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Marketing as Service-Exchange:

Taking a Leadership Role in Global Marketing Management

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INTRODUCTION

Companies with a superior understanding of the customer usage experience create offerings that promise greater value-in-use than similar competing offerings, which enables the most innovative companies in the world to outperform rivals. The Boston Consulting Group and *BusinessWeek* recently surveyed 1,070 senior managers in 63 countries in Asia, Europe and North America, and found that the underlying technology of many innovative products is not necessarily different or more advanced than previous models or competing offerings; instead, one of the primary keys to building a winner is a firm's ability to embed significantly greater service potential in a relatively simple device or service. For example, the Apple iPod is not valued by customers because it's a mobile MP3 player (there are many similar and even technically superior devices) or because it carries the Apple brand (most iPod users do not own a MacIntosh computer). Its superior value to users stems from its unique feel and shape, ease of use, and simplicity of its software, coupled with a new business model that provides consumers affordable access to plentiful content while also giving music companies access to a mass market and mechanism for collecting payment for copyrighted material. The basic technology of playing MP3 music files is unremarkable; it's the constellation of additional service potential embedded in Apple's version of the product that makes the iPod MP3 player so dominant (over 70 percent market share).

Similarly, 3M Company excels at embedding ever-greater value-in-use in new versions of its Post-It adhesive products, and Nokia engineers excel at customizing the basic mobile phone interface (screen, menus, contact list) for use by masses of less literate and low-income consumers in India, China, and other developing countries. Other leading innovators such as Google Inc. embrace the concept of ''open innovation.'' For instance, Google extends its already substantial in-house research and development (R&D) capability by inviting customers to co-produce imaginative applications for new technologies and services, such as its global mapping software.

What allows these leading innovators to surge ahead while other firms engage in endless cutthroat competition and shrinking profit margins? We argue that the world's most innovative companies share a different mindset, or mental model, of how markets work compared with the traditional view of exchange and value in marketing and economics. Until now, marketing theory and practice have developed a logic that is heavily based upon what is tangible. This logic has led to a Newtonian model of marketing—one in which goods are embedded with value, produced away from the market or consumer, and sold through the manipulation of marketing-mix decisions that will maximize firm profit. Under this logic, the market and the customer are things to act upon: to segment, to target, to penetrate, to manipulate, and to control. Arguably, this logic and model worked reasonably well in relatively small and closed national markets associated with the creation of economic value through the extraction and combination of static, depletable, natural resources—that is, during the Industrial Revolution. Witness for example the success of General Motors Corp. and Ford Motor Co. during the early to mid-20th century using this model. However, the world and its markets have changed, and the logic and model are no longer adequate, if they ever were.

J. Paul Getty said, ''The meek may inherit the earth, but not the mineral rights.'' Today tangible or mineral rights are not the key to long-term success. Rather, what is increasingly apparent is that the application of intangible resources, like information, knowledge, and ideas – derived from human resources – is what is being exchanged, both locally and globally, and provides the fountainhead of cash flow. General Motors Corp. may think it is failing in comparison with Toyota Motor Corp. because of product design or other product-centric factors. The truth is that Toyota is managing its intangible resources, with human resources on center stage, more effectively. In a service-dominant logic of marketing, it is the service that these human resources can offer that becomes the central focus. Importantly, a service-dominant logic is helpful not only to large global firms such as Wal-Mart Stores (U.S.), British Petroleum (U.K.), ING Group (Netherlands), Siemans AG (Germany), Hitachi Ltd. (Japan), Nestle S.A. (Switzerland), Samsung Electronics Co. (Korea), Peugeot Groupe (France) and others but also to smaller firms playing in increasingly and unavoidably global markets, as well as nations providing the global stages.

MARKETING'S TANGIBLITY FIXATION

There are a number of reasons why marketing developed a passion for tangibility. Among them are (1) that marketing thought developed from economic thought, which itself developed from Adam Smith's fixation on national wealth creation through the export of surplus tangible goods, (2) that the model of science was the Newtonian mechanical model of tangible things being embedded with properties, and (3) that marketing practice developed around a business function focused on the distribution of the tangible products of industry and agriculture. Perhaps also, human senses are more attuned to tangibility and so abstract concepts are more easily understood in relation to tangible reference points. For example, when Marconi captured the intangible power of electromagnetic radio waves, the new technology was referred to as ''wire''-less (without the tangible wire), and in the 1970s, Daniel Bell coined the term ''post-industrial'' society to represent moving from a focus on the manufacture of tangible good to intangible services. More recently, Thomas Freidman used a tangible ''world is flat'' metaphor in updating Kenichi Ohmae's notion of open competition and access to information.

