The Four Service Marketing Myths : Remnants of a Goods-Based, Manufacturing Model

Stephen L. Vargo and Robert F. Lusch
Journal of Service Research 2004 6: 324
DOI: 10.1177/1094670503262946

The Four Service Marketing Myths

Remnants of a Goods-Based, Manufacturing Model

Stephen L. Vargo
University of Maryland

Robert F. Lusch
Texas Christian University

Marketing was originally built on a goods-centered, manufacturing-based model of economic exchange developed during the Industrial Revolution. Since its beginning, marketing has been broadening its perspective to include the exchange of more than manufactured goods. The subdiscipline of service marketing has emerged to address much of this broadened perspective, but it is built on the same goods and manufacturing-based model. The influence of this model is evident in the prototypical characteristics that have been identified as distinguishing services from goods—intangibility, inseparability, heterogeneity, and perishability. The authors argue that these characteristics (a) do not distinguish services from goods, (b) only have meaning from a manufacturing perspective, and (c) imply inappropriate normative strategies. They suggest that advances made by service scholars can provide a foundation for a more service-dominant view of all exchange from which more appropriate normative strategies can be developed for all of marketing.

Keywords: *service; goods; intangibility; inseparability; heterogeneity; perishability*

Early marketing thought was built on a foundation of goods marketing, essentially the distribution and monetized exchange of manufactured output. Since marketing grew out of economic science, with models developed during, and intended to deal with issues of, the Industrial Revolution, this goods-based foundation is understandable. During the past 40 to 50 years, service marketing scholars have created a subdiscipline of services marketing to address exchange phenomena that had been previously undressed or underaddressed in marketing, given this manufactured output orientation. These scholars have made tremendous strides and have been credited with "breaking" services marketing "free from goods marketing" (e.g., Swartz, Bowen, and Brown 1992).

This breaking free was largely a process of first legitimizing the domain of services marketing through definition and through the delineation of four characteristic differences between services and goods—intangibility, inseparability, heterogeneity, and perishability. Then, given these characteristic differences, which are often characterized as disadvantageous, normative strategies that marketing managers must employ when marketing services were indentified. This article questions this "breaking free," both on the grounds that services marketing may not have actually broken free and on the grounds that breaking service marketing free may not be a desirable goal.

None of this is intended to suggest that the efforts of the service marketing scholars have not been worthwhile. On the contrary, we argue that advances made by service

Correspondence regarding this article should be addressed to Stephen L. Vargo, R. H. Smith School of Business, University of Maryland, College Park, MD 20742; phone: (301) 405-9664; e-mail: svargo@rhsmith.umd.edu.

Journal of Service Research, Volume 6, No. 4, May 2004 324-335
DOI: 10.1177/1094670503262946

scholars have had an enormous impact and could (should) have an even larger impact on marketing in general, rather than just on a subset of marketing. We argue that instead of service marketing breaking free from goods marketing, it is *all of marketing* that needs to break free from the manufacturing-based model of the exchange of output. We suggest that the work of service marketing scholars can lead the way by more fully developing a service-based model of all of exchange (see Vargo and Lusch 2004).

Interestingly, support for this more unified, non-manufacturing-based model of exchange can be found in both the seminal and more contemporary services marketing literature. For example, Shostack (1977), in her original challenge to "break free," argued, "'Either-or' terms (product vs. services) do not adequately describe the true nature of marketed entities" and suggested the need for a "new structural definition" (p. 74). More recently, Gummesson (2000) has claimed, "The distinction between goods and service has become a burden" (p. 121). Rust (1998) has argued for a more integrative view of goods and services by noting, "The typical services research article documented ways in which services are different from goods. . . . It is time for a change. Service research is not a niche field characterized by arcane points of difference with the dominant goods management field" (p. 107). Gronroos (2000a) has extended Rust's argument by suggesting that "services and physical goods should not be kept apart anymore. . . . This means that physical goods marketing and services marketing converge, but services-oriented principles dominate" (p. 88). Similar arguments can be found in the work of Schlesinger and Heskett (1992), Normann and Ramirez (1993), Gronroos (1994), Gummesson (1995), and Vargo and Lusch (2004).

Our approach is to question the characteristic differences that have been used to differentiate services from goods and to argue further that services are not confronted with unique marketing challenges. We argue that these characterizations are inaccurate and reflect a view of exchange that is driven by the manufacturer's perspective. From a marketing and consumer perspective, they characterize all exchange offerings and, from this perspective, the implications for marketers, both of what have traditionally been classified as goods and services, are not different. In this regard, we build on and extend the work of Beaven and Scotti (1990), Gummesson (2000), Lovelock (2000), Vargo and Lusch (2004), and others who have taken similar positions in varying degrees.

First, we briefly highlight the unresolved difficulty in defining goods apart from services and offer a potentially unifying definition. Second, we discuss the mythical and manufacturer-based perspective versus marketing-based perspective of the four distinguishing service characteristics and suggest that their often-assumed normative implications should be inverted—that is, intangibility, heterogeneity, inseparability, and inability to be inventoried are not only not necessarily normatively negative and to be avoided but in some cases may actually be more normatively positive. Finally, we suggest that the knowledge developed by service scholars may provide a foundation for a more unified understanding of exchange in general, without reference to the artificial distinction between goods and services, one that emphasizes the central role of service in exchange.

SERVICES AND GOODS DEFINITIONS

The initial period of service thought (approximately 1950-1980) was a period of debate over the definition of services and the delineation of services from goods, which has been characterized by Fisk, Brown, and Bitner (1993) as a "Crawling Out" stage. Judd (1964) laid the foundation for the contemporary approach to definition and delineation by discussing "illustrative definitions" and "definitions by listing" and then recommending defining services "by exclusion (from products) . . . pending the development of a positive definition," because, "together with a product definition, it exhausts the category of "economic goods" (pp. 58-59). However, he noted that this approach to definition has "defect," because from it "nothing can be learned about what are the essential characteristics of a service." Partially continuing in this tradition, Rathmell (1966) noted, "Most marketers have some idea of the meaning of the term 'goods' . . . but 'services' seem to be everything else" (p. 32). Rathmell did, however, argue that all economic products could be arrayed along a goods-services continuum. He further identified 13 marketing characteristics of services in comparison with goods, including intangibility, noninventoriability, and nonstandardization.

