

CHAPTER 6

SERVICE-DOMINANT LOGIC

A Review and Assessment

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Abstract

The emergence and evolution of service-dominant (S-D) logic (Vargo and Lusch 2004a) has drawn increasing attention toward the integration of resources, especially intangible and dynamic resources and interdependent processes that drive the creation of value. The core of this developing mindset fundamentally shifts the focus of marketing and, more generally, business away from the production and distribution of goods (goods-dominant logic) toward service, the application of operant resources (knowledge and skills), as the basis of exchange. S-D logic's advancement is driven by the collaboration and contributions of marketing and non-marketing-related (and other) disciplines. Currently, evidence of this joint effort can be found in a variety of journal special issues and conference special sessions, a number of journal articles and other presentations, several dedicated conferences, and one book with fifty contributing scholars.

This review consolidates the S-D logic writings of Vargo, Lusch, and their coauthors, as well as the related work (and viewpoints) of other scholars, to examine the implications of the S-D logic mindset for marketing. It (1) explores the need for S-D logic and summarizes its current state of development, (2) provides an S-D logic perspective of the market and marketing, (3) clarifies major theoretical misconceptions, (4) reviews the extension of S-D logic and its integration with existing marketing knowledge, (5) provides an assessment of the role of S-D logic in the evolution of academic marketing, and (6) offers directions for future research.

Introduction

What has become known as service-dominant (S-D) logic was introduced by Stephen Vargo and Robert Lusch (2004a) in a *Journal of Marketing (JM)* article titled, "Evolving to a New Dominant Logic for Marketing." However, in a very real sense, its beginning was much earlier and more deeply rooted in marketing and marketing-associated literature. S-D logic is intended to capture and extend a convergence of apparently diverse thought that has been shifting the dominant logic of marketing and economic thought away from a primary concern with tangible resources, output in the form of firm-created value (goods), and transactions. It points toward a revised logic for

marketing based on the application of often intangible, dynamic resources, inputs for co-created value, and relational economic and social processes. As the title of the original article implies, S-D logic represents an evolution, rather than a revolution, in marketing thought.

The central tenet of S-D logic is that reciprocal service, defined as the application of competences for the benefit of another party, is the fundamental basis of economic exchange. That is, *service is exchanged for service*.

The discussion and debate about S-D logic was initiated by the simultaneous publication of "Evolving . . ." (Vargo and Lusch 2004a) and the commentaries of seven renowned marketing scholars invited by Ruth Bolton, the editor of *JM* at that time. In her introduction to the commentaries, Bolton (Bolton et al. 2004, p. 18) observed that "the new dominant logic has important implications for marketing theory, practice, and pedagogy, as well as for general management and public policy. . . . The ideas expressed in the article and commentaries will undoubtedly provoke a variety of reactions." It appears her foresight was correct. The original article and commentaries have stimulated a lively and ongoing worldwide discussion about the nature of the market and marketing within the discipline and beyond.

Interest in and evidence of this continuing discussion—as well as evidence of the spirit of collaboration and knowledge generation in which S-D logic is grounded—can be seen in the number and variety of publications, special issues, conferences, and conference special sessions with an S-D logic focus that have followed the publication of the original article. The "Otago Forum on Service-Dominant Logic" (organized by David Ballantyne) was held in November 2005 to discuss and further codevelop S-D logic and its challenge to marketing's dominant, goods-centered paradigm and was followed by "Otago Forum II" in December 2008 to focus on moving the theoretical foundations of S-D logic into marketing and marketing-related practice. Both forums were tied to special issues of journals—*Marketing Theory* and *Industrial Marketing Management*, respectively. About the time of the first Otago forum, *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions* (Lusch and Vargo 2006a) was published. This book brought together insights from fifty top marketing scholars from around the world and represented various viewpoints and positions in relation to S-D logic.

Since the 2004 article, there have also been special sessions on S-D logic at the American Marketing Association (AMA) summer and/or winter conference every year to date (2004–2008). Additionally, S-D logic has been the focus of special sessions at the 2004 Academy of Marketing Science (AMS) Cross-Cultural Conference held in Mexico, the 2007 AMS World Marketing Congress in Italy, the 2005 European Marketing Academy Conference (EMAC), the 2005 Australia and New Zealand Marketing Academy Conference (ANZMAC), and the 2008 Global Marketing Conference in Shanghai (coordinated by the Korean Academy of Marketing Science), as well as a joint ANZMAC/EMAC symposium in 2007 that resulted in a special issue of the *Australasian Marketing Journal* (2007). Also in 2008, an S-D logic Doctoral Colloquium was held in conjunction with the Logic and Science of Service (also known as the Art and Science of Service), which focused on S-D logic–related topics. Moreover, S-D logic is the central topic of a special issue of the *Journal of Academy of Marketing Science* (2008), which received approximately seventy submissions. Further evidence of the impact of and continuing dialogue about S-D logic can be found in a Google search for "Vargo and Lusch" on the World Wide Web, which reveals hundreds of forums, journal publications, conference presentations, books and book chapters, and marketing course syllabi, as well as weblogs (blogs), and other websites.

