaldson & Preston, 1995; see also Payne, Ballantyne, & Christopher, 2005), and an even broader perspective in the ethics (e.g. Abela & Murphy, 2008) and sustainability literature. There are endless other examples of pockets of relevant activity. The purpose here is not to be exhaustive but rather to briefly survey the rich landscape of sources for cross-fertilization once producers, firms, consumers, suppliers, distributors, stakeholders, etc. are *all seen as resource-integrating, service-providing enterprises*.

Much progress can be made rather quickly by the cross-fertilization implied in an A2A orientation. That is, in an A2A world, the insights into context, language, meaning, signs, symbols, experiences, rituals, etc. apply not just to what has traditionally been thought of as the 'consumers' world but equally to the 'producers.' Likewise, what has been learned about relationship, partnering, networks, and value, as studied in B2B, apply to the consumers' network. Much of this cross-fertilization has already begun.

As many of the scholars working in these various bridging activities imply, if not explicitly note, bridging the divide requires more than juxtaposing the pertinent literature from the various sub-disciplines and related research streams and schools of thought. As noted, we believe that it requires a common denominator and a transcending and unifying logic. For the last 100 years, marketing

academics have tried to use an abstracted notion of a *product* (tangible or intangible) and its related logic as *the common denominator*. But products represent temporal cross-sections in more complex and timeless value-creation networks that make up the market and society as a whole (see Vargo, 2009). Products are legally (i.e. institutionally) definable units of output that can be used in transactions because they provide "thin crossing points" (Baldwin, 2008) in complex, value-co-creating networks of interacting actors.

In our view, and apparently that of a growing number of scholars, the concept of *service*, at least as we define it (see below), can provide the *necessary common denominator*. It identifies the reason that we have interaction in society – service-for-service exchange – and its corollary, *value* (i.e., benefit) (*co*)*creation*, is the glue (common goals of survivability and wellbeing) that holds social units (including economic units) and society in general together. That is, *society is the result of the necessity of mutual value creation through mutual service provision*, as implied by Plato (360 BCE/1930).

#### 4. S-D logic perspective, networks, and service systems

The central concept in S-D logic is that *service* – the application of resources for the benefit of another party – is exchanged for service (Vargo & Lusch, 2004, FP1). This view implies the central role of resources. Broadly, resources are of two types: *operand*, those that require some action to be performed on them to have value (e.g. natural resources) and *operant*, those that can be used to act (e.g. human skills and knowledge). Service provision implies the ongoing combination of resources, through integration, and their application, driven by operant resources – the activities of actors.

Integrable resources are obtained from *private* sources (e.g., self, friends, family), *market-facing* sources (i.e., from other entities, through barter or economic exchange), or from *public* sources (i.e. collective access from communal and governmental sources), or, most likely, through the service provision of all of these, often simultaneously. Every economic actor then is a resource integrator (Vargo & Lusch, 2008a, FP9). We argue that these complimentary, reciprocal, generic *roles of resource integration and service provision transcend the 'producer-consumer' divide* or, more specifically render it meaningless. The common denominator for all of these actors is that resource integration provides opportunities for the creation of new potential resources that can be used, through service exchange, to access additional resources, and thus to create new, exchangeable resources through integration.

As we note in Vargo and Lusch (2004); resources are not: they become. The usefulness of any particular potential resource from one source is moderated by the availability of other potential resources from the other sources, the removal of resistances to resource utilization, and the beneficiary's ability to integrate them. That is, the whole idea of potential resources becoming realized is *contextual* and each context is unique. In S-D logic (Vargo & Lusch, 2008a), this is more generally captured in FP10: value is always uniquely and phenomenologically determined by the beneficiary.

In all cases, the beneficial party plays some role in the integrative, value-creation process. Thus, assuming there is no true self-sufficiency, as Plato and many others have argued, value is always co-created (FP6). It follows, as noted, that the beneficiary is a resource integrator but so are all of the external service providers, each creating its own service-providing resources through its own resource-integrating activities. If new resources are created in the process of service exchange, so is the context, including the network of other available resources (Giddens, 1984).