This approach of defining services residually has persisted; services are still mostly seen as what tangible goods are not. For example, Solomon et al. (1985) noted that "services marketing refers to the marketing of activities and processes *rather than objects*" (p. 106). Lovelock (1991) defined service as "a process or performance *rather than a thing*" (p. 13). There is still no generally accepted, positive definition of service. As Gummesson (2000) has said: "We do not know what services are, nor do we know what goods are in a more generic sense" (p. 121). It appears that this part of the services versus goods debate was more abandoned than resolved. This contention is not intended as an advocacy of a return to that debate. On the contrary, we suggest that its abandonment is a reflection of the intractability of the attempt to make goods and service mutually exclusive.

We argue that goods and service are not mutually exclusive (e.g., tangible versus intangible) subsets of a common domain, that is, products. Attempting to define service by contradistinction from tangible goods both prohibits a full understanding of the richness of the role of service in exchange and limits a full understanding of the role of tangible goods. Rather than illuminating understanding, it constrains understanding.

The common denominator of most service definitions is "activities" or "processes." This activity or process, in turn, implies applying something and doing something for the benefit of some entity. We argue that it is individual and organizational resources, especially specialized skills and knowledge (i.e., competences) that are being applied. Accordingly, we define service as *the application of specialized competences (skills and knowledge), through deeds, processes, and performances for the benefit of another entity or the entity itself (self-service)* (Vargo and Lusch 2004; see also Gronroos 2000b, p. 48 for a similar conceptualization). Furthermore, we argue that this service is sometimes provided directly, and sometimes it is provided indirectly, that is, through the provision of tangible goods; goods are distribution mechanisms for service provision.

All of this may sound like we are suggesting that everything is a service. In a very real sense we are; we are suggesting that economic exchange is fundamentally about service provision. From this perspective, *service* becomes an inclusive term (rather than replacing goods as an exclusionary term). It is a perspective that is consistent with Shostack's (1977) questioning whether automobiles are "tangible" services, Gummesson's (1995) argument that "activities render services; things render services," Kotler's (1997) observation that the "importance of physical products lies not so much in owning them as in obtaining the services they render" (p. 8), and Rust's (1998) contention that "most goods businesses now view themselves primarily as services, with the good being an important part of the service" (p. 107). It is also consistent with the emerging resource-based models of exchange and competition (e.g., Hunt 2002). For example, Penrose (1959) to whom Hunt (2002) traces the beginning of resource-based theory, viewed the firm as a "collection of productive resources . . . it is never *resources* themselves that are inputs to the production process but only the *services* the resources can render (italics in original)" (pp. 24-25). Thus, as Hunt (2002) pointed out, resources can be viewed as "bundles of potential services" (p. 270). Likewise, Prahalad and Hamel (1990) characterized products (goods) as "the physical embodiments of one or more competencies" (p. 85).

In part we argue that, because of this nested relationship between service and goods, neither goods nor service can be captured through residual definitions and, for similar reasons, the delineation of characteristic differences between services and goods is also misleading, if not counterproductive. We also argue that independent of our definition and the implied relationship between service and goods, the goods versus services distinctions, when viewed from a consumer-centric, marketing perspective rather than a manufacturing perspective, do not hold up.

SERVICES AND GOODS CHARACTERISTICS: MYTHS, PERSPECTIVES, AND INVERSIONS

As noted, much of the discussion of the relationship between goods and services has focused on how they characteristically differ and the implications of these differences for marketing. Rathmell (1966) identified 13 characteristic differences. Lovelock (1991) identified 7. The most commonly employed of these lists of archetypal characteristics are based on the systematic review of the service literature by Zeithaml, Parasuraman, and Berry (1985) and identified as intangibility, heterogeneity, inseparability, and perishability. They appear to have near-uniform and almost unquestioned acceptance by marketing scholars and, as Gronroos (2000b) noted, are "repeated in almost every context without any discussion of the undermining logic" (p. 60). (However, for exceptions, see, e.g., Beaven and Scotti, 1990; Gummesson 2000; Lovelock 2000.)

More important, this list itself implies a definition by exclusion, by first assuming commonly accepted characteristics of (tangible) goods and then identifying services in terms of the absence of these properties. For instance,

Intangibility—*lacking* the palpable or tactile *quality of goods*
Heterogeneity—the relative *inability* to standardize the output of services *in comparison to goods*
Inseparability of production and consumption—the *simultaneous nature of service* production and consumption compared with the *sequential* nature of production, purchase, and consumption that *characterizes physical products*
Perishability—the relative *inability* to inventory services as *compared to goods*

Furthermore, as normally employed, these characteristics are usually seen as hurdles, or negative qualities of services, to be overcome by marketing (e.g., Zeithaml and

TABLE 1
Limitations and Implications of Distinguishing Characteristics of Services

Dimension	*Dispelling the Myth*	*Perspective*	*Inverted Implication*
Intangibility Services lack the tactile quality of goods	Services often have tangible results Tangible goods are often purchased for intangible benefits Tangibility can be a limiting factor in distribution	The focus on manufactured output is myopic and goods oriented Consumers buy service even when a tangible product is involved Intangibles such as brand image are more important	Unless tangibility has a marketing advantage, it should be reduced or eliminated if possible
Heterogeneity Unlike goods, services cannot be standardized	Tangible goods are often heterogeneous Many services are relatively standardized	Homogeneity in production is viewed heterogeneously in consumption	The normative marketing goal should be customization, rather than standardization
Inseparability Unlike goods, services are simultaneously produced and consumed	The consumer is always involved in the "production" of the value	Only manufacturing benefits from efficiency of separability Separability limits marketability	The normative marketing goal should be to maximize consumer involvement in value creation
Perishability Services cannot be produced ahead of time and inventoried	Tangible goods are perishable Many services result in long-lasting benefits Both tangible and intangible capabilities can be inventoried Inventory represents an additional marketing cost	Value is created at the point of consumption, not in the factory	The normative goal of the enterprise should be to reduce inventory and maximize service flows

Bitner 2000). We argue that the intangibility, heterogeneity, inseparability, and perishability characterizations fail to delineate services from goods adequately. We also argue that (a) these characteristics are inaccurate and misleading about the nature of market offerings, (b) their implications for marketing strategy are contradictory to a market and consumer orientation, and (c) their implications should be inverted (see Table 1). In short, what we have learned by studying service can and should be applied to all of exchange. Although this argument is consistent with our proposed, revised positive definition of service, it is not contingent on the definition.