Much of the feedback surrounding S-D logic has been favorable, and many scholars have embraced the opportunity to discuss the evolution of marketing and how their work contributes to this developing mindset. However, as is often the case with dramatic shifts in thought, some

hesitation, misunderstanding, and skepticism have emerged as well. These diverse viewpoints enrich the discussion.

The purpose of this chapter is to review and consolidate the S-D logic writing of Vargo and Lusch,¹ to review the S-D logic work (and viewpoints) of others, to examine the implications of the S-D logic mindset, and to point toward directions for future research. First, an overview of the need for and development of a revised worldview of marketing and the foundational bases of S-D logic are provided. Next, S-D logic's unique market and marketing perspectives are offered. The theoretical integration and conceptual expansion of a service-centered perspective of marketing are then examined, with special attention to the clarification of common misunderstandings. The major elaborations and extensions of S-D logic that have been contributed by marketing-related scholars are then explored. Next, an assessment of the role of S-D logic in the evolution of marketing knowledge is provided. We conclude with a discussion of the major research frontiers and opportunities that S-D logic offers.

S-D Logic: An Alternative Worldview

A dominant worldview is rarely clearly stated or specifically promoted; rather it permeates into the mindsets of researchers and practitioners through individual beliefs and collective paradigms. Kuhn (1970, p. 10) defines paradigms as "accepted examples of actual scientific practice that provide models from which spring particular coherent traditions of scientific research." Drawing on Kuhn, Arndt (1985, p. 11) views paradigms as "social constructs reflecting the values and interests of the dominant researchers in a science and their reference groups." Hunt (1991) uses the term in a broad sense to connote a "worldview."

Although S-D logic is not a paradigm (Lusch and Vargo 2006b; Vargo and Lusch 2006; Vargo 2007b), according to the criteria above, it functions at a paradigmatic level and provides an alternative lens, a mindset, through which phenomena can be examined. Therefore, it could become a paradigm if, by definition, it becomes a worldview. But worldviews are determined bottom up rather than top down, and, thus, it is the discipline that will make this determination over time. Although the current underlying paradigm, or dominant logic of marketing, as well as economic science and its other derivatives, remains goods-dominant, a paradigm shift is possible.

Goods-Dominant (G-D) Logic

As the label suggests, G-D logic (Vargo and Lusch 2004a; Lusch and Vargo 2006b) focuses on goods—or more generally, "products," encompassing both tangible (goods) and intangible (services) units of output—as the basis of exchange. G-D logic can be paraphrased as follows (see Vargo and Lusch 2004a):

1. Economic exchange is fundamentally concerned with units of output (products).
2. These products are embedded with value during the manufacturing (or agricultural, or extraction) process.
3. For efficiency, this production ideally (a) is standardized, (b) takes place in isolation from the customer, (c) can be inventoried to even out production cycles in the face of irregular demand.
4. These products can be sold in the market by capturing and stimulating demand in order to maximize profits.

In essence, G-D logic says that the purpose of the firm is to *make and sell things*. It has also been called the “neoclassical economics research tradition” (e.g., Hunt 2000), “manufacturing logic” (e.g., Normann 2001), and “old enterprise logic” (Zuboff and Maxmin 2002).

The foundation for G-D logic is grounded in economic science, as developed from the work of Adam Smith (1776/1904), “the father of economics.” Smith did not literally invent economics, nor was that even his purpose. Smith was a *moral philosopher* whose intention was to identify the normative activities that would lead to *national wealth* rather than to provide a positive framework for *economic science*.

Smith initially built his political-economic views on the foundational proposition of the efficiency of the “division of labor,” resulting in the necessity of “exchange.” For Smith (1776/1904, p. 1), labor was the “fund which originally supplies (the nation) with all the necessities and conveniences of life which it annually consumes.” Thus labor, the application of mental and physical skills—that is (essentially) service (see Vargo and Lusch 2004a)—provided the foundation for exchange.

However, having established labor/service as central to exchange and well-being, and the central metric of exchange as *value-in-use*—benefit in relation to the labor required to achieve it—Smith partially abandoned this model. He was not inherently concerned with all of exchange or with economic exchange in general. As noted, he was seeking a normative explanation about which types of service should be promoted in order to advance national wealth. He thus shifted the focus to *value-in-exchange* (nominal value, market price), rather than *value-in-use*, which he felt was easier to understand and also simplified his task of the identification of activities that contributed to the creation of national wealth.

