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## From Goods to Service(s): A Trail of Two Logics

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## The Central Messages

- The Important of the Right Logic
  - The greatest danger in times of turbulence is not the turbulence: it is to act with yesterday's logic (Peter F. Drucker)
- There are two alternative logics for:
  - Transitioning from goods to service
  - A foundation for a science of service
- One logic is more foundational, inclusive, and robust



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## Goods-dominant (G-D) Logic

- Purpose of economic activity is to make and distribute units of output, preferably tangible (i.e., goods)
- Goods are embedded with utility (value) during manufacturing
- Goal is to maximize profit through the efficient production and distribution of goods
  - goods should be standardized, produced away from the market, and inventoried till demanded

**Firms exist to make and sell goods**



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## Services and Service(s) Science: The G-D Logic Perspective

- Services are:
  - Value-enhancing add-ons for goods, or
  - A particular (somewhat inferior) type good, characterized by:
    - Intangibility
    - Heterogeneity (non-standardization)
    - Inseparability (of production and consumption)
    - Perishability
- Service(s) Science is the study of the application goods-production and distribution principles to services



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## The Roots of GD logic

- Smith's Bifurcation
  - Positive foundation of exchange:
    - specialized knowledge, labor (service), Value-in-use
  - Normative model of (national) wealth creation:
    - Value-in-exchange and "production"
      - Creation of surplus, exportable tangible goods
- Say's Utility:
  - Usefulness (value-in-use)
  - Morphed into a property of products (value-in-exchange)
- Development of Economic Science
  - Built on Newtonian Mechanics
    - Matter, with properties
    - Deterministic relationships
  - The science of exchange of things (products), embedded with properties ("utiles")



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## Problems with Goods Logic

- Goods are not what we fundamentally "own" to exchange
  - Application of knowledge and skills (our services)
- Goods are not all that "good"
  - Tangibility is not fundamentally why we buy goods
    - It is for the service they render
    - Benefits are generally intangible – brand, image, meaning, experience
  - Standardization ignores individual preferences
  - Value (customer determined) is very is perishable
  - Inventory of tangible goods is resource depleting
- Focuses on what we make, not what we do for people
  - What customers need
  - "Consumer orientation" does not help
- Focuses on *efficiency* of *output processes* rather than *effectiveness* of resource application (*inputs*)
- Does not inform (misinforms) firm transition to service



## Uneasiness with Dominant Model

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- Characterizations of G-D logic
  - "marketing myopia" (Levitt 1960),
  - "manufacturing logic" (e.g., Normann 2001),
  - "old enterprise logic" (Zuboff and Maxmin 2002)
  
- What is needed is not an interpretation of utility created by marketing, but a marketing interpretation of the whole process of creating utility" (Alderson, 1957)
  
- "The historical marketing management function, based on the microeconomic maximization paradigm, must be critically examined for its relevance to marketing theory and practice." Webster (1992)
  
- "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." Achrol and Kotler (1999)



## A Partial Pedigree

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- Services and Relationship Marketing
  - e.g., Shostack (1977); Berry (1983); Gummesson (1994); Gronroos (1994); etc.
- Theory of the firm
  - Penrose (1959)
- Core Competency Theory
  - (Prahalad and Hamel (1990); Day 1994)
- Resource-Advantage Theory and Resource-Management Strategies
  - Hunt (2000; 2002); Constantine and Lusch (1994)
- Network Theory
  - (Hakansson and Snehota 1995)
- Interpretive research and Consumer Culture theory



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## Service-Dominant Logic Basics

- A logic that views service, rather than goods, as the focus of economic and social exchange
  - i.e., Service is exchanged for service
  
- Essential Concepts and Components
  - Service: the application of competences for the benefit of another entity
    - Service (singular) is a process—distinct from “services”—particular types of goods
  - Shifts primary focus to “operant resources” from “operand resources”
  - Sees goods as appliances for service deliver
  - Implies all economies are service economies
    - All businesses are service businesses



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## Foundational Premises

- FP1. The application of specialized skill(s) and knowledge is the fundamental unit of exchange.
  - Service (application of skills and knowledge) is exchanged for service
- FP2. Indirect exchange masks the fundamental unit of exchange.
  - Micro-specialization, intermediaries, and money obscure the service-for-service nature of exchange
- FP3. Goods are distribution mechanisms for service provision.
  - “Activities render service; things render service” (Gummesson 1995) : goods are appliances



