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## **SERVICE-DOMINANT LOGIC AS A FOUNDATION FOR A GENERAL THEORY**

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### **INTRODUCTION**

The quest for a general theory of marketing has been elusive. At least in part, this is because marketing is built on economic science, which has its own general theory. But, as discussed in chapter 2, though dealing with related subject matter, this general theory was built for a different purpose and within a different social and academic context than are characteristic of marketing, at least in the past fifty years. The focus of economics was “productive” services, defined in terms of units of tangible output that could be exported and exchanged. This focus and its related theoretical framework served applied marketing reasonably well in its initial concern with the distribution of these tangible goods.

In line with this concern for tangibility and application, marketing thought developed and evolved based on what was tangible, or at least observable, and capable of being acted upon. Goods were tangible and visible. Advertising also was visible, as was price and distribution channels.

However, what was less readily perceptible was that much of what was exchanged was intangible—the direct application of knowledge and skills (i.e., service)—and even when goods were exchanged, their value was partially derived from their being embodied with knowledge and thus had service potential; price (an expression of value-in-exchange) was a quantitative estimate of how valued a party’s specialized-resource-based service potential was in a market-based economy; advertising was part of a process of symbolic communication of a party’s service potential in the context of a broader, societal-based “sign” system; and distribution channels were mechanisms for the division and exchange of specialized marketing functions. In short, the common denominator of marketing was the intangibles—knowledge and skills, and social and economic processes.

Our concluding point of view in this volume of original essays is that service-dominant logic may be able to serve as a foundation for the development of a general theory of marketing. We base this view on the fact that S-D logic is grounded in the micro-activities of humans—specialization through the development of competences and the subsequent exchange of these competences

for competences the individual does not have. However, it also offers justification for the formation of macro institutions and structures—for example, goods, money, organizations, intermediaries, and markets—as natural consequences of this process of specialization and exchange. Stated alternatively, S-D logic demonstrates how micro actions result in macro structures. Consequently, as we will see, S-D logic has the breadth and abstract properties to operate at both the micro and macro level. Additionally, we argue that it has characteristics of generalizability and integration sufficient to be inclusive of competing and sometimes apparently contrary frameworks, some of which are offered by the authors of chapters in this book. Finally, we argue that it is implicitly normative and thus can point managers toward practical actions and organizations to standards for ethical interaction and social well-being.

## CHALLENGING THE DOMINANT LOGIC

S-D logic, by viewing service(s) as dominant and goods, organizations, networks, and money as only intermediaries, results in a fundamental inversion of the dominant logic in marketing. As such, it is similar to the reversal in thinking when the dominant logic about planet earth was that it was flat. Over the course of human history and experience, dominant thinking was repeatedly replaced by beliefs that were virtually opposite. Similarly, with the existing dominant paradigm in marketing, the following beliefs are strongly held: (1) entity performance is to be optimized or maximized, (2) the external environments are uncontrollable forces to be reckoned with, (3) consumers are operand resources or objects to be marketed to, and (4) value is embedded in products and then exchanged. Surprisingly, S-D logic takes an opposite perspective: (1) entity performance cannot be optimized but can be improved upon, (2) the external environments are not uncontrollable but are resources that can be drawn upon for support once resistances are overcome, (3) consumers are operand resources and to be marketed and collaborated with (i.e., co-producers or co-creators) as opposed to operand resources that are targeted and marketed to, and (4) value-in-use is superordinate to value-in-exchange.

Though disquieting to some (as illustrated in some of the chapters in this collection) S-D logic goes a step further and challenges the fundamental method for the practice of marketing. This dominant practice has become synonymous with the Four P's, or the marketing mix—product, price, promotion, and place—which are managed to enable the firm to target and capture the customer. However, S-D logic does not abandon the Four P's, just as it does not abandon the role of tangible goods, but rather places them in a more strategic role. This is quite different from current normative marketing practice in which the marketing mix is largely tactical. S-D logic recognizes the Four P's as part of a continuing flow of service(s) embedded in a dynamic marketing system comprising social and economic dynamic “flows” and “processes” in which value is collaboratively co-created with customers and partners. Strategic marketing becomes largely focused on the collaborative co-creation of value with customers and partners.

As shown in Figure 32.1, replacing a tactical product focus, service-dominant logic views the offering as service, which in some circumstances can be transmitted in the form of an appliance that the customer uses to provide self-service; in other circumstance, this service is provided directly (without a tangible transmission mechanism). Replacing price, arguably the most often-employed marketing tactic, is a strategic orientation on a firm's value proposition. S-D logic recognizes that firms can only make a value proposition and that value itself is a continuous process that unfolds over time as consumers participate in the value-creation process. Promotion, also heavily tactical, is replaced by conversation and dialogue (also a continuous flow) as a strategic pathway for improved integrated marketing communication. Channels of distribution (place)

Figure 32.1 Traditional Marketing Mix versus Service-Dominant Logic

<b>Traditional Marketing Mix (largely tactical)</b>	<b>Service-Dominant Logic (largely strategic)</b>
Product	Co-creating service(s)
Price	Co-creating value proposition
Promotion	Co-creating conversation and dialogue
Channel of distribution (place)	Co-creating value processes and networks

rather than being a fixed mechanism for distributing product is replaced with a strategic focus on value-creation processes and networks that are constantly developing and evolving. Rather than trying to capture the customer via target marketing, the firm shifts its focus to co-producing or co-creating value with the customer. In fact, Jaworski and Kohli (chapter 8) argue that co-production begins with the front-end process of identifying customer needs/wants with a dialog-based process for co-creating the voice of the customer.