However, while it may be surprising if not disquieting to many, international trade is not fundamentally about what is tangible and perceivable. The economic world is not about the production and exchange of stuff, creating supply chains for stuff, promoting for purposes of selling stuff, and setting the price for stuff that will maximize profit for the firm and, in the aggregate, determine the economic balance of trade for nations. Rather, it is all about *service*. That is, all economic entities are service providers to one another. As we will illustrate, this phenomenon occurs within firms, across firms, and across nations.

Service, as we use the term, is the use of human resources for the benefit of another party. We argue that this universal role of service in the economy provides a frame of reference that can help guide a management and marketing philosophy that is more effective and better contributes to global trade and sustainability than the frame of reference based on tangible goods, regardless of the type of industry, organization, or global location. We call this revised philosophy *service-dominant logic* (*S-D logic*).

There is a time and season for all ideas. In the mid-19th century, French economist Frederick Bastiat espoused a service dominant logic when he argued that the root of all economic activity is the exchange of services. Fundamentally, this exchange of service for service means that (1) all humans (and human organizations) have to exchange is their ability to serve other human entities, and (2) even when goods are involved, they are just mechanisms for service provision. Thus, a global organization such as Wal-Mart Stores uses its human resources to serve populations through sourcing and distributing service-rendering goods. Wal-Mart's comparative advantage comes from being able to provide this goods-sourcing-distribution service more efficiently than the competition. When they do this they create cash flows that provide Wal-Mart the right to the services of others, while still having cash left to distribute to shareholders and to fund growth. However, the fundamental truth still holds, service is exchanged for service.

Historically, national wealth was understood to be contingent on the manufacture and export of tangible goods. Today much of this focus on the tangible continues, even though much of what is exported is intangible. For instance, China's achievements are highlighted and rewarded by indicators such as a rapidly growing merchandise trade surplus and surging consumption of energy and steel that measure economic performance in largely tangible terms. India appears to lag behind China in terms of merchandise trade, because India's strength in providing professional services is not as easily captured in such traditional measures. The tangibility bias built into many standard economic indicators masks India's greater long-term potential. In fact, developing countries that skip the ''stage'' of heavy industrialization and jump straight to high-value service exports may appear to be regressing economically—when the opposite is true. For example, if a Costa Rican plantation ceases production and export of bananas to become an eco-tourism resort, Costa Rica's merchandise trade balance will appear to be adversely affected, even though foreign exchange earnings, monetary flows into the economy and per capita incomes may increase. The bias against ''service'' accounting in national accounts similarly understates growth in the U.S. and other developed economies.

WHAT IS SERVICE-DOMINANT LOGIC?

Service-dominant logic rejects the traditional distinction between goods and service (i.e., alternative forms of products) but rather considers the relationship between them. As noted, goods are viewed as *appliances*, or *vehicles*, terms typically associated with devices to help perform chores or transport things from place to place. They serve as alternatives to direct service provision.

Hundreds of years ago, only royalty and the very wealthy had access to music through the musicians they funded and for whom they often provided instruments. Then along came Alexander Bell's phonograph, Marconi's radio, and so on to today's portable music players such as the Apple iPod. Now, instead of the musicians playing directly for the privileged few, they play indirectly to the millions if not billions by combining their mental and physical skills to play a musical instrument, digitizing the output, and distributing it via the electromagnetic spectrum on a 24/7 basis. In brief, music is now on-demand for virtually every economic class in society. Undoubtedly, goods are a special case, or a special means of, the more general service provision. When Apple sells an iPod, IBM a computer, Sony a video game machine overseas, the critical export is not the tangible materials, the good, but the service potential of a whole host of integrated resources (knowledge) embodied in the materials of these physical platforms.

Service-dominant logic shifts the primary focus from what we call *operand resources*—tangible, static resources that require other, more dynamic resources to act on them to be useful – to *operant resources* – dynamic resources that can act on other resources, both operand and operant, to create value through service provision. Importantly, static operand resources are usually finite and depletable, while dynamic operant resources are not only non-depletable in most cases—but also replenishable, replicable, and capable of creating additional, new operant resources. This shift has important implications for issues of social well-being and resource sustainability in a true global economy.