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## Foundational Premises (2)

- FP4. Knowledge is the fundamental source of competitive advantage
  - Operant resources, especially “know-how,” are the essential component of differentiation
- FP5. All economies are service economies.
  - Service only now becoming more apparent with increased specialization and outsourcing
- FP6. The customer is always a co-creator of value.
  - There is no value until offering is used—experience and perception are essential to value determination



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## Foundational Premises (3)

- FP7. The enterprise can only make value propositions.
  - Since value is always determined by the customer (value-in-use)—it can not be embedded through manufacturing (value-in-exchange)
- FP8. A service-dominant logic is inherently customer oriented and relational
  - Operant resources being used for the benefit of the customer places the customer in the center of value creation and implies relationship.
- FP 9. Organizations exist to combine specialized competences into complex service that provide desired solutions.
  - The firm is an integrator of macro and micro-specializations

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# Difficult Conceptual Transitions

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## Goods-Dominant Concepts

## Transitional Concepts

## Service-Dominant 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	→	Dialog
To Market	→	Market to	→	Market with
Product orientation	→	Market Orientation	→	Service-Dominant Logic (Consumer and relational)

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# Evolution of Marketing Thought

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Through 1950

1950-2010

2010+



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## Misconceptions of S-D logic

- It reflection of the transition to a services era
  - In S-D logic, all economies are service economies
- It simply replaces goods with services in primary importance
- It is a theory
  - S-D logic is a logic, a mindset, a lens, but not a theory
  - Could provide the foundation for a grand theory of exchange
    - Foundation for service science



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## Potential Implications

- Making “services” more “goods-like” (tangible, separable, etc.) may not be correct normative marketing goal
  - Make goods-more service-like.
- Reconsider the primary nature of the firm
  - From *manufacturing* (make and sell) to *marketing*
    - resource utilization for service provision
  - Outsource and other non-core competences
  - Virtual, “on demand” modular marketing organizations





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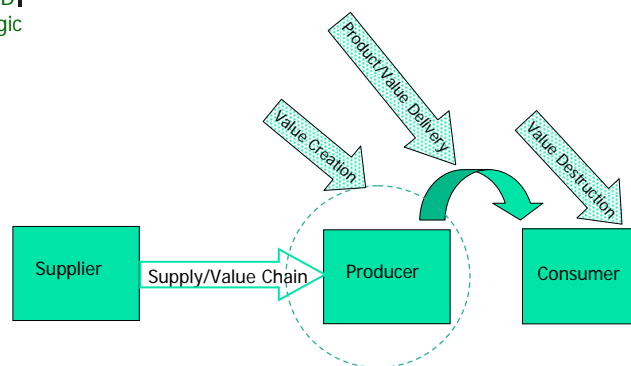
## Potential Implications (2)

- Selling service flows rather than ownership, even when goods are involved
- Shifting to Value-Based Pricing
  - Based on value-in-use
- Network to network marketing
  - Resource integration for resource integrators



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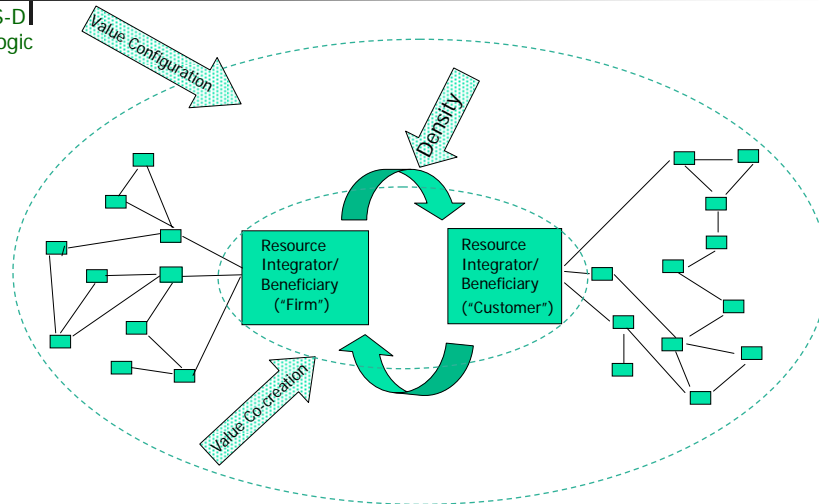
## Value Production and Consumption