Intangibility

The myth. The primary distinguishing characteristic of services in relation to goods is normally considered to be intangibility. Despite the appealing nature of such a clear-cut line of demarcation, at worst it does not hold up, and at best it has little or no relevance. Several service scholars (e.g., Shostack 1977; Swartz, Bowen, and Brown 1992) have noted that by the intangibility criteria there are no pure services or goods. Their argument is based on the observation that essentially all goods have a service component, whereas essentially all services have some form of tangible representation.

Partially because the most that can be done with this characteristic is to attempt to array goods and services on a continuum according to the *relative degree of tangibility*, a number of scholars (e.g., Gummesson 1995, 2000; Rust 1998) have questioned what its delineation really provides. Iacobucci (1992) investigated the perceived services versus goods nature and the perceived tangibility of a wide array of offerings and found that "while goods are indeed perceived to be *relatively* more tangible than services, all these stimuli are perceived to be rather tangible in an absolute sense" and concluded that "the tangibility ratings are an example of where the data were not closely aligned with theoretical expectations" (pp. 33, 49). Beaven and Scotti (1990) maintained that "service processes and their outcomes result in specific sensory impressions that are stored in the mind as *concrete, tangible facts*," and thus the distinction is "illusionary" (p. 8). Conversely, Gummesson (2000) argued, "If I am operated on in the hospital I am myself the 'machine,' the 'object of repair and maintenance.' It is unpleasant; it may hurt. I can get better, worse, or die. Can it get much more tangible?" (p. 123)

The perspective. A more central weakness with differentiating services from goods in terms of tangibility, however, is that the distinction represents the producer's orientation, rather than the consumer's, and thus what should be the marketer's orientation. Consumers purchase satisfactions, symbolic meanings, and present and anticipated service provision; they purchase benefits (Bateson 1991, p. 6). As Gummesson (1995) has argued,

> Customers do not buy goods or services: they buy *offerings* which render services which create value. . . . The traditional division between goods and services is long outdated. It is now a matter of redefining services and seeing them from a customer perspective; activities render services, things render services. The shift in focus to services is a shift from the means and the producer perspective to the utilization and the customer perspective. (p. 250)

Similarly, Riddle (1986) points out that

> the creation of tangible objects is of secondary importance: after all, such goods have little value in and of themselves; they are important only to the extent that they serve as the equipment and supplies for the extraction or service production processes. (p. 4)

For example, a stamping machine in a factory is a method of providing a substitute for labor services, and a household appliance is a way for the household to perform household functions with less of their own labor input or in place of hiring someone to provide household services. With the explosive growth in biotechnology and artificial human limbs and organs, we can more clearly see that tangible goods are merely platforms for the performance of human functions. In her original exhortation to "break free," Shostack (1977) noted that what is marketed in an automobile is transportation, not just "steel and chrome" and felt that it made "sense to explore a new structural definition" (p. 74). Schlesinger and Hesket (1992), Normann and Ramirez (1993), Gronroos (1994), Kotler (1997), and others have implied similar views.

The inverted implications. The marketing implication that has most often been associated with the intangibility distinction is that service marketing managers should strive to "tangiblize" their offerings or at least to provide tangible representations of the service—for example, McDonald's golden arches or a bank's marble columns (Zeithaml and Bitner 2000). However, these normative prescriptions seem to confuse tangibility with image. Shostack (1977) argued that marketers of intangible offerings do need to develop "tangible evidence," but she also argued that they actually had more opportunity to do so than do managers of tangible offerings because "in product marketing many kinds of evidence are beyond the marketers control and consequently omitted from priority consideration in the marketing positioning process" (pp. 77-79). As important, she indicated that the challenge for marketers of tangible offerings is to create an "intangible image," a potentially more difficult challenge than creating evidence for intangible offerings.

Associating offerings with images is grounded in the need to identify the benefits of and create a personality for an offering to the consumer. It is a branding issue, and we are not aware of any evidence that the *advantages* of branding vary with the tangibility or intangibility of the core offering. The golden arches of McDonalds, Prudential's Rock of Gibraltar, and Morton Salt's little girl with umbrella all serve the common function of conveying the intangible benefits of the brand, rather than compensating for lack of tangibility.

Similarly, the selling and sales management literature has long ago adopted a stance of selling the intangible benefits rather than the tangible attributes, even when tangible goods are being offered. On a more macro societal basis, we are beginning to realize that the most valuable asset in all organizations, whether they are nonprofit or for-profit, are their intangible brands and what they symbolize. These intangibles whether they be for the Catholic Church, Arthur Andersen, Firestone, or Intel are where most value of the firm resides.

Heterogeneity

The myth. The focus of the characteristic of heterogeneity is standardization. The idea is that because humans are involved in the provision of services, services cannot be standardized like goods. But if human input is the constraining factor, tangible goods cannot be inherently more homogeneous than services. Human activity is the common, not the distinguishing, factor in the provision of both services and tangible output.

In addition, historically, goods production has been characterized as heterogeneous. Preindustrial cottage industries typically produced nonstandardized output. Standardization, or more precisely the goal of standardized output, is an outgrowth of more recent mass production, not an inherent characteristic of tangible output, and even after 150 years of implementation, it remains a manufacturing goal, not a reality. Likewise, arguably, at least parts of many services, such as airline transportation, medical procedures, or the provision of information through commercial databases, are as standardized and homogenized as the production of the airplanes, medical instruments, and computers on which they rely. Gummesson (2000) noted that service providers such as retail banks offer highly standardized services. Lovelock (2001) contended that possession-processing services, such as house painting, and mental-stimulus-processing services, such as education, are often provided homogeneously.