IMPROVING MARKETING'S ROLE IN GLOBAL MANAGEMENT

Goods-dominant logic, with its central focus on the tangible good and the accompanying tendency to view the customer (and employee) as someone to do something to in order to maximize firm performance, does not appear to be working well presently, if it ever did. There is ample evidence that the aggregate marketing system is not serving society as well as it could, partly by failing to fully contribute to individual, firm, national and global well-being. Some of this failure is reflected in the common perception of marketing as intrusive and misleading, alienating customers and society. Additionally, marketing is losing influence in the firm because it is increasingly unable to deliver the revenues and profits that chief executive officers (CEOs) and investors demand. Marketing is occasionally even portrayed as a tool of a new form of ''colonization,'' used in the exploitation of developing countries.

A service-dominant logic of marketing, in contrast, has the potential to (1) improve marketing productivity at the firm level, (2) decrease consumer alienation in society, and (3) foster an aggregate marketing system that is more pro-society by enhancing global sustainability and increasing the standard of living and quality of life. This is a tall order. But we believe that service-dominant logic offers a richness that unleashes the potential constructive role of marketing in society.

Over the last several decades attempts have been made to modify the old dominant logic with concepts such as market orientation, customer orientation, CRM, service quality, and so on—but these have been ways to adjust, reframe, or enhance the old logic rather than replace it. The underlying focus of exchange remained the tangible good. Service-dominant logic, by contrast, represents a change in the fundamental, framework used for understanding exchange and marketing.

Service-dominant logic is more of a philosophy and perspective than a theory. It is a lens for viewing market exchange processes more clearly. It provides a mental model of exchange with different implications for practitioners and public policy makers than the prevailing dominant logic in much the same way as an understanding of justice can refocus the notion of democracy, an understanding of love can refocus the notion of sex, and an understanding of strategy can refocus the practice of management.

How Service-Dominant Logic Can Help?

Just as modern industry did not eliminate the need for agriculture or its importance and ''post-industrial'' society (sometimes referred to as a ''service economy'' or ''information age'') has not eliminated industrial production, service-dominant logic is not intended to eliminate the need for most traditional marketing concepts and practices. Instead, service-dominant logic takes the rather static concepts of the old logic and reconceptualizes marketing as a continuous series of competitive social and economic processes focused on exchange opportunities involving value propositions that offer to contribute to some combination of individual, firm, and/or national well-being. In a global management context, the service-dominant logic prescription can be summarized as first and foremost identifying or developing core competences, the fundamental knowledge and skills of an economic entity that represent potential global competitive advantage. The firm should then use these core competences to cultivate relationships with potential customers. Collaboratively working with these customers and the firm's other partners in its supply and value network, the firm should strive to co-create value with customers. And finally the firm should gauge marketplace feedback by analyzing financial performance to help assess its value proposition fulfillment.

This approach is driven by an innate purpose of doing something *for and with* another party, and is thus customer-centric and customer-responsive. It leverages the strengths of the firm and nation to satisfy customer needs and achieve organizational and societal objectives. The unique matching of firm capabilities with customer needs, guided by an on-going conversation between them, generates long-term customer loyalty and competitive advantage.

The shift from a goods-centered view to a service-centered view can be captured in eight commensurate shifts in thinking. These are discussed in the following sections and summarized in Table 1: (1) a shift to a focus on the process of serving rather than the creation of goods, (2) a shift to the primacy of intangibles rather than tangibles, (3) a shift to a focus on the creation and use of dynamic operant resources as opposed to the consumption and depletion of static operand resources, (4) a recognition of the strategic advantage of symmetric rather than asymmetric information, (5) a shift to conversation and dialog as opposed to propaganda, (6) an understanding that the firm can only make and follow through on value propositions rather than create or add value, (7) a shift in focus to relational rather than transactional exchange, and (8) a shift to an emphasis on financial performance for information feedback rather than a goal of profit maximization. Collectively, these eight shifts can provide a frame of reference for developing a unifying global perspective for marketers across the organization and in all parts of the world. Furthermore, it provides them a mental model and tools to continuously adapt to a rapidly changing and complex global environment. Stated alternatively, we view service-dominant logic as a survival kit for global marketing managers (Exhibit 1).