## Service Exchange through Resource Integration and Value Co-creation



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## Service Science in S-D Logic



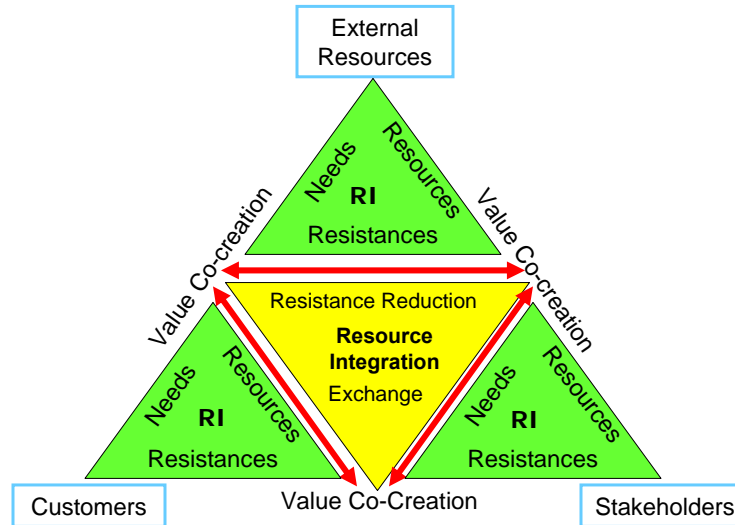
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- The study of resource integration and exchange among service systems

# The New Fractal Geometry of Service-System Exchange?



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## Thank You!

For More Information on S-D Logic visit:

[sdlogic.net](http://sdlogic.net)

We encourage your comments and input. Will also post:

- Working papers
- Teaching material
- Related Links

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## Reflections of the Product Model

- Marketing is:
  - The “creation of utilities” (Weld)
    - Time, place, and possession
    - “production function”
  - Concerned with value distribution
- Orientations
  - Production and Product
    - distribution vs. value-added
  - Consumer Orientation
    - Evidence of problem vs. correction
  - Marketing management and Consumer Behavior
- Alderson’s admonition:
  - “What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process creating utility.”
- Disconnect between marketing theory and marketing practice
- Sub-disciplinary division



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## Sub-disciplinary Divergences and Convergences

- Business-to-Business Marketing
  - From differences
    - Derived demand, professional buyers, flocculating demand, etc
  - To emerging new principles
    - Interactivity, relationship, network theory, etc
- Service(s) Marketing
  - From differences:
    - Inseparability, heterogeneity, etc.
  - To emerging new principles:
    - Relationship, perceived quality, customer equity, etc.
- Other Sub-disciplines
- Other Intra-marketing initiatives
  - e.g., interpretive research, Consumer culture theory, etc.
    - From deterministic models to emergent properties
    - From products to experiences
    - From embedded value to individual meanings and life theme



## A Service-Logic Shift for Service Science

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Meta Questions?	G-D Logic	S-D Logic
<i>What do firms do?</i>	They produce output, thus emphasis is on <i>efficient</i> production.	They produce inputs to service systems, thus emphasis on how to <i>effectively</i> co-produce inputs .
<i>How do firms do this?</i>	Through operand resources, thus must know how to <i>control</i> people and stuff (static).	Through operand resources, thus must know how to <i>collaboratively</i> create apply operand (dynamic) resources.
<i>Why do firms do this?</i>	To maximize <i>shareholder</i> wealth, thus must know how to increase profit, cash flow and share price.	To build mutually beneficial exchange relationships that enhance mutual well-being for the firm and stakeholders— i.e., serve <i>all stakeholders</i> .
<i>What scientific concepts and tools are dominant?</i>	Optimization Models; Controlled Experiments; Static Equilibrium; Logic of Justification.	Evolutionary Computing; Ethnography; Complex Adaptive Systems; Logic of Discovery.



## Why Service?

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- **Accuracy:** It is precisely service that we are talking about
  - What is exchanged is the “application of specialized knowledge and skills (competences) for the benefit of another party”—i.e., Service
- **Thought-leadership:** Service marketing concepts and insights transforming marketing thought
  - Transaction → Relationship
  - (Manufactured) Quality → Perceived (Service) Quality
  - Brand Equity → Customer Equity
  - Consumer → Prosumer (co-producer of value)
- **Continuity:** Does not require rejecting the exchange paradigm
  - Just change in focus from units of outputs to processes
- **Normatively Compelling:** The purpose of economic exchange is mutual service
  - Implies managerial, macro, and ethical standards
    - Purpose of the firm is to serve...