The perspective. The critical issue in the perception of relative homogeneity and heterogeneity is who is making the judgment. Fundamentally, standardization is concerned with quality, but this association between homogeneity and quality is relatively new and is a manufacturer-centered association, motivated primarily by the advantages in efficiency afforded by standardization in the move toward mass production that characterized the Industrial Revolution. In short, standardization is more efficient from the manufacture's perspective and thus has (had) become the standard of quality.

From the consumer's perspective, however, the issue is different. Homogeneity in production often results in heterogeneous judgments of quality by individual consumers, if not whole markets. For example, automobile manufacturers offer relatively uniformly produced automobiles, composed of standardized parts that are perceived very heterogeneously in the marketplace by individuals with different and changing preferences for attributes. This principle has nothing to do with goods versus services; it has to do with a producer versus consumer perspective. In fact, the importance of *perceived quality* is now generally accepted by marketing in general and is no longer only a "service quality" issue.

As noted, what are normally considered to be services can also be standardized, and/or the same output can be provided to multiple consumers. When a university has an introductory psychology class delivered to 200 freshmen, what is being offered is a standardized, homogeneous lecture (i.e., all 200 students are being provided identical lectures); but what each student receives is highly heterogeneous—witness the end-of-semester student evaluations. Quite often, we deal with this heterogeneity with respect to demand by offering an assortment of standardized offerings to serve "relatively" homogeneous groups, that is, segments. On the other hand, what is often referred to as the heterogeneous nature of services is often seen as more harmonious with the individualized, dynamic demand of the consumer (cf. Beaven and Scotti 1990). That is, nonstandardization on a priori grounds may allow customization that is more responsive to demand. From a marketing perspective, nonstandardization (i.e., customization) is the normative goal.

The inverted implications. Service scholars have rather easily accepted the idea that services have a disadvantage in relation to goods because they cannot be standardized as easily as goods. Thus, the normative prescription is that service providers must work particularly hard to find ways to increase standardization. As noted, in reality, the situation may be the exact opposite. Although standardization may provide for manufacturing efficiency, this efficiency comes at the expense of marketing effectiveness. The normative prescription of the consumer orientation screams heterogeneity. Thus, it is standardized tangible goods that may be at a disadvantage, rather than services.

It is perhaps surprising that service scholars have not been out-front with this perspective, because it was, after all, service scholars who redefined the concept of quality by shifting the quality standard from manufacturing specifications to consumer specifications—that is, to service, or perceived, quality. Rather than trying to make service more goods-like through internal standardization, service managers should capitalize on the flexibility of service provision, and manufacturers should strive to make their goods more service-like through the customized provision of output that meets the heterogeneous standards of consumers. Forward-thinking "manufacturing" firms like Dell are gaining competitive advantage by actively adopting this perspective. Academics have embraced this need for heterogeneity under the rubrics of mass customization (Pine 1993) and "customerization" (Wind and Rangaswamy 2000) and have argued that from a marketing perspective, heterogeneous offerings are the normative goal regardless of whether the core offering is relatively tangible or intangible.

Inseparability

The myth. The "inseparability" characteristic of services represents a condensation of Lovelock's (1991) criteria of "people as part of the product" and "greater involvement of customers." It implies that with services, the producer and consumer must interact simultaneously for the service to be received, and therefore, unlike goods, services cannot be produced away from and without the "interruption" (Beaven and Scotti 1990, p. 10; see also Zeithaml and Bitner 2003, p. 22) by the consumer of the efficiency of the standardized manufacturing process.

Viewed only in terms of tangible production output, few would argue with the idea that much of the process of goods manufacturing typically takes place separate from and without the involvement of the consumer. However, there are many exceptions. Until the Industrial Revolution, goods were routinely "manufactured" with the active involvement of the consumer. Clothing was tailored, and tools were customized. Many of these goods are still available in customized form and, more important, many more goods manufacturers are involving the consumers in production. Lovelock (2000) called inseparability "a dangerous oversimplification" and argued that many offerings that are typically classified as services are partially, if not largely, "produced" separate from the consumer (p. 145). Examples can be found in financial, entertainment, and information services.

The perspective. Like the issue of standardization, the characteristic of separability is primarily important only from the manufacturer's perspective. From a consumer perspective, and thus what should be the marketing perspective, separability is not only undesirable; it is also impossible. Typically, tangible offerings cannot provide service (desired benefits) unless the customer or potential user interacts with the goods. That is, the benefits from goods are obtained by use of these goods—goods are merely the distribution vehicle or channel for service provision; they are appliances (Vargo and Lusch 2004). Often they are the platform or hardware for consumption experiences (Pine and Gilmore 1999; Prahalad and Ramaswamy 2004) as the buyer uses and consumes the product over time. In addition, essentially all durable goods require knowledge acquisition, proper utilization, inspection, and some provision for maintenance by the consumer. Gummesson (1993) discussed the consumer-producer interaction for automobiles in terms of a "bath-tub curve."

> A series of obvious defects appear early and are dealt with under the guarantee; then the frequency of defects declines for a number of years until faults resulting from wear and tear start to appear. It means that the responsibility for completing production and quality inspection of the automobile . . . require[s] consumer involvement.(p. 7)

Consumers are always involved to some degree in the production of tangible goods by adapting them to their own individual needs, within latitudes bounded only by their own idiosyncratic behaviors, and often at great variance with the specifically intended purposes of the producer. For example, witness how much purchasers of automobiles or houses modify or customize these tangible products after purchase. Furthermore, the very act of purchasing (or not purchasing) provides feedback (although often delayed), which involves the customer in the design and delivery of all (successful) offerings. Although isolation of the customer from production is perhaps *more often* associated with the manufacturing of tangible goods than for activities that are normally classified as services, viewed from the perspective of the market, separability is also a delineational illusion.

The inverted implications. The normative proclamation implied by the characterization of services as inseparable is that services are subject to interference (Beaven and Scotti 1990) by the consumer, and therefore, service managers should remove as much of the service provision from the service encounter as possible and streamline it through standardized processes in the "back office." From an efficiency standpoint, perhaps a tempered response to this proclamation has merit. But from a marketing perspective, it is probably more important for managers of both tangible and intangible offerings to strive to reduce separability. In fact, Beaven and Scotti (1990) argued, "Much of what makes a service *special* derives from the fact that it is a lived-through event" (p. 10). Although, as discussed, we disagree with the possible implication that all activities associated with services are inseparable, we agree with the more general implication that offerings produced without the relative involvement of the consumer are at a disadvantage. From a consumer, and thus what should be a marketing, perspective, the consumer orientation, the current movement toward mass customization (Pine 1993) and a relational perspective, and the idea of perceived quality all point toward maximizing offerer-consumer interaction, rather than minimizing it. Wind and Rangaswamy (2000) have called for a post-mass-customization revolution that they refer to as "customerization."