In Smith’s eighteenth-century world, with limitations on personal travel and the nonexistence of electronic communication, the primary route to wealth creation was the export of tangible goods, and the source of these goods was manufacturing. Thus, his underlying model was centered on the *product*—surplus tangible goods that could be exported. This narrowed focus on the exchange value of tangible goods can be seen in his extended discussion of the distinction between “*productive*” and “*unproductive*” activities (see Vargo and Morgan 2005). For Smith, only those activities that contributed to the creation of surplus tangible goods were deemed “productive.” Other activities, though useful and essential to individual well-being, were called “unproductive” because they did not create exportable, tangible goods.

The economic philosophers (e.g., Say 1821; Mill 1848/1929) who followed generally disagreed with Smith’s *productive versus unproductive* distinction, reasoning that all activities that contributed to well-being were productive; but, having done so, they also generally acquiesced. Smith’s (1776/1904) productive/unproductive distinction had taken solid root, and, over time, “products” (tangible goods that could be exported) became the focus of economics; value morphed from *usefulness* to an *embedded property of goods* (essentially *value-in-exchange*); *unproductive* morphed into *services* (intangible goods); and a clear distinction between *producers* (creators of value) and *consumers* (destroyers of value) was established.

This product-, or goods-, based model of economic activity was also convenient because it was compatible with the increasing desire of the economists to turn economic philosophy into economic science. The model of “science” at that time was Newtonian Mechanics, a model of matter embedded with properties. Therefore, an economic model of products embedded with utility had natural compatibility and appeal. At least partly because of the desire for scientific respectability, the goods-centered paradigm survived and flourished. Economics and the derivative business disciplines—as well as more general, societal understandings of commerce—emerged and developed from this G-D paradigm. *Services* (usually plural), from this G-D perspective, are

seen as either (1) a restricted type of good (i.e., as intangible units of output) or (2) an add-on that enhances the value of a good.

The dominance of a goods-centered paradigm can be recognized in Shostack's (1977, p. 73) statement, "The classical 'marketing mix,' the seminal literature, and the language of marketing all derive from the manufacture of physical goods," and the terminology used to describe the related marketing phenomena, such as "producer," "consumer," "goods and services," "supply chains," "channels of distribution," "value-added," etc. Arguably, this G-D paradigm is increasingly viewed as severely restricted, as evidenced by the call for a more encompassing and solid paradigmatic foundation by a number of scholars (e.g., Gronroos 1994; Gummesson 1995; Hunt and Morgan 1995; Schlesinger and Heskett 1991; Shostack 1977).

Service as a Unifying Concept

S-D logic moves the understanding of markets and marketing from a product or *output-centric* to a service or *process-centric* focus. The most distinguishing difference between G-D logic and S-D logic can be seen in the conceptualization of service. As mentioned, in S-D logic *service* is defined as the application of competences (knowledge and skills) for the benefit of another party (Vargo and Lusch 2006). The use of the singular "service" as opposed to the plural "*services*," as traditionally employed in G-D logic, is intentional and significant. It signals a shift from thinking about value creation in terms of *operand resources*—usually tangible, static resources that require some action to make them valuable—to *operant resources*—usually intangible, dynamic resources that are capable of creating value (Constantin and Lusch 1994). That is, whereas G-D logic sees services as (somewhat inferior to goods) *units of output*, S-D logic sees service as the *process* of doing something for and with another party, and thus always as a collaborative process.

In S-D logic, the purpose of economic exchange is to provide service in order to obtain reciprocal service—that is, *service is exchanged for service*. While goods are sometimes involved in this process, they are *appliances* for service provision; they are *conveyors of competences*. In either case—service provided directly or indirectly through a good—it is the knowledge and skills (competences) of the providers and beneficiaries that represent the essential source of value creation, not the goods, which are only sometimes used to convey them.

Importantly, S-D logic represents a shift in the *logic of exchange*, rather than a shift in the *type of product* that is under investigation. It is a shift that Vargo and Lusch (2004a) insist is already taking place. They point out that evidence of this "new logic" can be found in somewhat diverse academic fields such as information technology (e.g., service-oriented architecture), human resources (e.g., organizations as learning systems), marketing (e.g., service and relationship marketing, network theory), and the theory of the firm (e.g., resource-based theories), etc., as well as in practice.

Additionally, this "new logic" is actually an old logic in the sense that it recaptures the foundational ideas of value creation through the reciprocal application of knowledge and skills that Smith (1776/1904) established before abandoning them to discuss national wealth creation. It also can be seen in the work of Bastiat (1848/1964, p. 162), a nineteenth-century economist who claimed, "Services are exchanged for services . . . it is the beginning, the middle, and the end of economic science."