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## Related Work

- Vargo, S. L. and R.F. Lusch (2004) "Evolving to a New Dominant Logic of Marketing," *Journal of Marketing*
  - *Harold H. Maynard Award* for "significant contribution to marketing theory and thought."
- Vargo, S.L. and R. F. Lusch (2004) "The Four Service Myths: Remnants of a Manufacturing Model" *Journal of Service Research*
- Vargo, S.L. and F.W. Morgan (2005) "An Historical Reexamination of the Nature of Exchange: The Service Perspective," *Journal of Macromarketing*,
- Lusch, R.F. and S.L. Vargo, editors (2006), *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, Armonk, NY: M.E. Sharpe

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## What is needed

- Positive Theory
  - "Market are everywhere and nowhere..." (Venkatesh, Penalosa, and Firat 2006)
- Foundations for Positive theory
  - Reorientation of markets, purpose of the firm, and marketing
    - S-D Logic, resource-based theory of the firm
  - Shift from products as unit of analysis to collaborative value creation and determination
    - B2B, service, and relationship
  - Refocus on operant resources as source of value
    - Resource-based theories of the firm; resource advantage theory
  - Elimination of producer/consumer distinction
    - B2B marketing/network theory
    - Inframarginal analysis
  - Models of emergent structure and processes
    - Complexity theory
    - Interpretive research
- Theory of resource integration and exchange
  - Theory of markets to inform normative marketing theory



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## What S-D Logic Might be

- Foundation of a paradigm shift in marketing
  
- Perspective for understanding role of markets in society—Theory of Markets
  - Basis for general theory markets and marketing
  - Basis for “service science”
  - Foundation for theory of the firm
  - Reorientation for economic theory



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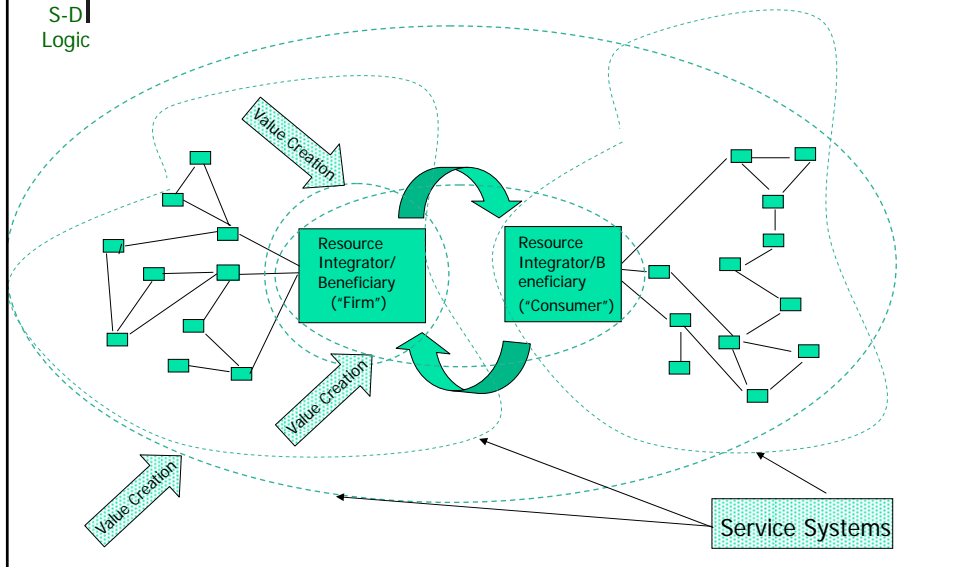
## Timeline of SD-Logic