##### 4.1. Service ecosystems

As much as the idea of resource networks contribute to the understanding of value creation and context, its consideration

sometimes lacks a critical characteristic of systems, which are dynamic and potentially self-adjusting and thus simultaneously functioning and reconfiguring themselves. That is, each instance of resource integration, service provision, and value creation, changes the nature of the system to some degree and thus the context for the next iteration and determination of value creation. Networks are not just networks (aggregations of relationships); they are dynamic systems.

Dynamic-system thinking is not new to marketing thought (see Alderson, 1957; Cox, 1965; Dixon & Wilkinson, 1982; Jaworski, Kohli, & Sahay, 2000; Layton, 2007). However, S-D logic, with its focus away from optimization to learning in a dynamic, changing environment, points toward a need to think about value creation taking place in and central to the emergence and evolution of service ecosystems. A *service ecosystem* is a spontaneously sensing and responding spatial and temporal structure of largely loosely coupled, value-proposing social and economic actors interacting through institutions, technology, and language to (1) co-produce service offerings, (2) engage in mutual service provision, and (3) co-create value. This definition requires some de-compacting and this can be done by recognizing eight key components of the definition (Lusch, Vargo, & Tanniru, 2010).

- a. Spontaneously sensing and responding. Actors interface with other actors and use their senses to determine how and when to respond or act. With the ascendance of information technology the sensing and responding is more and more spontaneous.
- b. Spatial and temporal structure. Actors and resources are arrayed over geographic space and temporal dimensions.
- c. Largely loosely coupled. Actors connect to others both within and outside organizations mostly via soft contracts versus hard contracts.
- d. Value proposing actors. Actors cannot create value for other actors but can make offers that have potential value and this occurs via value propositions.
- e. Use of language, symbols, institutions and technology. To interface successfully, actors need a common language. They rely upon these and other social institutions (e.g. monetary systems, laws, etc.) to regulate interfacing and exchange. Finally, technology and especially innovation drives system evolution and performance.
- f. Co-produce service offerings. Actors invite other actors to assist in the production of service offerings.
- g. Engaging in mutual service provision. Actors do not get a free ride but must help other actors, via service exchange, either directly or indirectly (e.g. monetarily or generalized reciprocity).
- h. Co-creating value. Actors, in the integration of service offerings with other resources (including other service offerings), create value which is unique to their situation and context.

#### 4.2. Toward service (eco)systems thinking

Fortunately, as noted, there has been a significant amount of activity in business and social scholarship that can contribute in various ways to thinking about markets as systems, as implied by S-D logic. Not so recent, but nonetheless very important, is the pioneering work of Alderson (1957) in his functionalist approach, a close cousin to the general systems theoretical approach in the mid 20th Century. More recent, and perhaps most apparent, is Layton's (e.g., 2007) work on marketing systems, as noted. Both have been approached by what might be considered something like a G-D logic framework but both are easily portable to, and arguably enriched by and enriching of an S-D logic orientation.

Clearly, the scholarly activity with the most potential for development of a systems approach to understanding the market and application for marketing is that associated with IBM's effort to create a science of service — service science, which “combines

organization and human understanding with business and technological understanding to categorize and explain the many types of service systems that exist as well as how service systems interact and evolve to co-create value” (Maglio & Spohrer, 2008, p. 18). For service science, the basic unit of analysis is the *service system*: “[a] value co-creation configuration of people, technology, value propositions connecting internal and external service systems and shared information” (p. 18). These dynamic network structures are conceptualized as “open system[s]”: “(1) capable of improving the state of another system through sharing or applying its resources...and (2) capable of improving its own state by acquiring external resources” (Spohrer, Vargo, Caswell, & Maglio, 2008, p. 7). Ng, Maull, and Yip (2009) have recently explored some systems-thinking implications of an S-D logic and service-science orientation.

The connection to what we call a service ecosystem should be fairly obvious. Perhaps it is noteworthy, that Maglio and Spohrer (2008; see also Spohrer et al., 2008) have suggested that S-D logic is foundational to the development of service science. Service science has the potential to provide an organizing umbrella under which all of the business-as-systems work could be organized. Lusch, Vargo, and Wessels (2008) show how the lexicon of S-D logic can be the foundational lexicon for service science.