However, S-D logic brings not only the customer to the process of co-creation of value, but also the organization's partners throughout the value creation network. This is primarily because S-D logic views knowledge as the fundamental source of competitive advantage and recognizes that knowledge is not centralized but dispersed throughout the marketing system and society. Consequently, S-D logic recognizes all entities must collaborate with other entities and integrate resources with them.

Collectively S-D logic moves the totality of marketing from a product-centric focus to a customer- and knowledge-centric focus. In fact, S-D logic suggests that marketing be defined as the process in society and organizations that facilitates voluntary exchange through collaborative relationships that create reciprocal value through the application of complementary resources. Marketing is thus seen as the means by which organizations and societies are able to create value by the voluntary exchange of knowledge and skills. Sawhney (chapter 29) coins the concept of a "solutions-centric mind-set" which focuses on the "design and marketing of end-to-end customer solutions." S-D logic explicitly recognizes that solutions require the application of operant resources (knowledge and skills) and the active involvement of customers (and partners). Whether we use the term *customer* or *solutions-centric mind-set*, the goods-dominant (G-D) paradigm is viewed as seriously flawed and inadequate as a marketing framework. In what follows, we try to uncompact the fundamental shift in worldview of marketing and markets<sup>1</sup> to service-dominant. In so doing we hope to show that S-D logic is sufficiently broad and abstract to serve as the foundational basis of a general theory of markets and/or marketing.

## THE MARKET(PPLACE) AND S-D LOGIC

S-D logic suggests that markets and marketing are primary drivers or creators of society. Individuals without the exchange of service for service are anti-society. With exchange of service comes society and society does not exist without the exchange of the most fundamental resources for human existence (mental and physical competences). Sometimes social and sometimes economic, but most often intertwined, a society involves a complex web of social and economic exchanges of service(s). In modern society this complex is heavily centered on the market as the central forum for exchange.

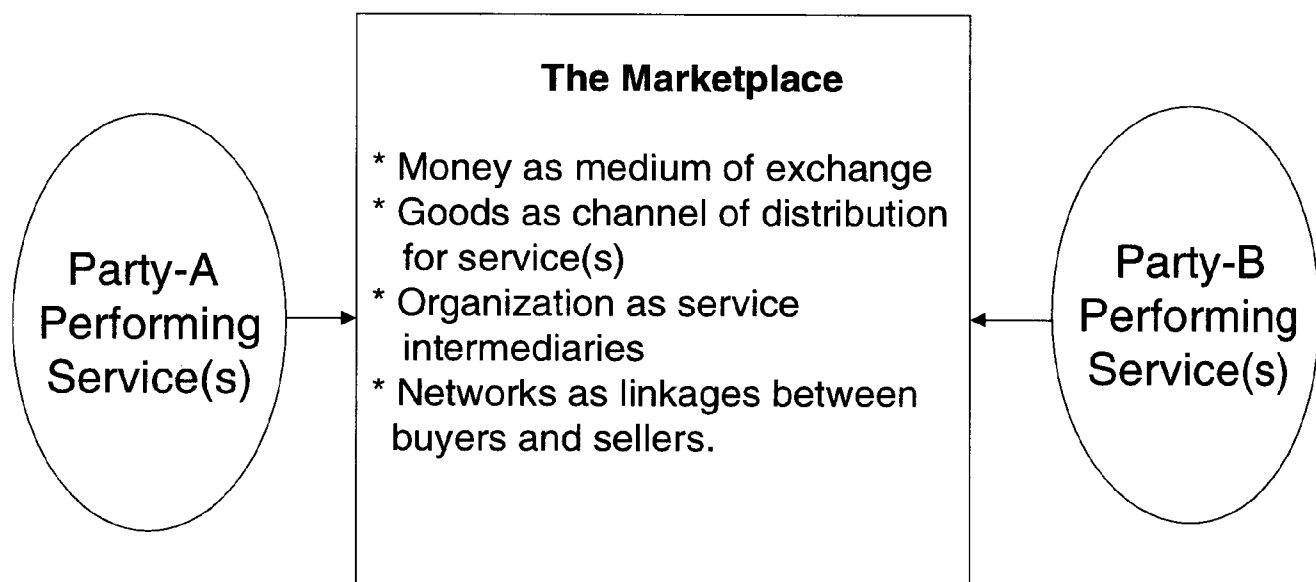
Consequently, S-D logic is supportive of a starting point of analysis being the market, which Venkatesh, Peñaloza, and Firat (chapter 19) view as a set of institutional arrangements. However, institutions themselves are co-produced and co-production is a central concept in S-D logic. Furthermore, language, knowledge, norms, culture, and scientific paradigms are all part of a network of co-creation activities by individuals and organizations that create society. In a real sense, society can be viewed as a macro-service provision institution. Through the invisible hand of the exchange of service for service, a market-driven society emerges that serves humankind.