S-D logic does not imply that goods-based models of exchange should be modified to transition to a service orientation. Rather, it suggests that a service-based foundation, built upon service-driven principles, establishes a generalizable logic for understanding *all economic activity* (i.e., even when goods are involved) and provides a more robust logic for transitioning from a goods-centered to a service-centered perspective.

Thus, S-D logic plays a unifying role; it not only accounts for goods in exchange, it actually gives them an important role as service-delivery vehicles. The same is not the case with the treatment of service(s) in G-D logic, in which service(s) has traditionally been all but ignored and has only recently been treated as somewhat inferior (i.e., lacking in tangibility, inability to be standardized, inability to be created separate from the customer, and incapable of being inventoried). This “goods-versus-services” rift has required separate streams of marketing literature. Arguably, more generally, G-D logic has created additional conceptual bifurcations, such as the producer-consumer and the related business-to-consumer versus business-to-business distinctions, and necessitated the development of other (sub)disciplines (see Vargo and Lusch 2008c). As we will discuss, these distinctions largely vanish in an S-D logic conceptualization of exchange, markets, and marketing, creating at least the potential for a unified theory of marketing and exchange.

Foundations of S-D Logic

Many of the concepts (e.g., value co-creation and operant resources) for which S-D logic argues are neither exclusive to nor invented by S-D logic itself. S-D logic captures shifting contemporary marketing thought, in which marketing is seen as a facilitator of ongoing processes of voluntary exchange through collaborative, value-creating relationships among social and economic actors (e.g., individuals and organizations). S-D’s logic development began largely through the unification of existing and emerging views of exchange that stray from the traditional goods-centered logic. This service-centered view draws on historical arguments such as Smith’s (1776/1904) definition of “real value” rooted in labor, Say’s (1821) creation of utility rather than matter, Mill’s (1848/1929) classification of productive labor, and Bastiat’s (1860) criticism of tying value to tangible resources.

S-D logic is grounded in the convergence of historical ideas and existing literature in marketing, economics, and management (e.g., Gummesson 1995; Normann and Ramirez 1993; Shostack 1977), as well as influential marketing theories in services and relationship marketing (e.g., Gummesson 1995; Gronroos 1994), resource-advantage theory (e.g., Hunt 2000), core competency theory (e.g., Day 1994; Prahalad and Hamel 1990), and network theory (e.g., Achrol 1999; Hakansson and Snehota 1995; Norman and Ramirez 1993), that bring to light an alternative, service-centered logic of the market (for detailed evolution see Vargo and Lusch 2004a). When the discussion of an S-D logic for marketing emerged (Vargo and Lusch 2004a), eight foundational premises (FPs) were offered to establish a framework for the service-centered mindset. Driven by the spirit of co-creation and continuous evolution, these premises have been revised and extended through the dialogue and discussion among various scholars. Minor revisions and one addition (FP9) occurred in *The Service Dominant Logic of Marketing: Dialog, Debate, and Directions* (Lusch and Vargo 2006a; Vargo and Lusch 2006). A more complete revision and the addition of FP10 were presented in Vargo and Lusch (2008a), in the special issue of the *Journal of the Academy of Marketing Science*. The ten FPs, as modified, are shown in Table 6.1 (Vargo and Lusch 2008a, p. 7) and discussed below. Together, they provide the foundation for S-D logic.

FP1. Service Is the Fundamental Basis of Exchange

FP1 establishes the core premise of S-D logic: the purpose of exchange is mutual service provision. Service, as defined in S-D logic, is the use of one’s competences for the benefit of another party. It is differentiated from the plural “services,” which implies a type of good and is characterized by (often considered inferior) qualities of intangibility, heterogeneity, inseparability, and

