articles

Service-dominant logic: reactions, reflections and refinements

Robert F. Lusch

University of Arizona, United States of America

Stephen L. Vargo

University of Hawaii, United States of America

Abstract. *As one of its own foundational premises implies, the value of service-dominant (S-D) logic is necessarily in its open, collaborative effort. Thus, the authors invite and welcome both elaborative and critical viewpoints. Five recurring, contentious issues among collaborating scholars, as they attempt to understand the full nature and scope of S-D logic, are identified. These issues are clarified and refined, as is appropriate to this co-creation of a service-centric philosophy by the worldwide marketing community.* **Key Words** ● *marketing theory* ● *relationship marketing* ● *resource integration* ● *resource theory* ● *service-dominant logic* ● *S-D logic* ● *service marketing*

Introduction

Responses and reactions to what has become known as the service-dominant (S-D) logic of marketing since 'Evolving to a new dominant logic for marketing' (Vargo and Lusch, 2004a) was first published in the *Journal of Marketing* (see also Vargo and Lusch, 2004b; Vargo and Morgan, 2005) have provided both impetus and ideas for enhancements as we continually strive to co-create a more marketing-grounded understanding of value and exchange. We have been stimulated by the commentaries of the seven thought-leaders invited by the *Journal of Marketing* editor to our initial article (Bolton, 2004) and the publication of over 30 original and thought-provoking essays that reinforce, refine, extend, and occasionally challenge the foundational premises of S-D logic in *The Service-Dominant Logic of Marketing: Dialog, Debate and Directions* (Lusch and Vargo, 2006a). Additionally, over the last 24 months, we have had the opportunity to present S-D

logic to faculty and graduate students at approximately one dozen universities around the world, to special sessions at a half dozen international academic conferences and to executives in China, Mexico, New Zealand, and the United States.

However, The Otago Forum, envisioned and led by David Ballantyne and focused on S-D logic, has been one of our most important sources of refinement. In large part this was due to David and his team (Robert Aitken, Phil Osborne and John Williams) focusing the entire forum around dialogue or an open sharing of ideas, concerns, suggestions, and criticism that we believe stimulated an open attitude toward co-creating the service-dominant logic of marketing. Over several days in Dunedin, New Zealand, the participation of several dozen notable marketing scholars created an indelible impression on both of us. We came away more committed, more excited, and more creative regarding our S-D logic efforts.

Beyond offering an unanticipated level of interest and support, the responses that we have received have allowed us to identify aspects of S-D Logic that need both clarification and refinement. Predictably, these opportunities for amplification and illumination provide occasions for deepening our collective understanding and application of S-D logic. In the following sections we highlight five of the interrelated and recurring themes that need further exploration:

1 why a 'service-dominant' logic?
2 the resource-integration role of the firm and customers;
3 the nested roles of the co-creation of value and co-production;
4 the central role of interactivity in value creation and exchange; and
5 the continuing need for refinement of an S-D logic friendly lexicon.

Why 'service-dominant' logic?

On repeated occasions, we have received questions about whether 'service' is the best characterization of the 'new dominant logic'. Many of these inquiries appeared to be motivated by a belief that we are arguing something like: 'services has won the goods versus services debate'. Nothing could be further from the truth. As we have pointed out, (Vargo and Lusch, 2004b), one of the fallacies of this debate is that it is couched in a logic that treats 'services' as a special kind of (intangible) product – that is, what goods are not – which is inconsistent with S-D logic. In fact, ironically, we argue that in S-D logic, 'services' is a goods-dominant (G-D) logic term.

Importantly, we use the singular 'service' in S-D logic, indicating a *process* of doing something for someone, rather than the plural 'services', implying *units of output* as would be consistent with G-D logic. The goods versus services debate was about the supposed *differences* between goods and services; S-D logic considers the *relationship* between service and a good – that is, a good is an appliance used in service provision. In S-D logic service is the common denominator of exchange and thus is hypernymic to goods. There is no good-versus-service winner or loser in S-D logic.

The 'service' in S-D logic, partly and appropriately, recognizes the role of service marketing scholars in laying the foundation for a new dominant logic as they began to overcome the constraints of G-D logic (see Dixon, 1990). The work of these scholars has resulted in a number of modifications in the way value creation and exchange are conceptualized (e.g. in terms of perceived service quality and relationships) that have now become superordinate to their G-D conceptualizations (e.g. manufactured quality and transaction) for all of marketing. This central, service-marketing role in the evolution of a new logic of marketing further supports the choice of the term 'service'.