EXHIBIT 1 CONTRASTING THE GOODS AND SERVICE-DOMINANT LOGICS

Goods Dominant Logic	Service-Dominant Logic
Goods	*Service(s)*
Tangible	*Intangible*
Operand Resources	*Operant Resources*
Asymmetric Information	*Symmetric Information*
Propaganda	*Conversation*
Value Added	*Value Proposition*
Transactional	*Relational*
Profit Maximization	*Financial Feedback*

Goods to Service

When a firm sees itself primarily as a manufacturer with an implied purpose of selling what it makes, it sees the key to making more money as selling more and more goods. There is little or no logic in selling fewer goods: Why should Volkswagen want to sell fewer cars, Royal Dutch/Shell to sell less oil, or Dow to sell fewer chemicals? In contrast, the service-dominant logic suggests that since these goods are actually mechanisms for service provision, the customer is always buying a service flow rather than a tangible thing, and thus the firm should perhaps reconsider the nature of its offering. Stated alternatively, service-dominant logic offers an opportunity for the organization to focus on selling a flow of service. This would encourage it to determine the optimal configuration of goods, if any, for a level of service, the optimal organization or network configuration to maintain the service, and the optimal payment mechanism in exchange for providing the service. That is, the organization is encouraged to think about the service *system*. For example, if a heating and air conditioning equipment manufacturer views itself in the temperature control business, then it could decide to sell climate control for a building rather than just mechanical devices. It could charge per cubic foot of climate maintained on a monthly or annual basis and/or through a payment plan involving gain sharing, in which costs are reduced as system performance rises, thus benefiting financially both the firm and the customer. A seller entering into such an arrangement has an incentive to look at everything about the building that will influence heating and cooling costs. Predictably that would include the heating and air conditioning equipment, but also windows, insulation, temperature control devices, etc. There is also an implied incentive to sell and make less (or no) equipment and to use fewer natural resources.

By focusing on the service flows, the customer is also receiving the benefit rather than the device, which relieves the customer from what are typically undesirable maintenance, disposal, and replacement chores. Further, many firms and households purchase more equipment (appliances) than they need because the marketplace often provides no other reasonable option. The result is that a lot of natural resources sit idle in the form of unused or underutilized tangible goods. Zipcar is pursuing this strategy by maintaining and insuring vehicles it parks throughout dense urban areas where members can reserve a car for an hour or more. Zipcar is converting cars to a utility such as electricity, heat and water while at the same time minimizing underutilized vehicles.

Service-dominant logic encourages firms and their customers to think in terms of these service flows, rather than in terms of purchasing goods. In fact, Jonathon Schwartz, the new CEO of Sun Microsystems Inc., has given free computer workstations to business customers that buy service agreements. He believes that the future of Sun rests in selling service rather then computer hardware or software. IBM Corp. has used a similar logic to develop its ''on-demand'' business model, where information technology (IT) is delivered as a flow of services rather than through a transaction involving change of ownership of equipment. IBM is also developing a system to allow insurance firms to provide insurance to automobile owners equipped with global positioning system (GPS) tracking devices that will charge for coverage based on actual mileage traveled, time of day, and risk level in the area being driven.

Tangible resources that are part of our ecosystem can also be viewed in terms of service provision. For example, natural pollination of crops by insects or trees that help prevent erosion and protect the watershed are examples of service provision, as are trees planted around houses to provide shade in summer but sunlight and warmth during winter. These service flows can be a substitute for industrial products. For instance, sediment and nutrients flow into the Panama Canal due to deforestation along the canal. The sediments clog the canal, while the nutrients do so indirectly by stimulating growth of waterweeds. The government can purchase equipment and hire workers to continuously dredge the canal to keep it clean or, alternatively, replant trees. The trees would trap sediments and nutrients and also help regulate the supply of fresh water. In brief, the forests would serve as a replacement for building vast reservoirs and filtration beds.

This is not an isolated example. Nature provides considerable potential service flows that entities can transform into service exchange. As one notable example, consider the energy generated from the ocean currents, wind, and solar system. The ebb and flow of ocean tides can power turbines to provide electricity to coastal areas, where a considerable proportion of the world population lives. By similar outside-the-box thinking, British Petroleum (BP) has become a global leader in developing sustainable alternative (low or non-carbon) energy programs. Likewise, General Electric Co. is devoting considerable knowledge and skills to improving sources of energy and water through the use of technology.