Table 6.1

Service-Dominant Logic Foundational Premises

| | Original foundational premise | Modified/new foundational premise | Comment/explanation |
|------|---|---|---|
| FP1 | The application of specialized skill(s) and knowledge is the fundamental unit of exchange. | Service is the fundamental <i>basis</i> of exchange. | The application of operant resources (knowledge and skills), "service," as defined in S-D logic, is the basis for all exchange. Service is exchanged for service. |
| FP2 | Indirect exchange masks the fundamental unit of exchange. | Indirect exchange masks the fundamental <i>basis</i> of exchange. | Because service is provided through complex combinations of goods, money, and institutions, the service basis of exchange is not always apparent. |
| FP3 | Goods are a distribution mechanism for service provision. | Goods are a distribution mechanism for service provision. | Goods (both durable and nondurable) derive their value through use—the service they provide. |
| FP4 | Knowledge is the fundamental source of competitive advantage. | <i>Operant resources</i> are the fundamental source of competitive advantage. | The comparative ability to cause desired change drives competition. |
| FP5 | All economies are services economies. | All economies are service economies. | Service (singular) is only now becoming more apparent with increased specialization and outsourcing. |
| FP6 | The customer is always a co-producer. | The customer is always a co-creator of value. | Implies value creation is interactional. |
| FP7 | The enterprise can only make value propositions. | The enterprise <i>cannot deliver value, but</i> can only offer value propositions. | Enterprises can offer their applied resources for value creation and collaboratively (interactively) create value following acceptance of value propositions, but cannot create and/or deliver value independently. |
| FP8 | A service-centered view is customer oriented and relational. | A service-centered view is <i>inherently</i> customer oriented and relational. | Because service is defined in terms of customer-determined benefit and co-created, it is <i>inherently</i> customer oriented and relational. |
| FP9 | Organizations exist to integrate and transform microspecialized competences into complex services that are demanded in the marketplace. | <i>All social and economic actors are resource integrators.</i> | Implies the context of value creation is networks of networks (resource integrators). |
| FP10 | | <i>Value is always uniquely and phenomenologically determined by the beneficiary.</i> | Value is idiosyncratic, experiential, contextual, and meaning laden. |

Source: Vargo and Lusch 2008a.

perishability (e.g., Zeithaml, Parasuraman, and Berry 1985). Thus, economic exchange involves doing something for another party under the condition that the other party applies its competence reciprocally. The complex and indirect nature of economic exchange, however, makes this rather simple tenet difficult to see (FP2).

FP2. Indirect Exchange Masks the Fundamental Basis of Exchange

Complex, indirect processes associated with exchange make its service-for-service nature easy to miss. That is, service is often provided through goods (see FP3) and goods can also be used as a form of currency (e.g., held for trade rather than used for self-service). Service exchange also often occurs through the combination of the applied competences of internal micro-specialists (e.g., assembly-line workers) and/or the combination and integration of the micro-specializations (e.g., the combination of all the resources contributed and integrated by the various participants in the “value network or constellation”). Furthermore, in monetized exchange, reciprocal service provision is lagged in relation to the initial transaction until the rights to future service (money) are used in subsequent exchange. But all these exchange vehicles (i.e., goods, money, organizations, and networks) represent *intermediaries* of complex exchange processes, rather than the essential bases of exchange. Behind these institutions are individuals applying their competences for the ultimate benefit of another party so that they can receive the benefit of applied competences that they do not possess. That is, regardless of its dynamic and complex structure, the essence of market exchange remains the same; to better the circumstances of both parties, people still exchange their applied competences (e.g., knowledge and skills) for the applied competences of others. They exchange service for service.

FP3. Goods Are a Distribution Mechanism for Service Provision

When service is understood as the basis of all exchange, goods take on a role of vehicles or transmitters for service. The value of a good is not created in a factory and distributed to the market; rather, it is derived and determined through its contribution to the customer’s self-service process—its value-in-use. Thus, rather than “services” representing a special case of “intangible goods,” as they have been conceived under G-D logic, goods are actually a special case of, or a vehicle for, indirect service provision. The basis of exchange is always service provision; goods, when used, are *appliances* for service provision.

FP4. Operant Resources Are the Fundamental Source of Competitive Advantage

One of the hallmarks for S-D logic (Vargo and Lusch 2004a) and most critical differences between S-D logic and G-D logic is the distinction between operand and operant resources (Constantin and Lusch 1994). Operant resources produce effects, whereas operand resources need to be acted upon to do so. Operand resources are usually tangible and static, whereas operant resources are usually intangible and dynamic. Almost by definition, G-D logic is centered on operand resources. S-D logic refocuses exchange on operant resources by shifting from units of output to the process of using competences for the benefit of another party—that is, service—so that the other party will reciprocate with its own applied competences. Thus, the ability to compete in the market is a function of knowledge, both individual and collective (e.g., organizational). This does not diminish the importance of operand resources in human well-being. It simply acknowledges that operand resources only become valuable in the context of active resources—for example, modification, combination, and use (see

Zimmerman 1951). Since S-D logic implies that value is created through activity, it points toward the primacy of the human resources of the firm (Lusch, Vargo, and O'Brien 2007) and underscores the necessity of seeing the customer as endogenous to value creation (see FP6).