As the division of labor develops in the family or household unit, we see the roots of service being exchanged for service. To facilitate this exchange of service(s), humans develop three primary mechanisms: (1) tangible, primarily operand resources that are embedded with knowledge, (2) organizations and networks, which become the integrative mechanisms through which micro-specialists exchange their competences (service), and (3) money, which people exchange for the service(s) they need and want.

Although we recognize that tyrants often controlled early civilizations and open and free one-to-one exchange of services was not the norm (Achrol and Kotler, chapter 26) it is still useful to conceptualize the basic process of service being exchanged for service as suggested by Bastiat (1860/1964)—one party hunting and gathering and another tending to cooking, fabricating clothing, tending the young ones. At some point this household unit begins to exchange with other units. Direct barter might apparently involve trading animal hides for feedstock—tangible good for tangible good. However, what is the tangible good and how did it come about? The tangible good came about because one party applied their specialized knowledge and skills to hunt the animal and skin the hide (i.e., they provided service). Another party applied its specialized knowledge and skills and tended crops or gathered crops (i.e., provided services). But more importantly the tangible goods (animal hide and feedstock) are only of value because of the value that can be extracted or received from them in use. The animal hide provides protection from the cold weather and thus the equivalent to heating services. The feedstock provides nourishment, and thus energy, for the body to function. However, there is one other function the tangible good may provide. It may be a storehouse of value or medium of exchange. First as a storehouse of value it can be inventoried and can be used at another time to trade for other things. Second, as a medium of exchange, it may be used to trade for other things indirectly (i.e., it can be used as money). Cattle or livestock were often used for this function. In fact with loans one would often give a pregnant cow as collateral where the creditor would receive the offspring as interest and then return the cow when the loan was paid. Thus we see even interest or financial services being embedded in tangible matter.

It is because of gain from trade that a medium of exchange is developed. Money emerges initially as tangible and then evolves to being purely abstract. Initially most monetary systems involve some type of scarce metal minted into different sizes. These tangible coins become the medium of exchange. Later they are represented by paper or notes that are backed by metallic currency. Today they are largely represented by paper or notes not backed by metallic currency and increasingly are digital signals (or purely abstract). Behind these currencies are the character and trustworthiness and integrity of the backer. Essentially what we see in contemporary money is both economic and social exchange (the social exchange being the exchange of trust). Money as a medium of exchange facilitates exchange and trade and goods become convenient and effective marketing channels for services.

Entities learned that there are gains to be made by organization. Coase (1937) developed a theory of organization, which was further developed by Williamson (1975). Firms or organizations develop to lower transaction costs. But because individuals who work in the organization

Figure 32.2 **Service(s) Exchanged for Service(s)**

(i.e., sell their services to the organization) can avoid the discipline of the marketplace, they can often be individually nonresponsive to the customer. In short, they are not directly exchanging service for service. As such, they can often shirk responsibility and are not responsive to customer demands. This partially explains the paradox of why many service organizations (government agencies, airlines, phone services, etc.) have a reputation of *not* being service oriented and have low-quality service.

In Figure 32.2 we graphically portray the fundamental notion that service(s) are exchanged for service(s). It is important to note that it is only because of the marketplace and the development of: (1) money as a medium of exchange, (2) goods as channels of distribution for services, (3) organizations as service intermediaries, and (4) networks that link together buyers and sellers, that we have lost sight of the fundamental economic principle of Bastiat (that services are exchanged for services). The world we live in is not about money, goods, and organization; it is about service to each other and humankind (society). Money, goods, organization, and the network are only the exchange vehicles.

### **SERVICE(S) EXCHANGED FOR SERVICES**

A service-centered model of exchange motivates the study of marketing at the most micro level, which is entities exchanging competences or service(s) (refer to Figure 32.2). We suggest this micro-level analysis allows for a more complete understanding of marketing from a holistic, systems, or macro perspective. Consequently, a service-centered model is not anti-macromarketing as some believe.

Macro systems, which undoubtedly should be studied in their own right, come about or emerge from micro phenomena. Systems at higher and higher levels of aggregation constitute a hierarchy of nested levels (Capra 1996; Holbrook 2003; Kiel, Lusch, and Schumacher 1992), for instance, atom, molecule, cell, organism, species, community, ecosystem, biosphere, cosmos (Holbrook 2003). Since marketing deals with human exchange, it is useful to begin the study of marketing with individual human organisms, although these entities themselves consist of particles inside of nuclei of atoms, inside of atoms, inside of molecules, inside of nuclei of cells, inside of cells, inside of tissue, inside of organs, inside of the human organism (Kiel, Lusch, and Schumacher 1992).