Tangibles to Intangibles

MasterCard International has developed a global marketing campaign around the theme of ''priceless.'' A typical advertisement shows consumers purchasing tangible goods such as food, wine, furniture, apparel, or jewelery. The advertisement then displays the price (value-in-exchange) of each of the items. However, each advertisement ends with a statement emphasizing that the goods were only the means to provide a ''priceless'' experience (value-in-use)—for instance, spending time with your loved one at a special dinner or watching your children win a soccer game. In a service-dominant logic world, it is central to understanding: exchange is fundamentally, primarily about the intangible rather than the tangible.

A pair of $100 Nike athletic shoes have a material content that is a fraction of the $100. However, what a Nike shoe provides the teenager wearing them is a gateway for dreaming, experiencing, and expressing self-concept. A cup of coffee at Starbucks is not about consuming a commodity beverage; it is about experiencing a moment of relief from a hectic work and home life. Service-dominant logic recognizes that the most valuable and enduring things are not things. Tangible matter decays and/or is discarded, while intangible memories and experiences are embedded in our minds forever.

The shift from the tangible to the intangible also focuses the marketer on the solution that the customer is seeking. It is the old adage that people don't buy drills; they buy quarter-inch holes. In business-to-business marketing this is called solution selling. But in all firms and industries across the globe, the increasing mantra is about providing solutions—DuPont and Dow providing solutions that use chemistry to improve life and global sustainability, Cargill providing solutions to improve yields for farmers or enhance the nutritional value of foods, BP providing solutions to help industry and consumers meet their energy needs. When the focus becomes the solution and the intangible, what firms learn is that the tangible content cost of their product becomes smaller and smaller and the brand rises in value and importance. Adidas, Apple, Benetton, Coca-Cola, Rolex, Starbucks, Toyota, etc. all are about the intangible experience; the tangible content is only the platform or the appliance used for the more important and more enduring experience.

Operand to Operant Resources

A static operand resource is usually tangible and requires something be done to it to be useful, whereas a dynamic operant resource is largely intangible and can produce an effect. In service-dominant logic, operant resources are the source of competitive advantage. Historically, we have been taught that certain countries (e.g., Singapore and Israel) did not accumulate wealth or high productivity because they lacked tangible natural resources. However, service-dominant logic implies that knowledge, an intangible resource, is the source of national wealth and the only sustainable source of competitive advantage.

Knowledge is also something that can be duplicated and shared without the knowledge provider giving up the knowledge. This makes knowledge quite different from tangible resources, which the seller loses when they are exchanged. In addition, knowledge can allow us to increase the usefulness, effectiveness, and efficiency of depletable resources. An innovation that doubles fuel efficiency of carbon-based engines has the same effect as a doubling of oil reserves. Couple with this the development of an engine that doesn't use carbon fuel, but rather a renewable energy source such as solar and carbon fuel, and reserves are further enhanced. This is precisely what General Electric is pursuing in its ''ecomagination'' (see: www.ge.ecomagination.com) strategy.

The global companies (and countries) that will be able to adapt in a rapidly changing technological world are those that invest heavily in knowledge development. Even firms (or countries) that move labor to lower-cost areas of the world, such as China or India, need to recognize that it is in their interest to develop the knowledge and skills of their new workforce. Predictably, as this occurs workers' skills and pay are increased, and they increasingly become customers for service(s) they don't presently acquire in the market, thus expanding both local and global market potential.

Service-dominant logic suggests that all participants in the value-creation process be viewed as dynamic operant resources. Accordingly, they should be viewed as the primary source of both organizational and national innovation and value creation. Operant resources are not static; they both devolve and evolve in scope and effectiveness. That is, like the goods they can produce, operant resources, if not augmented, become commoditized over time. Thus, they must be continually expanded and enhanced. For example, in the U.S., many highly skilled craft specialties of 100 years ago were first replaced by ''skilled'' manufacturing abilities, and can now be performed by relatively ''unskilled'' labor or perhaps even by robots (i.e., without human labor altogether)—that is, the human skills necessary for these tasks have devolved from ''high tech'' to ''low tech.'' However, at the same time, newer, higher-level skills – today's high-tech jobs, such as design, branding, resource integration, etc. – have evolved. This continual augmentation of dynamic operant resources is critical to competitive viability of the nation and the firm alike.