- |  |   |
|--|---|
| <ul style="list-style-type: none"><li>■ Timeline<ul style="list-style-type: none"><li>■ Initial Draft 1995</li><li>■ Refinement 1996-1999</li><li>■ Summer 1999 Submission</li><li>■ Summer 2000 Submission</li><li>■ Summer 2001 Submission</li><li>■ Summer 2002 Submission</li><li>■ Winter 2003 Submission</li><li>■ Spring 2003 Paper Accepted<ul style="list-style-type: none"><li>■ Commentaries invited</li></ul></li><li>■ Published January 2004</li></ul></li></ul> | <ul style="list-style-type: none"><li>■ Summary of Process<ul style="list-style-type: none"><li>■ Four major revisions</li><li>■ Two editors</li><li>■ Six reviewers</li><li>■ One strong reviewer advocated from beginning</li><li>■ Sixth reviewer became advocate for publishing with commentaries</li><li>■ Editor Ruth Bolton coached and guided along the way</li></ul></li></ul> |
|--|---|

# From Value Creation to Resource Integration



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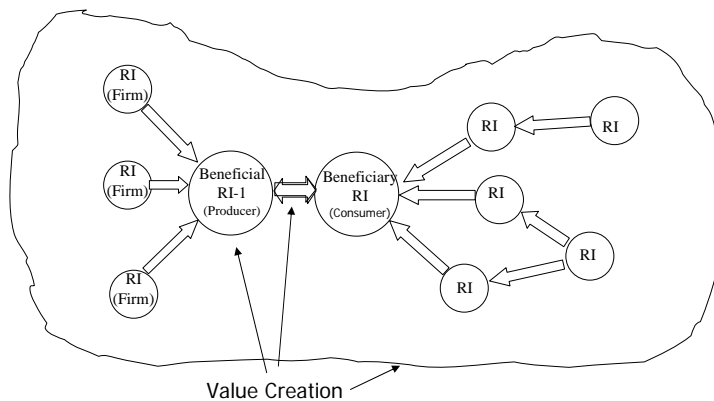


# From Value Creation to Resource Integration



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- Foundation: Modified FP9: All economic actors are resource integrators (and resource exchangers)







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## Is It All About Services: A Paradigm Inversion (1999)

“While your manuscript has interesting ideas, the current positioning of the paper leaves one feeling that there is not much new in the paper.”

- JM Editor David Stewart (November 1999)

“The author(s) are to be applauded for taking on such an extremely ambitious essay. To propose a true Khunian paradigm shift in marketing and to succeed is to try to do something that no theoretical paper has achieved that I am aware of—although historians of science will ultimately be the judges of such matters.”

- JM Reviewer (November 1999)

“Every once in a while a paper comes along that is truly exciting—that has the ability to change the way people think. This is one of those papers. If this paper is published in JM, then it has the opportunity to be a classic in our field. I wish that I had written it.”

- JM Reviewer (November 1999)



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## Transition & Convergence: From an Output to a Process Centered View of Marketing (2002)

- “All three reviewers praise you for undertaking the challenging task of writing a paper that synthesizes a diverse marketing literature (over a substantial period of time)—and attempts to crystallize the debate about the meaning and direction of marketing.”
- “As you may recall, I invited a new reviewer (Reviewer 6)...He/she found the paper “interesting and provocative” and rightly observes that it is unlikely (and perhaps undesirable) for the reviewers to converge in their opinions.”
- “I ask you to create a shorter and more focused paper (that retains your key arguments). Then, if your paper is accepted for publication, it can provide the basis for invited commentaries by distinguished scholars.”

- Editor, Ruth Bolton



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## Invited Commentaries: Day, Deighton, Narayadas, Gummeson, Hunt, Prahalad, Rust, Shugan

Vargo & Lusch (2004) observe that an evolution is underway toward a new dominant logic for marketing. The new dominant logic has important implications for marketing theory, practice, and pedagogy, as well as for general management and public policy. ... The ideas expressed in the article and the commentaries will undoubtedly provoke a variety of reactions from readers of the *Journal of Marketing*.

- Ruth Bolton, Editor, *Journal of Marketing* (2004)



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## Related Work (Continued)

- Lusch, R.F., S.L. Vargo (2006), "The Service-Dominant Logic of Marketing: Reactions, Reflections, and Refinements, *Marketing Theory*
- Lusch, R.F., S.L. Vargo, and A. Malter (2006), Marketing as Service-Exchange: Taking a Leadership Role in Global Marketing Management, *Organizational Dynamics*,
- Lusch, R.F., S.L. Vargo, and M. O'Brien (2007), "Competing Through Service: Insights from Service-Dominant Logic," *Journal of Retailing*
- Lush, R. F. and S. L. Vargo, editors (2007) "Why Service?, *Journal of the Academy of Marketing Science*, (forthcoming)