Most of marketing from a managerial perspective has begun with the organization as the unit of analysis. However, organizations are a community of human organisms. By investigating the more fundamental unit of individuals and their exchanging of services for services we can inform ourselves on how macro structures such as organizations and societies emerge. There is a temptation to view these macro structures as entities in and of themselves without recognizing that they emerge from the actions of more fundamental actors exchanging their services or competences. The macro structures emerge from co-productive activities of micro-entities.

### **Division of Labor**

The microscopic actions begin with the division of labor. Physical and mental skills are the two basic operant resources that all individuals possess (Vargo and Lusch 2004). As long as all individuals used these resources for self-service and did this independent of other individuals, the world was simple. Isolated man interacting only with nature keeps the world rather static except for naturally occurring physical phenomena. An individual human can at best survive but without others cannot change the world. However, when individuals begin to interact with others and exchange the platform for changing the world is set.

Humans learned that the skills they possess are not equally distributed and thus they began to specialize. This specialization led to a division of labor where entities became more dependent upon each other. Smith (1776/1904) recognized that the extent of the market was a function of the division of labor in society. However, as the division of labor increased, another important development occurred—the connectedness of individuals. As each person specializes we become more dependent and connected to others. Thus both the extent of the market and the density of the network of interconnections is a function of the division of labor in society.

This begins to form the basis of a complex system. And since each entity in this interconnected system is always attempting to do better or to improve its condition the system becomes adaptive. Thus what emerges rather quickly as a result of a division of labor is a complex adaptive system. Soon the environment humans face is not only the natural environment but also the social environment that is made up of the actions of all other entities that are part of this web of interconnectedness.

### **Learning Through Change**

Exchange is pro knowledge discovery because entities enter into exchange to improve their condition. They have very simple hypotheses or expectations that if one takes a certain action (and changes) then he or she will be better off. However, these hypotheses are tested in the crucible of reality. They take actions to enter into exchange and are able to experience the consequences firsthand. These hypotheses can be falsified. Exchange is not only pro knowledge discovery for firms but also for consumers. Firms seeking competitive advantage are constantly seeking ways to lower costs or improve value provided to buyers (Hunt 2000). Seldom mentioned is the fact that buyers also learn in this process. A buyer has the desire to improve its condition and thus via exchange learns what works and doesn't work. This can also stimulate the buyer to use or develop its competences to either be able to acquire more in the marketplace or to better utilize goods acquired in the marketplace to obtain value.

In the exchange process, one of the most important things learned is the relative value of things. Without exchange one has no or little information on value. In a simple bartering economy one is able to learn about how many of A units can be exchanged for B units. Let us say one is not

pleased that it has to give up three units of A for one unit of B. What can this entity do to alter this situation? There are several options. It could attempt to develop a production technique that allows one to produce more units of A with the same effort (production innovation); it could do some innovation with A to make it more desirable (product innovation); it could decide it needs to learn to make B for itself; it could decide to search for and hopefully discover C which until now had not been produced or exchanged between entities. In short, by learning the relative value of things exchanged each entity is provided feedback and a signal on how to redirect its efforts (either for internal or external production).

In the preceding highly simple example we should note three things: (1) when each entity exchanges it itself changes or is altered, (2) before each entity could exchange it had to expend mental and/or physical effort which almost always changed other entities and itself, (3) as each entity received feedback from the exchange process it was stimulated or motivated to do things differently and thus to be more creative and generate more knowledge. Contrast this with an entity continuing to be isolated and engaging in self-production. In this situation it would be foolish to suggest that entities would not change or not learn; however, the extent and speed of change of learning would be slower because by not specializing there would be less variety and thus less learning contrasted to when people exchange in a market-based society. In brief, variety is stimulated and fostered when two parties specialize and learn from each other from marketplace exchange.

We live in an out-of-change world. We live in a world where micro entities each seek to be better off by specializing and exchanging their services for the services of others. From these individual actions emerge macro structures such as market segments, lifestyle groupings, fashion movements, and legal and government regulations that become more visible. However, behind all of these macro and visible trends are individuals seeking to improve their stake in life and engaging in exchanges to accomplish this but by so doing stimulating additional change that ripples throughout society. And as this ripple occurs we see more and more creative effort because more and more signals are transmitted about what works and does not work; what creates satisfaction and what creates dissatisfaction; and what produces gain over loss. The system is not perfect but once the power of individuals exchanging based upon their micro specializations starts to roll out throughout the local, regional, national and world economy and society, more and more change occurs and more and more variety manifests itself via the creative learning processes of exchange.