Often, acquiring non-core, higher-level competences and commoditized competences in the market place by outsourcing (foreign or domestic) is not only non-detrimental to this augmentation process but may actually be essential to the process. This outsourcing promotes vitality and growth by allowing the firm or nation to stay focused on the sustenance and augmentation of more integrative and ever more valuable competences, rather than the maintenance of non-competitive resources. In fact, this outsourcing is at the very heart of market creation and firm and national growth. That is, market creation requires outsourcing.

As the late organizational consultant and author Richard Normann has argued, specialization requires outsourcing to *relieve* actors from performing tasks which can be better performed by more specialized actors elsewhere. He talks about the process in terms of ''unbundling'' and ''rebundling'' of assets (''resources''). This rebundling represents the creation of new technology or, in service-dominant logic terms, new dynamic operant resources that combine with other operant resources (including those related to customers, employees, and other value-creation partners) in value creation. Thus, this new technology is a higher-level competence that provides competitive advantage through a *denser* level of resource integration. It is this (re)integration of resources that has been identified as the most critical aspect of innovation.

The effect of this innovation is typically to create not only more firm and national wealth, but often more employees – even after allowing for loss of specific jobs from outsourcing – and often at higher value (thus higher salaries) because of the higher-level skills involved and the increased demand.

Asymmetric to Symmetric

Service-dominant logic suggests that all exchanges should be symmetric. A focus on symmetric information and treatment implies: (1) one does not mislead customers, employees or partners by not sharing relevant information that could enable them to make better and more informed choices, and (2) all exchange or trading partners are treated equitably. The first implication is largely at the firm level, however, the second provides major guidance for countries.

In a globally networked and open economy, information symmetry becomes essential because the system will drive out those organizations that are not trustworthy or symmetric in information provision. Organizations must promote the symmetric flow of information both across firms and customers and within the firm where different departments and divisions can be internal customers and suppliers of one another. In brief, this argues for truth telling as a globally pervasive norm in business.

A second type of symmetry advocated by service-dominant logic relates to the treatment of trading partners. This has national and global, in addition to inter-firm, implications. Essentially the symmetric treatment of trading partners means treating others the way you would want to be treated. It means removing barriers that are artificially created to give differential advantage to one partner over others (contrary to the spirit of treating all ''most favored nation'' partners equally).

Asymmetry can be seen most often in the erection of non-tariff trade barriers and punitive, countervailing duties, which introduce noise into the system and discourage free and open markets. Globally, effective division of labor arises when all countries can focus and capitalize on the competencies in which they have specialized and differential advantage. The establishment of trade barriers results in losses in wealth creation for both individual countries and the system as a whole. Recent rounds of multi-lateral trade negotiations have lowered average tariff rates dramatically, introduced mechanisms for dispute resolution, and have begun to address intellectual property rights and services, but trade-distorting barriers and subsidies still abound. Trade between developed and developing countries remains particularly asymmetric. Regrettably, some of the highest barriers to the global exchange of service are imposed by low-income countries on their low-income neighbors, further impeding economic growth and development.

Propaganda to Conversation

Advertising, at least as normally practiced, has tended to be propagandistic. Since its purpose is to sell the advertiser's products, it typically advocates the views and perspective of that advertiser, the seller, and thus, is one-sided and favorably biased. While this is not necessarily bad, buyers now have access to more and more information, causing them to turn away from communications that appear to be inaccurate, abusive, intrusive or overly one-sided.

Service-dominant logic argues that communication should be characterized by conversation and dialog. This approach should include not only customers, but also employees and other relevant stakeholders who may be affected by service exchange. All stakeholders need to be part of the market dialog. For example, Starbucks promotes its commitment to fair trade and sustainable development in coffee-producing countries through its partnership with the Earthwatch Institute and invites customers to join an environmental field research expedition in Costa Rica. Similarly, British Petroleum promotes its commitment to alternative energy by inviting customers to use an interactive online tool to assess and reduce their carbon ''footprint.'' Toyota promotes its investment in employing and training thousands of American workers in its U.S. production and design facilities. All three of these global firms are capitalizing on dialog and conversation with stakeholders.