> Customerization begins with customers and offers them more control in the exchange process. Customerization is driven by a firm's desire to redefine its relationship with customers. In some sense, a firm becomes an agent of the customer—"renting" out to customers pieces of its manufacturing, logistics, and other resources, thus allowing them to find, chose, design, and use what they want. (p. 3)

Dell and other forward-looking companies have gained considerable competitive advantage by challenging the conventional wisdom and moving toward a service-like model of coproduction. Dell (1999) saw its "greatest competitive strength" coming from "virtual integration," which they describe as "the use of direct connections, enhanced by technologies to bring customers virtually inside [our] business so [we] can meet their needs faster and more efficiently than anyone else" and argued that this partnering with customers "enable us to be simultaneously more cost-efficient and customer responsive." Similar examples of manufacturers trying to decrease the separation of producer and consumer can be found in Levis's individualized design of denim jeans, Cannondale's customized bicycles, and Acumin's individualized vitamin formulation (Wind and Rangaswamy 2000). Yet others, recognizing that goods are essentially platforms for experiences (Pine and Gilmore 1999; Prahalad and Ramaswamy 2004), have increased involvement with consumers to develop those experiences. Examples can be found in Land Rover and Harley Davidson in their provision of vehicle care clinics and outings. Like the other service myths, the implied dictum should be inverted. Goods manufacturers should become more service-like, rather than service providers adopting the limitations in consumer involvement often found with goods provision.

Perishability

The myth. The characteristic of perishability is closely linked to the characteristic of tangibility and is intended to imply that because services are not tangible, unlike goods, they can not be produced at one point in time, inventoried, and then sold at a later time when demanded. But clearly, tangible goods are perishable, some of them highly so. Elements have half-lives, bananas rot, bread gets stale and moldy, and automobiles rust and become inoperative. Likewise, inventoriability is not exclusively limited to material goods. As Gummesson (2000) noted, “The claim that services can not be stored is nonsense. Services are stored in systems, buildings, machines, knowledge, and people. The ATM is a store of standardized cash withdrawals. The hotel is a store of rooms” (pp. 123-24). Airline and theater seats are routinely inventoried for a period of time prior to “production,” purchase, or consumption; they just are not inventoried after production. Similarly, every time a university hires a new professor, tapes a lecture, or assigns a classroom and instructor for a course in a future period, it is, in effect, inventorying educational services. And when students internalize the values of a university education, they have inventoried the knowledge and skill base for lifelong learning. In short, they have created human capital that they can draw on for their benefit over many years or decades. Similarly, physical fitness training, heart bypass surgery, and other supposedly perishable services can provide benefits over time.

The perspective. The dimension of perishability is a temporal concept, requiring specification of an observer. Perhaps none of the other prototypical services characteristic so clearly changes depending on whose perspective is driving the perception than does perishability. From the producer’s perspective, the important measure of time is the period between when an offering is produced and when it can be sold to produce income. It is from this perspective that tangible goods appear to be imperishable, a perception that is largely illusionary. From the consumer’s perspective, and thus from a marketing perspective, the important time is the period that the offer can deliver benefits after acquisition, and from this perspective, the illusion of imperishability of goods largely vanishes. That is, from a demand perspective, all market offerings are subject to perishability because styles, tastes, expectations, and consumer needs are not static variables regardless of the existence of material content. Try selling last year’s automobile model, the last generation computer chip, the previous season’s suit of clothing, or yesterday’s fad. It may be possible, but the perceived value, and thus the price, will have perished considerably. It is only the materials that are relatively imperishable, not the benefits they can provide and thus, as perceived by the market, not the value.

In fact, we contend that it is this value that should be the reference in the issue of perishability, rather than output (i.e., production of a good). For example, it can been argued that the distinction between goods and at least some services is that the latter are inventoriable postproduction, whereas the former are inventorial preproduction and similarly, that consumption can be categorized as either output consumption in the case of goods or process consumption in the case of services. Although we believe that these distinctions may be useful for thinking about when and how various kinds of activities take place, we suggest that they may also be partially indicative of the influence of the manufacturing perspective, as the terms *production* (Gronroos 2000b) and *output* reflect. The implication is that value creation can occur in the factory. We disagree.

As Gummesson (1998) has argued, “If the consumer is the focal point of marketing, value creation is only possible when a good or service is consumed. An unsold good has no value, and a service provider without customers cannot produce anything” (p. 247). Likewise, discussing value, Gronroos (2000b) has contended, “The focus is not on products but on the customers’ *value-creating processes* where value emerges for customers and is perceived by them . . . the focus of marketing is *value* creation rather than value distribution” (pp. 24-25; see also p. 48). That is, value creation is a function of realizing (or at least expecting to realize) benefit, not of manufacture. Manufacturing (production of tangible output), in those instances when it is employed at all, is only one of the activities involved in the value-creation process (Normann and Rameriz 1993), a process that always involves the consumer (see also Gronroos 2000a, 2000c). Thus, value is always coproduced with the customer; the enterprise can only make value propositions (Vargo and Lusch 2004). From this perspective, the distinction between preproduction and postproduction and between inventoriability, in the sense that is usually intended, largely vanishes, regardless of the classification of the offering. Conversely, once value has been created in concert with the consumer, it may be relatively enduring, whether the associated service is provided directly (e.g., education) or through an appliance (i.e., a good).

The inverted implications. The underlying assumption in noting that services are perishable is that compared to goods, they put managers at a disadvantage because they cannot be inventoried. As noted, only the production manager is disadvantaged; marketing managers must always assume perishability. Even financial managers have discovered the pitfalls of tangible inventory. As most firms have learned, the storage of goods following their production is not a goal; it is a reaction to the uncertainty and fluctuation of demand, coupled with limitations in production planning and execution.