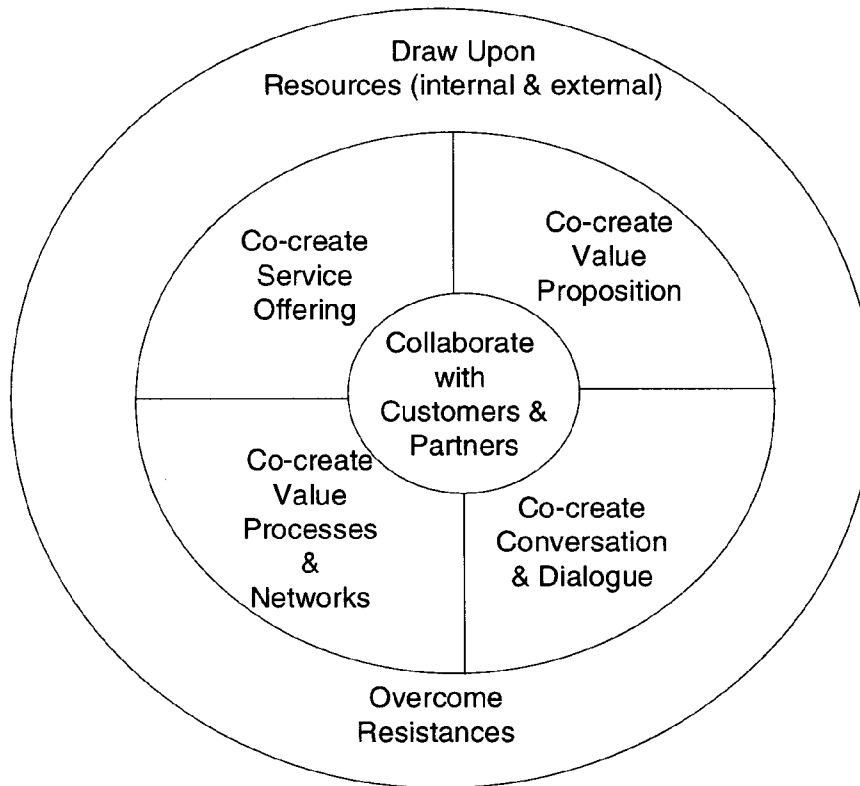
## **INVERTING THE DOMINANT PARADIGM**

Perhaps one of the more pervasive models in marketing is the three circles model that was first developed by McCarthy (1960). In this model, the inner circle is the customer, the middle circle is the firm's marketing decision variables (the Four P's), and the outermost circle is the uncontrollable external environments that generally comprise the competitive, legal, social, technological, and ecological environments. Essentially, this paradigm suggests that the firm set its marketing decision variables in order to market to the customer to maximize profit within the constraints of the external environment. The S-D model of marketing inverts this perspective as outlined below (see Figure 32.3).

### **Co-Creation**

The dominant paradigm in marketing separates the producer from the customer in order to maximize production efficiency, but this production efficiency comes at the expense of marketing

Figure 32.3 S-D Marketing



effectiveness. By pursuing a division of labor that led to the separation of parties, including the producer from the customer, a dramatic increase in efficiency resulted. This reinforced an attitude and view that the customer was someone to target and *market to* versus an entity to *market with*. The result was poorer and poorer marketing effectiveness but high cost efficiency for producers. The preceding behavior and attitude has also prevailed in the distribution channels literature, where channel intermediaries were seen as entities that distributed to customers, rather than marketing with them (Constantin and Lusch 1994).

Contrast the preceding with S-D logic, which recognizes customers are operant resources and that knowledge is dispersed throughout the system. Therefore, its focus is one of *marketing with*—collaborating and co-creating value with both customers and supply and value network partners—rather than *marketing to* and delivering value.

### Strategic Marketing

The firm's marketing activities, rather than reflecting the dominant and historically prevalent tactical Four P's, should focus on continuous processes that are reflected in four fundamental building blocks of a firm's strategic marketing direction: (1) service offerings, (2) value propositions, (3) conversation and dialogue, and (4) value processes and networks. And all of these should be co-created with customers and partners.

Importantly, they are not intended to replace the Four P's but to provide them strategic direction. Product decisions will be better informed with a service strategy direction; price decisions will be more effective long term when guided by the firm's strategic oriented value proposition; promotion will continue, however, be more effective when conversation and dialogue provide an informed background and perspective on how to promote; and channel decisions will be more effective when they are considered within the context of the entire value network.



These four fundamental strategic building blocks were discussed and elaborated on in this volume by various thought leaders in marketing. We especially recommend studying Rust and Thompson (chapter 30) and Sawhney (chapter 29) for insights on the role of appliances and service(s); Woodruff and Flint (chapter 14), Holbrook (chapter 16), and Berthon and John (chapter 15) for perspectives and frameworks for thinking about value and value propositions; Ballantyne and Varey (chapter 17) and Duncan and Moriarty (chapter 18) for a discussion of concepts related to conversation and dialogue; and Flint and Mentzer (chapter 11) and Lambert and García-Dastugue (chapter 12) for conceptual models that help one to understand the complexity of value processes and networks.

### **Endogenous Environments**

Viewing resources as anything one can draw on for support provides a different perspective for the outer, external environment circle in the three circles model. It essentially suggests that the external environments have the potential to be resources if certain resistances can be overcome. For instance, under a traditional perspective, a firm would not normally consider competition as a resource. However, competition can be a valuable resource in its role of constantly challenging a firm to do a better job for the customer. Also, in some situations, it is possible to collaborate with a competitor such as in joint research and development efforts.