FP5. All Economies Are Service Economies

Contrary to the popular perspective of the “new service economy,” service provision is not just now becoming abundant, nor is it only recently gaining importance. According to S-D logic, what is often seen as an emerging “service economy” is actually an aberration of a G-D logic perspective in which manufacturing (and agriculture and extraction) has been considered primary. What is happening now is that the service nature of exchange is becoming increasingly apparent as specialization increases and as less of what is exchanged fits the dominant manufactured-output classifications of economic activity. In S-D logic, there is no “service revolution,” except for the revelation in service-centered thinking. However, arguably, one revelation that is making the service nature of exchange more apparent is an information revolution (Rust and Thompson 2006). That is, the increase in specialization can be understood in terms of the exponential rate of increase in knowledge and the increasing ability to exchange information (operant resources) in a relatively pure form—that is without being transported by people and/or matter (liquification in Normann’s [2001] terms)—through digitization.

FP6. The Customer Is Always a Co-creator of Value

Service implies interactivity. In the parlance of the G-D logic vision of services, this is captured in the inseparability of production and consumption. While Vargo and Lusch (2004a, b) argue that inseparability is not a useful distinguishing characteristic of service, it is probably a universal characteristic of value creation. That is, value creation occurs at the intersection of providers and beneficiaries and is always determined by the latter. Stated somewhat differently, value is always created through use, rather than manufactured and then delivered. Thus, use implies the application of the *customer’s operant resources* in addition to those applied by the provider. All this suggests that the customer is always an active participant of the value-creation process—that is, a co-creator of value.

The term “co-creator” requires further explanation. In the original FP6 (Vargo and Lusch 2004a), the term “co-producer” was used. Clearly, “co-producer” has G-D logic connotations. Thus, it was changed to co-creator of value in Vargo and Lusch (2006). However, the term co-production has a useful S-D logic meaning as well. While the “co-creation” of value describes the effect of the process of joint application of operant resources among firms and customers in creating benefit for the customer, “co-production” can be considered a subset of co-creation. Co-production involves the creation of the core offering itself and can occur through shared inventiveness, design, and/or production of the firm’s value proposition. Therefore, from a service-centered perspective, the customer always co-creates value through use and can be, though is not always, a participant in the co-production process. This requirement, that value must be co-created, implies that the firm can only propose its creation.

FP7. The Enterprise Cannot Deliver Value, but Can Only Offer Value Propositions

Consistent with FP6, FP7 makes explicit the idea that the firm cannot make and deliver value. That is, based on the collaborative nature of value creation and the customer’s determination of value, derived contextually and through use, the firm can offer only value propositions.

FP8. A Service-Centered View Is Inherently Customer Oriented and Relational

In the G-D logic conceptualization of exchange, with its focus on transactions and units of output, “customer orientation” usually means something like making units that the customer will buy, and “relationship” usually refers to multiple transactions occurring over time. That is, they are both normative adjustments to G-D logic necessary for increasing the long-term profitability of the firm through selling more goods (tangible or intangible). However, S-D logic’s central tenets of service being the basis of exchange, service being defined in terms of benefit, and the application of operant resources from both parties to create value, make exchange inherently interdependent and relational, beneficiary (e.g., customer) oriented and beneficiary centered. Stated alternatively, in the consideration of value creation within G-D logic, the firm and the customer are separate, with the former seen as a producer of value and the latter as a destroyer. Within S-D logic, value creation is an interactive process, and thus, value is created in a relational context.

FP8 is a positive, rather than normative, statement about how value is created through the relationships of parties in service-for-service exchange. Customer centrality and relationships are not options; they are realities of value-creation processes within markets. The service-for-service nature of exchange extends customer centrality dual (“firm”-“customer”) to “balanced centrality” (see Gummeson 2008). In FP9, the relational orientation is extended to the firm’s network of resources as well as the customer’s. Vargo (2009, forthcoming) more explicitly distinguishes relationship from repeat patronage, or multiple transactions, by associating the former with the more comprehensive, networked process of value creation and transactions as “temporal isolates” in that process.

FP9. All Social and Economic Actors Are Resource Integrators

The premise that value is co-created through the combined activities of providers and beneficiaries implies that value is determined through the integration of both provider-supplied and beneficiary-supplied resources. That is, the value derived and determined by each actor in an exchange is heterogeneous, based on existing competences (e.g., knowledge and skills), access to other resources (both operant and operand), and the situational context. In the traditional G-D logic-based literature, this integration is most often captured in concepts of supply chains (or more recently, value networks) and manufacturing. In the G-D logic-based “services” literature, it is partially captured in the observation of the heterogeneity of services. S-D logic extends the manufacturing logic from making things to *integrating resources to create “densities”* (Normann 2001). Normann (p. 27) defines maximum density as a situation in which “the best combination of resources is mobilized for a particular situation—for example, for a customer at a given time in a given place—independent of location, to create the optimum value/cost result.” Think of it as follows: At a given time and place, can a party bring together and integrate all the resources necessary to co-create the best possible value? With S-D logic, the integrating of resources to create densities is extended from the concept of provider and supply networks to the service beneficiary (e.g., “customer”) and beneficiary networks. This network-with-network model, in which each actor is combining resources from multiple parties to create value, is similar to Gummeson’s (2006) “many-to-many” marketing.