Some have argued that we based S-D logic on a novel definition of service, one that is inconsistent with traditional definitions and/or suggested that the term services has so much 'baggage' that it is a poor tag for a new logic. We are somewhat surprised by the proposition that our definition of service – *the application of specialized competences (knowledge and skills), through deeds, processes, and performances for the benefit of another entity or the entity itself* – is either faulty or novel. Unless critics are referring to circular or residual definitions (e.g. services are what goods are not), it is difficult to see how our definition is inconsistent with previously accepted ones. For example, Grönroos (2000: 48) defines services as 'processes consisting of a series of activities where a number of different types of resources are used in direct interaction with a customer, so that a solution is found to a customer's problem'. We agree that service (or especially services) has some G-D logic associated baggage. Regardless, using one's resources for the benefit of another entity is *precisely* service, and thus no other word fits as well.

Additionally, the idea of service being the foundational concept of exchange and marketing has some strong and arguably very important normative implications. It intimates a very different kind of purpose and process for marketing activity and for the firm as a whole: to provide service to stakeholders, including customers, stockholders, and employees. It points almost directly to normative notions of investment in people (operant resources), long-term relationships, quality service flows, and only somewhat less directly toward notions of symmetric relations, transparency, ethical approaches to exchange, and sustainability. Arguably, these directions have advantages for both the enterprise and society that cannot be found in G-D logic.

The firm and consumer as resource integrators

After the initial publication of S-D logic (Vargo and Lusch, 2004a, 2004b), we began to recognize more fully not only the *resource-application* but also the *resource-integration* function of firms and households. In Vargo and Lusch (2006: 53) we added a ninth foundational premise (FP9): 'Organizations exist to integrate and transform micro-specialized competences into complex services that are demanded in the marketplace'. However, before the ink was dry on FP9, we realized that the resource-integration role of the firm is equally applicable to individuals and households (Arnould et al., 2006); or, more generally, all economic

entities are resource integrators. It is the unique application of these uniquely integrated resources that motivates and constitutes exchange, both economic and otherwise. We have discovered that this idea of thinking about service provision in terms of resource integration has found almost instant resonance among those with whom we have shared it. Like most aspects of S-D logic, this resource-integration concept needs refinement and elaboration. Fortunately, like for other aspects of S-D logic, rich sources of prior thought exist. For example, Normann's (2001) idea of 'density' aligns very well with S-D logic's concept of value creation through resource integration and both mesh well with Grönroos' (2006) and Gummesson's (2006) ideas of interactivity and networks (see below).

Co-creation of value as distinguished from co-production

Also shortly after 'Evolving' (Vargo and Lusch, 2004a) was published, and simultaneous with our own realization, several marketing scholars pointed out that the term 'co-production', which was the focus of FP6, was a very G-D logic term. Since co-production implies making something, a unit of output, they were, of course, correct. Almost immediately we (Vargo and Lusch, 2006: 44) changed FP6 to 'The customer is always a *co-creator of value*'.

Nonetheless, we believe that it is important to recognize that there are two components of value co-creation. The most encompassing of these is the *co-creation of value*. This concept represents a rather drastic departure from G-D logic, which views value as something that is added to products in the production process and at point of exchange is captured in value-in-exchange (i.e. price). S-D logic, however, argues that value can only be created with and determined by the user in the 'consumption' process and through use or what is referred to as value-in-use. Thus, it occurs at the intersection of the offerer and the customer over time: either in direct interaction or mediated by a good, as indicated in FP3 (goods are distribution mechanisms for service provision).

The second component of co-creation is what might more correctly be called *co-production*. It involves the participation in the creation of the core offering itself. It can occur through shared inventiveness, co-design, or shared production of related goods, and can occur with customers and any other partners in the value network.

Because both 'co-creation of value' and 'co-production' make the consumer endogenous, they are both different from the production concepts associated with G-D logic. Clearly, they are also nested concepts with the former superordinate to the latter in the same way, and with similar implications, as the relationship between service and goods in S-D logic.

Central role of networks and interaction in value creation and exchange

Several marketing scholars (e.g. Achrol and Kotler, 2006; Grönroos, 2006; Gummesson, 2006) have pointed out that interaction and/or networks play a more central role in value creation and exchange than is immediately apparent in S-D logic. They are correct.

It is not so much that S-D logic ignores interaction and networks as it is that it deals with them somewhat implicitly. For example, S-D logic views marketing as social and economic processes (Lusch and Vargo, 2006b), in which the concept of interaction is central. It embraces the idea that value creation is a process of integrating and transforming resources (FP9), which requires interaction and implies networks. Similarly, the central S-D logic notion of co-creation of value is an interactive concept. Nonetheless, much could be gained in the elaboration and extension of S-D logic from a more explicit connection to the interactivity and networking literature.