There are other perhaps less obvious but very significant streams of research that lend themselves to systems thinking. The practices/performance literature (e.g. Kjellberg & Helgesson, 2007) in marketing has been breaking new ground by characterizing markets as functions of the dynamic activities of parties engaged in exchange, representational (e.g. conceptualization) and institutional (e.g., norms and laws) activities and the constant, evolving translation among these activities. While only loosely tied to S-D logic, the framework appears useful for informing a resource integration, service-for-service orientation of the market, and recasts it in terms of a dynamic system. This research stream also has clear ties to and provides mechanisms for importing work from economic sociology, such as the structuration-theory work of Giddens (1984), which begins to shed light on the both the performative and contextual nature of markets, as does the work of Slater (2002). The work of the new institutional economists (e.g., North, 2005) and that of the inframarginal economists (e.g. Yang, Cheng, Shi, & Tombazos, 2005), which has at its core the circular-exchange notions of Smith (1776/1904), rather than the production-consumption model that emerged from it, also seem important here.

Likewise, the effectuation theory work of Sarasvathy (2008) and her colleagues provides further insights into the iterative nature of market creation through adaptive trial and error that is necessitated by the uncertain, systemic nature of market creation. Importantly, it draws on S-D logic for its foundational conceptualization (Read, Dew, Sarasvathy, Song, & Wiltbank, 2009). Perhaps even more significant, effectuation theory connects marketing directly (though not uniquely) with the work of Simon's (1996) *Sciences of the Artificial*, especially given his direct participation in the former (Sarasvathy & Simon, 2000).

Simon's work, along with others', is of course also foundational to new institutional economics (Menard & Shirley, 2005; Williamson, 2000), which, as noted, has been providing increasingly important insights into the human-created “rules of the game” that are the context of the market. Additional insights are available from economic sociology and the sociology of the market (e.g. Callon, 1998; Granovetter, 1973; Slater, 2002). All of these streams of research provide potential positive and normative insight into systemic behaviors under conditions of the ubiquitous uncertainty that characterizes the market.

Finally, almost all of these streams have ties to complexity theory (Arthur, Durlauf, & Lane, 1997), which lends itself to a whole host of systemic insights, including value as an emergent property, emergent structures, and fractal patterns. The bottom line is that, once we have

made the actors generic (i.e., all As, Bs, or Cs) and have zoomed out to see the networked and systemic nature of their interaction that is the market, we can draw on our understanding of the nature of value creation through systemic, networked, service exchange relationships from all of the marketing sub-disciplines, as well as often untapped streams of research outside of marketing.

## 5. Concluding remarks: from premises to practices to practice

How should we proceed from the tenets of S-D logic to developing a systems perspective of the market that can ultimately inform practice and public policy? The first task is perhaps to exercise patience. As we (Vargo, 2007; Vargo & Lusch, 2008a) and others (e.g. Venkatesh, Penalzoza, & Firat, 2006) have suggested, what is needed is a theory of the market, one that perhaps better emulates the dynamics of 'real-world' events and processes and can thus provide better normative insights. As indicated, we think the appropriate perceptual lens for that theory of the market is one of value co-creation through mutual service provision, made possible by resource integration — what we call S-D logic. But it is important to note once more that S-D logic is not so much an academic invention as it is an organic, academic evolution, representing the convergence and extension of work going on in the sometimes stealthy enclaves of marketing and elsewhere.

Service science is one of those 'elsewhere' formulations; one which could serve as a general approach to theory building, if it stays focused on a goal of building a basic science of service systems. In the meantime, even though we are cautious about moving too quickly to application, just the shift to an S-D logic lens points to possibilities for action. Core concepts like service, service-for-service, value co-creation, value propositions, resource integration, relationship, experience, etc. imply an approach to the market that is fundamentally different from that suggested by production, targeting, positioning, distribution, transaction, consumption, etc.

The next step is respecifying the units and processes of analysis — the initial focus of this article. The basic notion is that the entities that are involved in a dynamic, reciprocal market activity do not fit neatly into categorical roles with different motives, needs, and desires. The CEO of a firm, the head of a household, a carpooling parent, an individual grocery shopper, a politician, etc. are not fundamentally different kinds of entities; they are all just people going about the business of their daily lives, and trying to improve them. Often, quite literally, they are the same person. A firm, a neighborhood, a subculture, and a political unit are similarly collectives of these same people, created by them to provide necessary structures for carrying out their activities. These structures connect actors and provide their context and become actors themselves.