Certainly the legal environment should be viewed as more than an uncontrollable environmental variable. A strong legal system can be a resource a firm can use to protect its rights. Similarly, new legislation can either be viewed negatively or as a resource that provides an opportunity to develop new or improved services. Witness the growth in auto safety that grew out of federal legislation.

The social environment is also often considered an uncontrollable externality. While we cannot control all aspects of the social environment, this does not mean it cannot be a resource to the organization. The growth of social movements, alternative lifestyles, changing attitudes and opinions about work, and so on are all potentially resources that the firm can draw upon for support if certain resistances can be overcome.

Few firms can claim that they control the technology and science of an industry. But, viewing the technological environment as completely uncontrollable and other than a potential source of support is myopic. Technology, even what may appear as unrelated technology, can be a major resource. Consider the influence of the integrated circuit and silicon chip on improvements in everyday products ranging from automobiles to televisions to refrigerators.

Finally, the ecological or physical environment is normally considered to be uncontrollable but can also serve as a potential source of support. Because of the cost of waste disposal and its ecological impact the firm may be forced to redesign production processes and products to eliminate waste or what the Japanese call *muda*. However, in so doing firms have found that they become more efficient and can actually lower, rather than increase, production costs. Consequently, because firms have been forced to consider the externalities and the impact on the physical environment, the physical environment has actually become a major source of support for eliminating waste in the organization. Coincidentally many of these firms are able to promote to customers the good things they are doing for the ecological environment. Perhaps as important, their workers (a primary firm resource) are exposed to fewer harmful chemicals and pollutants, which improves their quality of life and potentially their contribution.

Under the G-D model, the Four P's are set (within the constraints of the external environment) in order to make an offer to the customer and optimize profit. With the S-D model, the customer is a collaborator and co-producer and the external environments are resources. Rather than trying

to maximize profit, the firm using the S-D logic lens views financial performance as feedback to gauge (along with other measures) the extent that it is serving the customer and/or market.

## **THE PURPOSE OF THE FIRM, ETHICS, AND PUBLIC POLICY**

In *Evolving to a New Dominant Logic for Marketing* (Vargo and Lusch 2004), we draw upon the historical writings of Fredric Bastiat (1860/1964) to anchor the logic that the essence of economic activity is the exchange of service(s) for service(s). In two fundamental propositions we show how indirect exchange, via organizations, mask the fundamental nature of economic activity and in another we discuss how goods are mechanisms for the delivery of services. Delving deeper into these two fundamental propositions we show how the purpose of the corporation is not to create wealth as many students of business believe. The purpose of the corporation, we argue, is to provide a mechanism for man to exchange service(s) for service(s) in order to improve his standard of living, or stated alternatively, to exchange one's skills in the form of a job for a medium of exchange (money) that in turn the entity uses to enter into exchanges with the corporation to obtain the services needed to be better off. Organizations exist to integrate and transform micro specialized competences into services that are demanded in the marketplace.

The modern corporation is given license or legitimacy to operate in society as long as it provides a fair venue for the exchange of service(s) for service(s). For this to be accomplished individuals and collectivities must generally be satisfied with both work and consumption. If corporations create wealth but fail to provide a fair venue for the exchange of services for services (both via jobs and consumption), then the corporation will lose its legitimacy. Since all institutions are co-produced this would be inevitable. Although it is difficult to predict the form of action society would take—orderly or revolt and chaos—the change to a different form of economic organization would ultimately occur. Similarly, the modern democratic government is given license or legitimacy to operate in society as long as it provides a fair mechanism for the collection of tax revenues in return for the provision of public services.

As a potential theory of the firm, S-D logic is highly prescriptive regarding ethical issues. The goods-dominant logic on the contrary offers little ethical guidance. We believe this is important because markets operating without normative ethical guidelines will have imperfections and externalities that can at least in part be avoided by embracing S-D logic.

### **Normative Guidelines**

As opposed to the relatively weak normative guidance of G-D logic, S-D logic offers the following guidance:

1. The firm should be transparent and make all information symmetric in the exchange process. Since the customer is someone to collaborate with, anything other than complete truthfulness will not work.
2. The firm should strive to develop relationships with customers and should take a long-term perspective. Firms should thus always look out for the best interest of the customer and protect the customer's long-term well-being.
3. The firm should view goods as transmitters of operant resources (embedded knowledge); they are intermediate "products" that are used by other operant resources (customers) as appliances in value-creation process. The firm should focus on selling service flows.
4. The firm should support and make investments in the development of specialized skills and knowledge that is the fountainhead of economic growth.

Not surprisingly, some may argue that we can hardly expect the firm in a free enterprise system to be so righteous. However, we argue that behaving in this manner provides the firm with a source of competitive advantage. At the same time a focus on these principles provides a marketer a moral compass to gauge his or her actions by. Finally, we suspect that a marketing curriculum designed along S-D logic and its normative principles will make marketing more appealing as a life pursuit and allow marketers to make even stronger contributions to society. In brief, S-D logic is pro-society.