Fortunately, that literature provides direct links to S-D logic. For example, Håkansson (Håkansson and Prenkert, 2004: 91–2), an early pioneer in network theory, notes:

> . . . all exchange activities are conducted in order to realize services . . . [I]t 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.

These services, and the associated value, are created through an 'actor' combining resources accessed in an exchange with other resources, both internal and available through other exchanges. This network notion is closely aligned with the resource-integration concept of S-D logic, and the density concept of Normann (2001).

One of the distinguishing features of S-D logic, in contrast to G-D logic, is the former's treatment of all customers, employees, and organizations as operant resources, which are endogenous to both the exchange and value-creation processes. Since 'service-for-service' implies all parties are both value-creators and value beneficiaries, the implication is that the offerer/customer and supply/demand distinction vanishes. This same notion can be found in much of the network literature in marketing. It also forms the basis for the study of networks through inframarginal analysis in economics (e.g. Yang, 2003), which builds on Smith's original network effect from the division of labor, similar to S-D logic and its *market with,* value-co-creation, and resource-integration orientations. Furthermore, it builds upon the dialogical prescription offered by Ballantyne and Varey (2006) which calls for communication between all network participants to co-create value through trust, learning and adaptation. Clearly, the potential cross-fertilization among these literatures deserves more exploration.

Table 1

Conceptual transitions

Goods-dominant logic concepts	Transitional concepts	Service-dominant logic concepts
Goods	Services	Service
Products	Offerings	Experiences
Feature/attribute	Benefit	Solution
Value-added	Co-production	Co-creation of value
Profit maximization	Financial engineering	Financial feedback/learning
Price	Value delivery	Value proposition
Equilibrium systems	Dynamic systems	Complex adaptive systems
Supply chain	Value-chain	Value-creation network/constellation
Promotion	Integrated marketing communications	Dialogue
To market	Market to	Market with
Product orientation	Market orientation	Service orientation

Toward an S-D friendly lexicon

Nowhere is the paradigmatic potency of G-D logic more evident than when one tries to speak precisely about S-D logic using a lexicon developed in association with G-D logic. Words (and distinctions) like producer and consumer, goods and services, demand and supply, etc. carry very specific connotations and an implied logic that are often incompatible with emerging conceptualizations. Repeatedly, we have either noticed (or have had it pointed out to us) that: (1) the connotations of the words we are using are oblique, if not orthogonal, to the ideas we are espousing; and/or (2) what we are trying to say is misunderstood (see Vargo and Lusch, 2006: 43–56).

At The Otago Forum we presented a table showing how the lexicon of marketing is transitioning (see Table 1). The first column is the G-D logic, output-based lexicon that originated largely with economics in the 1800s and was predominant in marketing at least until approximately 1980. Around 1980, a decoupling of thinking began that was manifest in a transitioning lexicon of service marketing, relationship marketing, resource-based views of exchange and competition, etc. but one that was still heavily G-D logic driven (see Vargo and Lusch, 2004b). As marketing increasingly breaks free from the confines of G-D logic, we are witnessing (and hopefully contributing to) a more S-D logic friendly lexicon. Yet, the binds of G-D logic are strong and we find ourselves struggling with acceptable words. For example, The Otago Forum participants agreed that neither 'consumer' nor 'customer' adequately captured the S-D logic service beneficiary and while 'solution' is more S-D logic friendly than 'attribute', it still connotes a unit

of output. Clearly, development of a compatible and fully reflective lexicon will be a major challenge in the advancement of S-D logic.

Concluding comment

As we stated at The Otago Forum, we do not consider S-D logic either ours or complete. Our purpose remains the identification of and participation in what we see as an evolving new dominant logic of marketing, one that will emerge with or without our involvement. We believe that both the need for and the foundation of this logic can be found in commonalities among the apparently divergent schools of thought that constitute the marketing literature. Support for this logic can also be found in scholarly work from other disciplines. We are certain that it is best approached collaboratively and welcome both elaborative and critical viewpoints.

References

Achrol, Ravi S. and Kotler, Philip (2006) 'The Service-Dominant Logic for Marketing: A Critique', in R.F. Lusch and S.L. Vargo (eds) *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, pp. 320–33. Armonk, NY: ME Sharpe.