We have already suggested that we think these should be viewed as actors, generically engaged in service-for-service processes. In the service-science framework, they are service systems. Resource integration and application are the bases for this service provision. This view points us toward understanding the commonalities of the activities of actors that constitute the market(s). Giddens (1984) calls these activities "practices," as do Kjellberg and Helgesson (2007). These practices both create and are constrained by the structures that represent their contexts — "structuration" in Giddens' terms.

The next step is perhaps drawing on our vast, disparate knowledge about aspects of the market, looking for additional transcending concepts, and reframing what we know in terms of generic actors — that is, continuing to search for the commonalities, rather than the differences in what we know. The study of B2B markets and marketing over the last several decades has resulted in approximately 3000 (English-language) scholarly articles that have yielded some very important insights and conceptual and theoretical contributions to mainstream marketing thought, much of it foundational to S-D logic and, more importantly, to marketing knowledge in general. We have

argued the same is true of the sub-discipline of service marketing (Vargo & Lusch, 2004, 2008a) and we contend that something similar is the situation with other sub-disciplines, such as international marketing, product development and innovation, marketing channels, relationship marketing, etc. As we have suggested previously, these marketing sub-disciplines largely developed in response to an inadequate or flawed G-D logic, based heavily on the neoclassical model of equilibrium economics, which has been unable to explain many marketing phenomena.

It is important that we are clear that we are not advocating replacing what we know (or think we know), at least not on an a priori basis; rather, we are advocating trying to organize it through a common set of concepts and a common framework, albeit one that will have to be recursively (re)constructed in the process. Our expectation is that much of what is considered mainstream marketing will continue to be important; it will just be transcended by a more encompassing science of the market.

The 'final' step is to use this science of the market to inform the practice of marketing. It of course is not a final step at all but rather an iterative one in which informed practitioners (our generic actors in all of their contextual roles), in turn, inform a science of the market, ad infinitum. In a very real sense, the practice of science, the practice of marketing, and the practices of creating and participating in markets are all fractally the same; recursively conceptualizing, normatively informing, and acting (cf. Kjellberg & Helgesson, 2007) in a never-ending, collaborative process of value co-creation that is the (multi-leveled) "State" about which Plato was speaking. However, we contend that seeing clearly this begins with understanding that "it is all B2B."

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**Robert F. Lusch** holds a Ph.D. from the University of Wisconsin-Madison. He is currently the Lisle & Roslyn Professor of Marketing and Marketing Department Head at the Eller College of Management at the University of Arizona. Previously he served as Dean of the M. J. Neeley School of Business at Texas Christian University and Dean of the Michael F. Price College of Business at the University of Oklahoma. In addition, he is a previous editor of the *Journal of Marketing* and Chairperson of the American Marketing Association. Professor Lusch has expertise and continuing research interests in retail strategy, service marketing, and marketing theory and substantial consulting experience in retailing. He is a two-time winner of the AMA Harold Maynard Award for theoretical contributions in marketing published in the *Journal of Marketing* in 1996 and 2004. An author of over one-hundred scholarly articles and eighteen books, his current focus is on developing a service-dominant logic of marketing and on the development and use of agent based modeling to understand service ecosystems.

**Stephen L. Vargo** is a Shidler Distinguished Professor and Professor of Marketing at the University of Hawai'i at Manoa. His primary research areas are marketing theory and thought and consumers' evaluative reference scales. He has had articles published in the *Journal of Marketing*, the *Journal of the Academy of Marketing Science*, the *Journal of Service Research*, and other major marketing journals. He serves on six editorial review boards, including the *Journal of Marketing*, *Journal of the Academy of Marketing Science*, and the *Journal of Service Research*. Professor Vargo has been awarded the *Best Article of the Year Award* by the Australia and New Zealand Marketing Academy and the *Harold H. Maynard Award* by the American Marketing Association for "significant contribution to marketing theory and thought." His 2004 article with Robert Lusch in the *Journal of Marketing*, "Evolving to a New Dominant Logic for Marketing," is the most-cited marketing article published in the last 10 years.