If all or most firms were to: (1) be transparent and truthful to the customer, (2) be the guardian and do what is best for long-term customer welfare, (3) focus on selling service flows and not tangible stuff, and (4) continually invest in the development of human skills, then we would argue we would have less societal ills or things that government may be prompted to address. In fact a brief journey over the last 100 years will show that the major legislation directed at marketing was largely because firms did not follow the preceding norms.

### **Public Policy**

Much of macro marketing is focused on public policy and legislation directed at controlling marketing. There has been legislation on price fixing, price discrimination, deceptive pricing, deceptive advertising, product liability, product safety, credit disclosure and fair credit policies, bait-and-switch promotional tactics and a host of other legislative actions. However, we would suggest that virtually all of these were directed at controlling and reprimanding firms for not telling the truth and not thinking of long-term customer welfare. In fact, as we have mentioned (Vargo and Lusch 2004) even if firms want to be only transaction focused, we have evolved into a society where more is expected. Firms cannot disclaim warranty and cannot choose to not take a long-term view at how a product may be misused. Exchange is relational, even if the firm prefers otherwise. We are not saying that all firms will eventually adopt S-D logic. However, even if they don't, S-D logic can provide public policy makers and federal court judges with normative guidelines on how firms should behave.

Societal implications of S-D logic, however, go beyond marketing per se. There is considerable concern about global pollution and other environmental waste issues that are caused or related to tangible products. If a firm focuses on selling the tangible product and not the service flow it forgets about the system within which the tangible good is used as an appliance for service delivery or production. For instance, if an auto manufacturer sold service flows, then it would necessarily have to think about total ownership costs to include fuel, repair costs, and other factors that can be ignored if you are just selling "stuff." Thus S-D logic is pro-environment.

Furthermore, S-D logic, with its focus on the improvement of human mental and physical skills, is pro-education. S-D logic recognizes human and mental skills as the fountainhead of economic growth and human progress. Thus it encourages firms to invest in these resources, support schools and colleges, and generally be pro-education.

In summary, S-D logic is intentionally managerial in focus; however, it provides normative guidelines or rules of action that, if followed by firms, will create more consumer welfare and satisfaction, a cleaner environment, and a pro-education society. Isn't this better than a goods-dominant logic with band-aid legislation directed at mandating firms to do what they would do if they followed the S-D logic normative guidelines? Although not all firms will abide by these norms, who can deny them as worthy goals and a useful framework by which to organize our actions?

## CAN S-D LOGIC BE INTEGRATIVE?

Is S-D logic sufficiently broad to provide a foundation for a general theory of marketing? It is probably too early in its development to be sure. However, we do believe Hunt's view of the fundamental *explananda* of marketing (Hunt 1983) that S-D logic goes further than the current goods-dominant logic. We also believe the increased focus on the network as perhaps a unifying unit of analysis for marketing thought (Gummesson, chapter 27; Achrol and Kotler (1999) and chapter 26 this volume) can be embraced by S-D logic.

### Hunt's Fundamental Explananda

Hunt (1983) suggests that a general theory of marketing should be capable of explaining four fundamental *explananda* of marketing. S-D logic is able to address each of these fundamental *explananda* as follows:

FE1. The behaviors of buyers directed at consummating exchange.

- S-D logic argues that entities buy service(s) in exchange for providing service(s), most often using organizations, networks, money and goods as intermediaries, in order to (improve) their standard of living.

FE2. The behaviors of sellers directed at consummating exchanges.

- S-D logic argues that entities organize service providers (employees and partners) that do not have a ready one-to-one trading outlet for their competences and transform these competences into services (either embedded in tangible goods or unembedded) that customers want or need. Firms seek competitive advantage using their competences to obtain relative lower resource cost and/or higher relative value for customers.

FE3. The institutional framework directed at consummating and/or facilitating exchanges.

- S-D logic embraces co-production as universal. It would argue that the institutional framework is always co-produced. In the case of the traditional marketing institutions (such as primary and facilitating channel intermediaries) there is always a sharing and co-producing of marketing functions. In the case of social institutions (such as norms, language, sign systems, etc.) co-production is essential for the institutions to be accepted and diffused through society.

FE4. The consequences on society of the behaviors of buyers, the behaviors of sellers, and the institutional framework directed at consummating and/or facilitating exchanges.

- S-D logic argues that buyers and sellers as they exchange create change at the micro level that creates emergent macro structures to include society. Furthermore, human interaction and networks largely through private market and public market exchange lead to co-creating institutions in society. As such, markets and marketing are the primal force in creating society and institutions.

### Networks

Gummesson (chapter 27) suggests that networks provide a unifying role in the development of general or grand theory in marketing. Because of their capacity to allow for complexity, context, and dynamism, he suggests that networks have a universal capacity to explain. Achrol and Kotler

(chapter 26) suggest that “the focus on the network as the fundamental unit of analysis is a significant ontological step from the theory of the firm, as well as dyadic exchange theory.” These same authors (Achrol and Kotler 1999, p. 161) have suggested:

As the twenty-first century dawns, the Industrial Revolution is fast giving way to the Information Revolution. Many giant, vertically integrated manufacturing firms, which were the product of the Industrial Revolution, are morphing into internal and external networks. These managed networks promise superior information processing, knowledge creation, and adaptive properties to conventional firms.