Arnould, Eric J., Price, Linda L. and Malshe, Avinash (2006) 'Toward A Cultural Resource-Based Theory Of The Customer', in R.F. Lusch and S.L. Vargo (eds) *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, pp. 91–104. Armonk, NY: ME Sharpe.

Ballantyne, David and Varey, Richard J. (2006) 'Introducing a Dialogical Orientation to the Service-Dominant Logic of Marketing', in R.F. Lusch and S.L. Vargo (eds) *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, pp. 224–35. Armonk, NY: ME Sharpe.

Bolton, Ruth (2004) 'Invited Commentaries on "Evolving to a New Dominant Logic for Marketing"', *Journal of Marketing* 68(1): 18–27.

Dixon, Donald F. (1990) 'Marketing as Production: The Development of a Concept', *Journal of the Academy of Marketing Science* 18(4): 337–43.

Grönroos, Christian (2000) *Service Management and Marketing*. Chichester: Wiley.

Grönroos, Christian (2006) 'What Can a Service Logic Offer Marketing Theory?', in R.F. Lusch and S.L. Vargo (eds) *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, pp. 354–64. Armonk, NY: ME Sharpe.

Gummesson, Evert (2006) 'Many-to-Many Marketing as Grand Theory: A Nordic School Contribution', in R.F. Lusch and S.L. Vargo (eds) *The Service–Dominant Logic of Marketing: Dialog, Debate, and Directions*, pp. 339–53. Armonk, NY: ME Sharpe.

Håkansson, Håkan and Prenkert, F. (2004) 'Exploring the Exchange Concept in Marketing', in H. Håkansson, D. Harrison and A. Waluszewski (eds) *Rethinking Marketing*, pp. 75–98. Chichester: Wiley.

Lusch, Robert F. and Vargo, Stephen L. (eds) (2006a) *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*. Armonk, NY: ME Sharpe.

Lusch, Robert F. and Stephen L. Vargo (2006b) 'Service-Dominant Logic as a Foundation for a General Theory', in R.F. Lusch and S.L. Vargo (eds) *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, pp. 406–20. Armonk, NY: ME Sharpe.

Normann, Richard (2001) *Rethinking Business*. Chichester: Wiley.

Vargo, Stephen L. and Lusch, Robert F. (2004a) 'Evolving to a New Dominant Logic for Marketing', *Journal of Marketing* 68(1): 1–17.

Vargo, Stephen L. and Lusch, Robert F. (2004b) 'The Four Services Marketing Myths: Remnants from a Manufacturing Model', *Journal of Service Research* 6(4): 324–35.

Vargo, Stephen L. and Lusch, Robert F. (2006) 'Service-Dominant Logic: What It Is, What It Is Not, What It Might Be', in R.F. Lusch and S.L. Vargo (eds) *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, pp. 43–56. Armonk, NY: ME Sharpe.

Vargo, Stephen L. and Morgan, Fred W. (2005) 'An Historical Reexamination of the Nature of Exchange: The Service-Dominant Perspective', *Journal of Macromarketing* 25(1): 42–53.

Yang, Xiaokai (2003) 'A Review of the Literature of Inframarginal Analysis of Networks and Division of Labor', in Y. Ng, H. Shi and G. Sun (eds) *The Economics of E–Commerce and Networking Decisions*, pp. 69–100. New York: Palgrave Macmillan.

Robert Lusch served as Editor of the *Journal of Marketing* and as Chairperson of the AMA. He is the recipient of the *Academy of Marketing Science* Distinguished Marketing Educator Award; the *Marketing Management Association* Career Award for Innovative Contributions; the Louis Stern Award for contributions to the marketing channels literature; the Lybrand Bronze Medal for contributions to the accounting literature; and twice recipient of the AMA Harold Maynard Award for contributions to marketing theory. He served as Dean of Business at the University of Oklahoma and Texas Christian University. Address: Eller College of Management, 1130 E. Helen Street, Tucson, AZ 85721, USA. [email: rlusch@eller.arizona.edu]

Stephen L. Vargo is Associate Professor of Marketing at the College of Business Administration, University of Hawaii. His research is in the areas of marketing theory and history and consumers' evaluative reference scales and he has published in the J*ournal of Marketing, Journal of Service Research*, *Marketing Management Journal* and other leading marketing journals. He also sits on the editorial review board of the *Journal of Marketing, Journal of Service Research, and Journal of Service Industry Management*. Professor Vargo is the recipient of the Harold H. Maynard Award for his contribution to marketing theory. Address: 2404 Maile Way, Honolulu, HI 96822, USA. [email: svargo@hawaii.edu]