Most firms, *especially goods firms*, are now seeing even modestly large inventory levels as a sign of operational inefficiency and are actively pursuing a normative goal of decreasing inventory, through "just-in-time" inventory and other, similar programs. Those that are successful are finding increased competitive advantage and profits by reducing the risk and cost associated with perishability in value potential. That is, goods manufacturers are trying to become more service-like by creating value in concert with demand. Perishability in value potential is a characteristic of all market offerings rather than a characteristic disadvantage of services, and inventoriability (storage of output) is not (should not be) a normative goal for what are traditionally categorized as either goods or service firms. The normative goal should be to find ways to maximize the service flows desired by consumers while minimizing output inventory and its limitations.

DISCUSSION AND DIRECTIONS

Services marketing has developed as a subdiscipline of marketing because there was a market demand (Berry and Parasuraman 1993) for the development of positive and normative theory to address market offerings that did not fit the traditional goods-based, manufacturing model. This manufacturing model assumed a standardized (or at least standardizable), tangible output, produced by adding value through manufacturing, without interference from the consumer, and inventoried until demanded and then sold. It was a model first developed by classical and neoclassical economists, and later adopted by marketers, at a time when the apparent great advances in economic exchange were those related to the production and distribution of tangible goods.

For that period and for its purposes, the model served well, and because the initial focus of marketing was the distribution of these tangible goods, the model provided a sufficient foundation for the development of marketing theory. But the model, and the marketing theory built on it, became inadequate as marketing extended its attention toward the exchange of nonmanufactured market offerings. Dixon (1990) argued that it is "the dissatisfaction with marketing theory that led to the services marketing literature," or more generally, the creation of services marketing as a subdiscipline (p. 342).

Actually, the problems with the manufacturing, or goods-based, model were being recognized prior to the increased attention toward service per se. For example, Levitt (1960) had coined the term *marketing myopia* to describe the shortsightedness of marketers defining their offerings in terms of what was produced in the factory. Likewise, marketing in general had identified the production and product orientations that are inherent in the goods-based model and had begun embracing a consumer orientation and marketing concept. These orientations had the common characteristic of attempting to shift perspective to a consumer-centered market, rather than a factory or product-centered market, with demand being heterogeneous rather than homogeneous. But the goods-centered, manufacturing-based model of exchange had reached paradigmatic, if not dogmatic, status, and adjustment by orientation was perhaps insufficient to overcome the limitations of the model (see Zuboff and Maxmin 2002).

Nowhere are both the limitations of the model and its paradigmatic power more evident than in the delineation of the four limiting, if not pejoratively described, characteristics presumed to distinguish services from goods. As we have discussed, these characteristics are only meaningful from the limited perspective of the individual whose role in exchange has been completed when a finished good roles off of an assembly line. From a consumer and a marketing perspective, these characteristics may not only fail to differentiate services from goods but their delineation may point marketers in a wrong normative direction. The proper normative task may be to strive to make goods and goods production more service-like rather than to make service provision more goods-like.

Some could argue that our contentions are flawed because there is evidence to support the traditional goods-services distinction. For example, Anderson, Fornell, and Rust (1997) offered analytic and empirical evidence that *could* be interpreted as contradictory to our position that the conventional distinction between goods and services is not useful. Specifically, our contention could be viewed as inconsistent with their finding that "the association between changes in customer satisfaction and changes in productivity (through standardization) is positive for goods, but negative for services" (p. 129). However, not only do we do not believe that their findings are contradictory or inconsistent with our views; we think our arguments may strengthen their analysis.

Anderson, Fornell, and Rust's (1997) primary interest was in the relationship between satisfaction, productivity, and profitability. The goods versus services distinction was employed as a surrogate for standardization and customization quality, by invoking an assumption that standardization quality is more important in determining satisfaction with goods and customization quality is more important in determining satisfaction with services.

Although we generally agree with the association, we do not agree with the implied causal direction. First, consistent with our thesis, rather than goods and services being viewed as binary subsets of "products," we argue that goods are appliances used in service provision, that is, goods and service have a nested relationship. Furthermore, we argue that it is the amenability of the market (or market segments) to the standardization of *some* aspects of service delivery (usually as a trade-off with price) that leads to the use of goods as delivery mechanisms (i.e., the substitution of capital for labor) for service, and thus, the classification of a goods industry rather than a service industry. It is not a characteristic of goods that makes standardization more important to satisfaction; it is the relative willingness of the consumer to accept standardization that *allows* firms to deliver services through goods and thus to increase productivity and profits.

Customer-perceived quality is always the driving factor, and the willingness to accept a trade-off between standardization quality and customization quality, usually *for a commensurate trade-off in price* is actually a form of customization. That is, some consumers are willing (or prefer) to engage in relatively high levels of coproduction (self-service), and some are willing (prefer) to have offering firms provide services more directly. As consumers make price trade-offs they are not necessarily making value trade-offs. Goods are appliances, and the customer must add mental and physical effort to cocreate value. This effort is part of the total cost of ownership and use of an appliance. However, because the firm does not pay for the consumer's effort, it does not enter into the *firm*'s financial statements and determination of profits and productivity.

Thus, customer satisfaction and productivity are entirely compatible, as long as (a) there are markets that are willing to trade price for some level of "standardized" service provision delivered via appliances, with the consumer providing some level of self-service, and (b) technology exists to allow service provision within the acceptable (to the market) levels of standardization, at a cost savings to the enterprise.

This more market-based statement is not contingent on the goods-service distinction. In fact, standardization is possible through technologies that do not involve goods production and may even eliminate the good (e.g., the evolving CD/music industry). Therefore, arguably, the statement is more generalizable and, in turn, allows normative statements of the relationship between customer satisfaction and productivity and profitability, regardless of whether a good is involved in the service provision. This market-based statement also appears to be consistent with, and may actually strengthen, Anderson, Fornell, and Rust's (1997) findings and subsequent discussion (cf. p. 141). Arguably, there are countless additional instances when a service-dominant logic might add depth to work originally grounded in a goods-based model.