The integrative, network-with-network model of value creation is not limited to individuals and firms or to economic exchange. It applies equally to all actors and institutions (e.g., families, firms, cities, nations) in their creation of value for themselves through the integration of resources acquired through both economic and social exchange. This foundational premise is a generalized version of the more restricted FP9 introduced by Vargo and Lusch (2006), as modified by Vargo and Lusch (2008a).

Table 6.2

Conceptual Transitions

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

Source: Adapted from Lusch and Vargo 2006c, p. 286.

FP10. Value Is Always Uniquely and Phenomenologically Determined by the Beneficiary

This tenth foundational premise was added (Vargo and Lusch 2008a) to capture the experiential nature of value more explicitly. Although implicitly suggested by the S-D logic definition of service, various FPs (e.g., FP6, FP8, and FP9), and other, less-formalized, conceptual notions (e.g., consumer's perceptions, meeting higher-level needs, customer determination), Vargo and Lusch (2008a) formalized the unique and contextual interpretation of value. The word "phenomenological," rather than "experiential," was selected because the term "experience" is often interpreted to have positive-only connotations (e.g., something of a "Disney World event"—a "wow" factor), rather than positive, neutral, or negative contextually specific meanings.

Conceptual Transitions

Embracing a service-centered perspective requires rethinking marketing, if not all of economic science. It requires transitioning from one mental model to another and from one lexicon to another. S-D logic intimates a very different kind of purpose and process for marketing activity and for the firm as a whole: to provide service to stakeholders, including customers, stockholders, and employees. In general, by placing service, rather than goods, at the center of exchange, S-D logic moves the focus of marketing and value creation from tangible (operand) resources to intangible (operant) resources, such as knowledge and skills (Lusch and Vargo 2006c). Table 6.2 (Lusch and Vargo 2006c, p. 286) provides a summary of this and other conceptual transitions associated with moving from the dominant goods-logic toward the emerging service-logic for marketing.

The S-D logic-related concepts represent a vision of the language that is needed to further a service-centered logic. No doubt that these will be revised and elaborated as S-D logic evolves (see for example Lusch, Vargo, and Wessels 2008). However, this transition from G-D logic to

Figure 6.1 **The Evolution of Marketing.**

Source: Adapted from Lusch, Vargo, and O'Brien (2007), p. 7.

S-D logic-compatible concepts is a difficult one, partly because the former serves not only as the formal language of the goods-centered model of economic exchange, but also as the vernacular foundation for everyday thought about exchange, marketing, and business in general. Thus, first attempts at grasping and expressing S-D logic are often through transitional concepts—G-D logic interpretations of S-D logic (middle column).

The emergence of S-D logic can also be seen in another transition, in marketing “with” rather than “to” customers. The shift in primacy of resources, from operand to operant, has implications for how exchange processes, markets, and customers are perceived and, thus, with how they are approached. Focusing on the primacy of operant resources, S-D logic views customers as resources that are capable of acting with other resources and collaborating to co-create value with the firm (Vargo and Lusch 2004a). Thus, S-D logic considers customers as dynamic, knowledge-generating, and value-creating resources. This is a fundamental transition away from G-D logic, which views customers as operand resources that the firm acts upon. From a G-D logic perspective, customers are considered exogenous to the firm and are “segmented” and “targeted,” and often considered “manipulated” in the process of value creation. The primary focus of marketing within G-D logic is to identify customers, and market and sell to them.

In the same way that G-D logic considers customers as operand resources, this output-focused paradigm also treats employees and other network partners as static resources that are “managed,” if not manipulated. Alternatively, S-D logic views all exchange partners as operant resources that can, and arguably must, be collaborated within the value-creation process. From this perspective, employees, customers, and other network partners become the primary source of a firm’s innovation, competence, and value. In addition, while the G-D marketing paradigm assumes the external environments (legal, competitive, social, physical, technological, etc.) as largely uncontrollable and forces to which the firm needs to adapt (McCarthy 1960), S-D logic inverts this assumption and views the external environments as resources the firm draws upon for support by overcoming resistances and co-creating these environments. Figure 6.1 (Lusch, Vargo, and O’Brien 2007, p. 7) depicts the shift of marketing philosophies and the evolution from a goods- toward a service-dominant logic.