This conversational model is becoming increasingly possible. Thus, marketing conversation will (should) occur as an integral part of the marketplace—the market itself will be part of the conversation. An illustration of this can be found in the youth fashion market that is becoming increasingly global in nature. The marketplace itself thus reinforces youth and vitality and further encourages the more homogeneous look of young people worldwide.

In service-dominant logic, marketers are encouraged to emphasize listening as much, if not more than, talking. It suggests that marketers should focus on hearing the voice of the market and the signals that arise from the market. In this regard, more and more people who are not part of a direct economic exchange are voicing their views about the economic exchanges of global entities. For instance, the voicing of views about the practices of firms or their suppliers in employing child labor or the marketing practices that spread global brands that influence local cultures. The service-dominant logic enterprise will not only listen to all of these voices, but will also participate in the conversations.

Value Added to Value Proposition

In the goods-dominant logic, value was viewed as a property (utility) of a good that was added in the manufacturing process, equivalent to value-in-exchange. Thus, if a customer paid a price for an offering, then the exchange of money was assumed to reflect the value in the transaction. This logic implied that as firms accumulated costs in manufacturing and distribution (they exchanged money for capital and labor), they should set prices based on these added costs. Traders adopted a "cost-plus" mindset, believing that any cost could be pushed onto the next party in the supply chain and eventually onto consumers and society.

Service-dominant logic accepts the importance of value-in-exchange, since it recognizes that firms need to obtain cash (via marketplace exchange) to survive and prosper. However, it also recognizes that ultimate value is not created (or added) in the factory, but rather co-created with the customer and determined by the customer's assessment of value-in-use. Witness the earlier examples of Nike and Starbucks.

This idea that value is something determined by the customer implies that the firm can only make an offer of value creation through the application of its resources to some need of the customer—that is, through service. Thus, the firm can only make a value proposition and then, if it is accepted, value is co-created in concert with the customer. Value-in exchange, as reflected in price paid, is just an indication of the customer's perceived probability that at least some minimum desired value will result from acceptance of the value proposition.

Transactional to Relational

Whenever there is specialization and division of labor, specialists become interdependent for well-being, if not survival. As specialization increases, as it is presently on a global basis, so does this interdependence. As entities become more interdependent their potential for collective action increases.

One way this collective action is fostered is through the development of relational, or social, contracts. These relational contracts allow the entities (individually and collectively) to relate to the environment. Consider the traditional agricultural economy, where farmers who specialize in growing foodstuffs require access to a stream of production inputs and consumption goods throughout the year, while crops are harvested and income earned during a limited period. In such communities, the general store emerged, which provided the products the farmer needed throughout the year and provided credit outside the harvest season. Thus, the farmer and general store became intricately involved in a relational contract. The farmer needed the general store, and the general store needed the farmer; both were vital parts of a symbiotic and relational exchange system.

Marketing has been moving toward recapturing and elaborating this relational (as opposed to transactional) orientation for the last 25 years. This is not surprising; since, as specialization and exchange increase over time, so do relationships. In fact, society in general, and the emergence of a global society specifically, are relational phenomena. Service-dominant logic is inherently relational, partly because it implies that parties co-create value. Firms guided by service-dominant logic cannot be indifferent to customers or society.

If exchange is fundamentally centered on the exchange of service(s) for service(s) then the marketer needs to step back and take a broader perspective on his or her role. The one thing that most of us have in common is that we go to the market to offer our applied mental and physical competences in exchange (usually using money as an exchange mechanism) for the applied mental and physical competences (often embedded in tangible appliances) that we need. Marketers, however, have only positioned themselves as responsible for disposing of the output side of the firm.

Should the marketer evaluate in which skills the customer needs to specialize and which should be exchanged in the market—that is, which services (intangible or provided through goods) might be acquired to leverage his or her own service provision and exchange processes? Should the marketing function become a customer-consulting function? Should the marketer become the buying agent on a long-term, relational basis to source, evaluate and purchase the skills that the customer needs, wants, or desires?

As nations or regions become more specialized, they become part of a growing global web of interdependency. From these interdependencies evolve new global relations where relational exchange becomes more important. This presents special challenges when one trading partner may try to look out for its own long-term best interests in ways the other trading partner may not necessarily desire. If one considers that a value-creation network for an everyday item such as a shirt or blouse involves dozens of entities from many countries, one begins to see the importance of global relational contracting. For example, a shirt, at the minimum, involves the grower of cotton, a weaver, a fashion designer, multiple transportation firms, a cut and sew operation, a financial institution and a retail marketer. If the retailer is a just-in-time firm, such as The Limited, then all participants in the supply chain would benefit from some degree of relational contracting.