The fact that marketing thought has continued to be tied to a goods-based, manufacturing model of exchange, developed during a period of industrial expansion and services thought of in terms of four characteristics that goods do not possess, is not unusual. Often, when a new technology or phenomenon emerges, there is no adequate label or concept that is distinct from old technologies or phenomena. When Marconi invented the radio in the late 19th century, he could only refer to it as "wireless" (without tangible wire), but the phenomenon that enabled radio was the invisible and intangible electromagnetic spectrum. In the 1960s when many industry analysts and economists began focusing on aspects of exchange that did not fit previous industrial models, they could only refer to them as postindustrial economy, tying the new phenomena to what they had previously experienced, and only after several decades of using the label did we realize that this new economy was the information economy. Consequently, it is not surprising that marketers, when they could no longer ignore the prevalence of service, referred to it in terms of what it lacked compared to goods—that is, services are goods-like, except that they are not tangible, not separable, not permanent or able to be inventoried, and not homogeneously produced or standardized.

Arguably, even the term *services* is grounded in a goods-based model. It implies units of output, rather than a process, as implied by the singular *service*. The term *service* also points directly to the provision of benefit and assistance and thus is more consistent with the consumer orientation. In fact, it may obviate the need for delineating the orientation, which, arguably, was necessitated by an output-based model. Perhaps service provides a better foundation for a normative perspective for all of marketing, including issues of social responsibility.

Ironically, even while professing to adhere to the prototypical service delineators, service scholars have been laying a foundation for a new and broader model of exchange, one that is grounded in the reality of the heterogeneous nature of both demand and supply, the reality, if not the advantage of consumer involvement in production, the constraints of tangibility, and the inflexibility and inefficiency of inventory. For instance, consider the impact of the work of the pioneering service scholars on the reconceptualization of quality. In the goods-centered model, the standard of quality was the manufacturing specification. As redefined in the service literature, the standard for quality is consumer defined, normally either in terms of expectations or what is desired. Similarly, these same services pioneers have led the way in shifting the focus of exchange away from the discrete transaction and toward *relationship marketing*, a term coined by these same scholars.

Clearly, these reconceptualizations do not apply solely to what have traditionally been classified as services; they apply to marketing in general. These reconceptualizations have been an important first step toward freeing marketing from a manufacturing and goods-based model of exchange and replacing it with a more general and generalizable service-dominant model.

We advocate that the strategy of differentiating services from goods should be abandoned and replaced with a strategy of understanding how they are related. Service is the common denominator in exchange, not some special form of exchange (i.e., what goods are not); as a number of scholars (e.g., Gummesson 1995; Kotler 1977) have noted, both goods and services render service. Accordingly, we have offered a definition of service—the application of specialized competences (skills and knowledge), through deeds, processes, and performances for the benefit of another entity or the entity itself (self-service)—that is intended to be inclusive (see Vargo and Lusch 2004). It allows, if not implies, the corollary idea that service can be provided directly or it can be provided indirectly, through tangible goods. Manufacturing *is* a service, and its output is part of the service-provision process. Goods therefore are best thought of as appliances, which derive their value from their ability to provide service, including the satisfaction of higher order needs. We agree with Gronroos (2000b), who has argued,

> The emerging principles of services marketing will become the mainstream principles of marketing in the future. . . . The physical goods become one element among others in a total service offering. . . . This means that physical goods marketing and services marketing converge, but services-oriented thinking will dominate. (pp. 87-88)

This perspective requires rethinking marketing, if not all of economic science. It places service rather than goods at the center of exchange. We believe that the combined broadening of the definition of service and dispelling the four services myths is a desirable and necessary additional step in the direction of freeing marketing from a manufacturing model.

The next step is for service scholars to accelerate their leadership in the advancement of marketing thought through reformulation of its underlying concepts. Much of the groundwork has been done. For example, similar to service-oriented concepts such as relationship and perceived quality becoming superordinated to their manufacturing-dominated counterparts (transaction and manufactured quality), Rust, Zeithaml, and Lemon (2000) have offered customer equity as an inclusive alternative to brand equity. Likewise, Lovelock's (2001) examination of the relationship between the nature of service acts and types of service processes (people processing, possession processing, mental processing, and information processing) has implications for all marketing offerings. Additional work needs to be done in rethinking the concept of value creation and distribution from a service perspective. We believe that the resulting service-dominant logic of exchange (Vargo and Lusch 2004) has the potential to finally break all of marketing free from manufacturing.

REFERENCES

Anderson, Eugene W., Claes Fornell, and Roland T. Rust (1997), "Customer Satisfaction, Productivity, and Profitability: Differences between Goods and Services," *Marketing Science*, 16 (2), 129-45.

Bateson, J. E. G. (1991), *Managing Services Marketing*. Fort Worth, TX: Dryden.

Beaven, M. H. and D. J. Scotti (1990), "Service-Oriented Thinking and Its Implications for the Marketing Mix," *Journal of Services Marketing*, 4, 5-19.

Berry, Leonard L. and A. Parasuraman (1993), "Building a New Academic Field—The Case of Services Marketing," *Journal of Retailing*, 69 (1), 13-59.

Dell, Michael (1999), *Direct From Dell*. New York: Harper Business.

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

Fisk, R. P., S. W. Brown, and M. J. Bitner (1993), "Tracking the Evolution of the Services Marketing Literature," *Journal of Retailing*, 69 (1), 61-103.

Gronroos, Christian (1994), "From Marketing Mix to Relationship Marketing: Towards a Paradigm Shift in Marketing," *Asia-Australian Marketing Journal*, 2 (1), 9-29.

——— (2000a), "Christian Groonroos: Hanken Swedish School of Economics, Finland," in *Services Marketing Self-Portraits: Introspections, Reflections, and Glimpses from the Experts*, Raymond P. Fisk, Stephen F. Grove, and Joby John. Chicago: American Marketing Association, 71-108.

——— (2000b), *Service Management and Marketing: A Customer Relationship Management Approach*. West Sussex, UK: Wiley.

——— (2000c), "Service Reflections: Service Marketing Comes of Age," in *Handbook of Services Marketing*, Teresa Swartz and Dawn Iacobucci, eds. Thousand Oaks, CA: Sage, 13-20.

Gummesson, Evert (1993), *Quality Management in Service Organizations*. New York: International Service Quality Association.