Achrol and Kotler (1999), citing Drucker (1993) observe “the twenty-first century is shaping up to be a knowledge-driven society in which the basic economic resource is not materials, labor, or capital, but knowledge” (p.146).

S-D logic embraces these views. We agree that the network is rising in importance in many economies throughout the world. However, the network, just as the organization, goods, and money, is merely the transmission mechanisms for the exchange of service(s) for service(s). As S-D logic argues in foundational premise #1 (Vargo and Lusch 2004; and chapter 1), “the application of specialized skills and knowledge is the fundamental unit of exchange.” It is the network that is increasingly being used to exchange these specialized skills and knowledge (services). Nonetheless, most often, just like with the industrial organization the network organization will mask the fundamental unit of exchange and where value is created or resides. As S-D logic argues in foundational premise #2 (Vargo and Lusch 2004; and chapter 1), “indirect exchange masks the fundamental unit of exchange.” Networks assist in the work of service delivery, just as do goods, money and organizations. However, the value is not in the network per se. In fact, Hakansson (2004, pp. 91–92), an early pioneer in network theory, recognizes resources are valued for the services they make possible.

Irrespective of whether physical objects or services are exchanged, Penrose (1959) concluded that physical resources, such as products, are not valued for anything more than the services they create. Thus, all exchange activities are conducted in order to realize services. Business exchange activity is characterized in that it is through exchange that the potential services of resources are released and value arises. In other words, the outcome of the business exchange activity is the services rendered and the goal of business activity is to actualize the potential services buried in the innermost recesses of the included resources. . . . The objective is to create value through the release of the services habituated within resources.

Finally, S-D logic agrees with the observation that the twenty-first century is shaping up to be a knowledge-driven society. S-D logic places a primary focus on operant resources, and knowledge is an operant resource. S-D logic in foundational premise #4, “knowledge is the fundamental source of competitive advantage,” recognizes that the foundation of competitive advantage and economic growth and the key source of wealth is knowledge. Central to S-D logic is the embracing of the view of services “as the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself” (Vargo and Lusch 2004, p. 2). Because of this embracing view of services S-D logic argues in foundational premise #5 that “all economies are service economies.” Thus not only is the twenty-first century primarily about knowledge as a source of wealth but the history of the divi-

sion of labor, the growth of society, and market-centered exchange is primarily about knowledge and learning. As Vargo and Lusch (2004, p. 10) observe:

The hunter-gather macrospecialization was characterized by the refinement and application of foraging and hunting knowledge and skills; the agricultural macrospecialization by the cultivation of knowledge and skills; the industrial economy by the refinement of knowledge and skills for large-scale mass production and organizational management; and the services and information economies by the refinement and use of knowledge and skills about information and the exchange of pure, unembedded knowledge.

Achrol and Kotler (1999) believe that “the very nature of network organization, the kinds of theories useful to its understanding, and the potential impact on the organization of consumption all suggest that a paradigm shift for marketing may not be far over the horizon” (p. 162). S-D logic would position supply and value networks as replacing the traditional focus on organization and channels of distribution (place). However, S-D logic goes further since it views the customer and partners as entities to *market with versus market and/or distribute to*. Hence S-D logic places a strong focus on collaboration that is consistent with Achrol and Kotler’s (1999) perspective that networks are embedded with “dense lateral connections, mutuality, and reciprocity, in a shared value system that defines ‘membership’ roles and responsibilities” (p. 148). Consequently, network organizations and S-D logic are synergistic.

In the development of a paradigm shift that many are expecting, S-D logic provides more of a foundation than network theory. S-D logic in addition to its focus on value-creation processes and networks puts a strategic focus on the marketing mix by emphasizing service(s) offerings and flows, value propositions, and communication and dialog (see Figure 32.2). However, S-D logic also reverses the logic of viewing external environments as uncontrollable and views them as resources to draw upon for support (see Figure 32.3). Importantly, network organizations can help to establish connections to these external environments and transform them into a resource, again emphasizing that network theory and S-D logic are synergistic.

## CONCLUDING COMMENT

General theories are long in coming to an academic discipline. When developed they come under extreme scrutiny. Although we do not purport that S-D logic at its current stage of development is a general theory. However, for the reasons elaborated upon in this chapter we believe that it provides the foundational basis for the development of a general theory. S-D logic is open source code and we hope others will add to this effort in the hope that what evolves and develops is a fully integrative and complete general theory of marketing.

## NOTE

1. Gummesson (chapter 27) similarly urges a focus on flows, processes, and dynamics by suggesting the core concepts of a future grand theory of marketing are networks, relationships and interaction. In contrast, Grönroos (chapter 28) places a heavy emphasis on interaction and relationship as central phenomena.

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