Maximizing Profits to Financial Feedback

Profit maximization is not in the vocabulary of service-dominant logic. Service-dominant logic views marketing as an ongoing stream of social and economic processes in which firms continually generate and test hypotheses. Firms learn from financial outcomes as they attempt to better serve customers and obtain cash flows for the firm. Service-dominant logic embraces market and customer orientation and a learning orientation. Therefore, financial success is not just an end in itself, but an important form of marketplace feedback about the fulfillment of value propositions.

Thus, price paid, profits and cash flow are important signals (though not the only signals) to the firm regarding the extent to which it is serving and meeting customer needs. The ''price'' that firms receive for their offerings (value-in-exchange) is essentially a co-produced signal. It represents supply (seller) and demand (buyer) factors coming together to agree upon the minimum potential value of resources in use. These prices are a much better signal or instruction on consumer wants and needs than those that are mandated from top down by a government or other planning organization.

EXECUTING ON SERVICE-DOMINANT LOGIC

Executing on service-dominant logic in a globally hyper-competitive marketplace will be challenging for many organizations. Old ways of doing things and entrenched habits die slowly. When this involves not only ways of doing things in the firm but also across firms in today's large global supply and value-creation networks, the challenge is even more daunting.

Don't be surprised if your biggest barrier or resistance comes from your marketing staff. They are used to thinking of their job as built around traditional concepts of product, price, promotion and place (the magical ''4 Ps'' of marketing). In many respects, marketing has failed in the past because marketing actually had little control over these 4 Ps – even though they thought they did. Much of product development was housed in the engineering department, price and terms of trade was pretty much the responsibility of the finance department, promotion was usually split between advertising, public relations and sales management but often not reporting through a singular chain of command, and place was often controlled by a transportation and logistics department or the real estate department. This high division of labor and specialization grew out of the classic industrial organization where specialists were separated and unified through a centralized strategic and tactical plan. This simply won't work in the future. In a hyper-competitive global environment, change is rapid, turbulent and surprising—and thus a model of separation is giving way to a model of interaction that S-D logic embraces.

There are two meta-competences we have found to be pivotal to adopting service-dominant logic. *Collaborative capability* represents the ability of the organization to work with other parties in an open, truthful and symmetric manner. To do so the organization must also have internal specialized capabilities and knowledge because otherwise no other organization would benefit from working with the organization. *Absorptive capability* is the ability of the organization to absorb new information from the environment, including its collaborative partners. Importantly, both of these are organizational capabilities that are part of the organization's culture. We all know cultures change slowly; if your firm does not have these two meta-competences you need to first work at improving these to provide a platform for more successful service-dominant logic implementation.

Once you think your organization has the base level of collaborative capability and absorptive capability, you should consider adopting service-dominant logic with a prototype project to help you refine the model and identify resistances. What could be more exciting and bring more potential competitive advantage than pursuing a new business opportunity or a major business problem with this new frame of reference? Think about the exciting learning that occurs when a firm collaborates with employees, customers and partners of its entire supply and value network to co-create a service offering and value proposition with conversation and dialog at the center.

CONCLUDING COMMENTS

At least since the days of Adam Smith's study of what contributes to national well-being, we have been taught to think of the value of resources in terms of their tangibility and to view the economic world in terms of the exchange of tangible goods. But the economic world has changed, and marketing is no longer centrally concerned with physical distribution; it is now more centrally concerned with the facilitation of all economic exchange, which increasingly cannot be understood in terms of tangible goods.

Service-dominant logic takes a broader, more comprehensive view of exchange. It focuses on the intangible, often information that can now be transmitted across national boundaries instantly, as well as higher-order skills that can be exported in addition to, or increasingly in lieu of, tangible goods. Thus, it is a logic focused primarily on the application of dynamic operant resources—service. This logic points both firms and nations toward policies and approaches to the market that are somewhat contrary to their existing prevailing logic. It implies that just as individual and firm wellbeing are tied to societal wellbeing, national wealth is tied to global wealth. The inverse of these wellbeing and wealth relationships is also true.

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