——— (1995), "Relationship Marketing; Its Role in the Service Economy," in *Understanding Services Management*, W. J. Glynn and J. G. Barns. New York: John Wiley, 224-68.

——— (1998), "Implementation Requires a Relationship Marketing Paradigm," *Journal of the Academy of Marketing Science*, 26 (3), 242-49.

——— (2000), "Evert Gummesson: Stockholm University," in *Services Marketing Self-Portraits: Introspections, Reflections, and Glimpses* *from the Experts*, Raymond P. Fisk, Stephen F. Grove, and Joby John. Chicago: American Marketing Association, 109-132.

Hunt, Shelby D. (2002), *Foundations of Marketing Theory: Toward a General Theory of Marketing*. Armonk, NY: Sharpe.

Iacobucci, Dawn (1992), "An Empirical Examination of Some Basic Tenets of Services," in *Advances in Services Marketing and Management*, Teresa A. Swartz, David E. Bowen, and Stephen W. Brown, eds. Greenwich, CT: JAI, 23-52.

Judd, Robert C. (1964), "The Case for Redefining Services," *Journal of Marketing*, 28, 58-59.

Kotler, Philip (1977), *Marketing Management: Analysis, Planning, Implementation, and Control*, 3rd ed. Upper Saddle River, NJ: Prentice Hall.

——— (1997), *Marketing Management: Analysis, Planning, Implementation, and Control*. Upper Saddle River, NJ: Prentice Hall.

Levitt, Theodore (1960), "Marketing Myopia," *Harvard Business Review*, 38 (July–August), 26-44, 173-81.

Lovelock, Christopher (1991), *Services Marketing*. Englewood Cliffs, NJ: Prentice Hall.

——— (2000), "Christopher Lovelock: Lovelock Associates," in *Services Marketing Self-Portraits: Introspections, Reflections, and Glimpses from the Experts*, Raymond P. Fisk, Stephen F. Grove, and Joby John. Chicago: American Marketing Association, 133-152.

——— (2001), *Services Marketing: People, Technology, Strategy*, 4th ed. Upper Saddle River, NJ: Prentice Hall.

Normann, Richard and Rafael Ramirez (1993), "From Value Chain to Value Constellation: Designing Interactive Strategy," *Harvard Business Review*, 71 (July–August), 65-77.

Penrose, Edith T. (1959), *The Growth of the Firm*. White Plains, NY: Sharpe.

Pine, Joseph B. (1993), *Mass Customization: The New Frontier in Business Competition*. Boston: Harvard Business School Press.

——— and James H. Gilmore (1999), *The Experience Economy*. Boston: Harvard Business School Press.

Prahalad, C. K. and Gary Hamel (1990), "The Core Competence of the Corporation," *Harvard Business Review*, 68 (May–June), 79-91.

——— and Venkat Ramaswamy (2004), *The Future of Competition: Cocreating Unique Value with Customers*. Boston: Harvard Business School Press.

Rathmell (1966), "What Is Meant by Services?" *Journal of Marketing*, 30 (October), 32-36.

Riddle, D. I. (1986), *Service-Led Growth*. New York: Praeger.

Rust, Roland (1998), "What Is the Domain of Service Research?" *Journal of Service Research*, 1 (November), 107.

———, Valarie A. Zeithaml, and Katherine N. Lemon (2000), *Driving Customer Equity: How Customer Lifetime Value Is Reshaping Corporate Strategy*. New York: Free Press.

Schlesinger, Leonard A. and James L. Heskett (1992), "The Service-Driven Company," *Harvard Business Review*, 69 (September–October), 71-81.

Shostack, G. L. (1977), "Breaking Free from Product Marketing," *Journal of Marketing*, 41, 73-80.

Solomon, Michael R., Carol Surprenant, John A. Czepiel, and Evelyn G. Gutman (1985), "A Role Theory Perspective on Dynamic Interactions: The Service Encounter," *Journal of Marketing*, 41 (1), 99-111.

Swartz, T. A., D. E. Bowen, and S. W. Brown (1992), "Fifteen Years After Breaking Free: Services Then, Now and Beyond," *Advances in Services Marketing and Management*, 1, 1-21.

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

Wind, Jerry and Arvind Rangaswamy (2000), "Customerization: The Next Revolution in Mass Customization," MSI Report No. 00-108, Marketing Science Institute, Cambridge, MA.

Zeithaml, Valarie A. and Mary Jo Bitner (2000), *Services Marketing: Integrating Customer Focus across the Firm,* 2nd ed. Boston: McGraw-Hill.

——— and ——— (2003), *Services Marketing: Integrating Customer Focus across the Firm*, 3rd ed. Boston: McGraw-Hill.

———, A. Parasuraman, and Leonard L. Berry (1985), "Problems and Strategies in Services Marketing," *Journal of Marketing*, 49 (Spring), 33-46.

Zuboff, Shoshana and James Maxmin (2002), *The Support Economy*. New York: Penguin.

Stephen L. Vargo is a visiting professor of marketing at the R. H. Smith School of Business at the University of Maryland. In addition to his academic experience, Vargo has 20 years' experience in private enterprise, mostly managing businesses in which he was a principal, including a research consulting firm and a hospitality services firm. He has served on several bank boards and as officer and director of civic and professional organizations at the local, state, regional, and national levels. Vargo's primary areas of research are the assessment of consumer evaluations of service-encounter experiences and marketing theory and thought. He has published articles in *Journal of Marketing, Marketing Management Journal, Journal of International Consumer Marketing,* and other leading marketing journals.

Robert F. Lusch is dean of the M.J. Neeley School of Business, a distinguished university professor at Texas Christian University, and a professor of marketing at University of Arizona, from which he is on a leave of absence. His expertise is in the area of marketing strategy and distribution systems. Lusch has served as editor of *Journal of Marketing*. He is the author or coauthor of more than 150 academic articles and professional publications, including 16 books. In 1997, the Academy of Marketing Science awarded him its Distinguished Marketing Educator Award, and the American Marketing Association presented him the Harold Maynard Award for contributions to marketing theory. Lusch has served as chair of the American Marketing Association and trustee of the American Marketing Association Foundation.