Figure 6.2 Service(s) Exchanged for Service(s)



Market and Marketing Perspectives of S-D Logic

S-D logic's focus on interdependent relationships and reciprocal, service-for-service exchange suggests that markets and marketing have primary societal functions. Society and service exchange are almost synonymous concepts. Human well-being, if not survival, depends on the reciprocal exchange of applied competences (knowledge and skills). This exchange is sometimes purely social and sometimes economic, but most often both, in a complex web of service-for-service exchange (Lusch and Vargo 2006b).

Marketing as a Social and Economic Process (Rather than an Outcome)

S-D logic's emphasis on systems of service-for-service exchange suggests that an examination of the market needs to precede marketing analysis (Venkatesh, Penalzoza, and Firat 2006). From this perspective, organizations and other social and economic institutions are co-created to facilitate the exchange of applied knowledge and skills among individuals. Furthermore, language, knowledge, norms, culture, money, and scientific paradigms are all part of a network of co-creation activities of individuals and organizations that represent society. In a real sense, society can be viewed as a macro service-provision system. This service-driven society is not a new phenomenon, nor does it lead to a new era of the economy. Ironically, it is the growth and complexity of the institutions of service exchange, particularly those associated with "industrialization" (see Vargo and Lusch 2004b; Vargo and Morgan 2005), that have masked the service-for-service nature of exchange.

Figure 6.2 (see also Lusch and Vargo 2006b, p. 410) portrays the masking role of institutions and intermediaries in service-for-service exchange in society. It is important to note that it is only because of the complexities of the market, including (1) money as a medium of exchange, (2) goods as channels of distribution for service(s), (3) organizations as service intermediaries, and (4) networks that link together parties of mutual service provision, that marketing has overlooked the fundamental economic principle that service is exchanged for service. Value does not reside in and is not directly derived from money, goods, organizations, and/or the network; value is found in the joint application of knowledge and skills that generates reciprocal service provision to better

the circumstances for each other and humankind (society). Money, goods, organizations, and the network merely provide vehicles for exchange.

Learning in Competitive Markets

S-D logic recognizes service-for-service exchange and competing through service as learning processes. Competing within an S-D logic mindset refocuses the purpose of exchange from the acquisition of tangible, operand resources to the generation and integration of intangible, operand resources. Economic commerce is deeply embedded within social exchange, and the two are difficult, at best, to separate. S-D logic argues that social and economic actors exchange with other actors in an attempt to improve their existing conditions through improving the conditions of others (Lusch et al. 2007). Service-for-service exchange is driven by a simple hypothesis that if the actor takes a certain action (and changes), it will be better off. However, this hypothesis is tested by the perceptions of service rendered and the value derived through an exchange and consequent use. Actors enter into exchange and experience the consequences firsthand. They learn that their hypotheses can be falsified, particularly when the service rendered does not contribute to the desired experience. Each actor has an ongoing desire to improve its condition and thus, via exchange, learns what works and what does not work. The actor then responds by returning to the market to integrate more resources, developing competences that enable it to better adapt the original service rendered in exchange or finding alternatives to the market such as more self-service, communal sharing, or other institutions for enhancing well-being.

The learning process surrounding exchange provides evidence that we live in an adaptive and changing world. In S-D logic, micro entities seek to better their lives by specializing and exchanging their service(s) for the service(s) of others. Macro structures such as organizations, market segments, lifestyle groupings, fashion movements, and legal and government regulations emerge from these individual actions and become more salient. However, behind all these macro and visible trends are individuals seeking to improve their stake in life and engaging in exchange to accomplish this. By participating in exchange, individuals stimulate additional changes that ripple throughout society. As this ripple occurs, we see more and more creative effort because more and more signals are transmitted about what works and what does not work, what results in satisfaction and what creates dissatisfaction, and what results in gain over loss. The system is not perfect, but once the power of individuals exchanging, based upon their micro specializations, starts to roll out throughout the local, regional, national, and world economy and society, more and more change occurs and more variety manifests itself via the creative learning process of exchange (Lusch and Vargo 2006b). Some have argued that the effect is opposite and that the global expansion of markets has resulted in homogeneity. However, with more exchange, there is increasing refinement, division, and reintegration of resources, creating more, rather than less variety. More importantly, this debate signifies another reason why more formal study of the market and market processes is needed in marketing.

Theoretical Clarifications of S-D Logic

The idea of a service logic is finding increasing acceptance in academic marketing and beyond. This should not be entirely surprising, since what has become known as S-D logic was not so much created by Vargo and Lusch (2004a) as it was reported and extended. That is, S-D logic is both deeply seeded in historical roots related to economic thought (e.g., Bastiat 1848/1964; De-launay and Gadrey 1992) and representative of the convergence and extension of trends in theory

development from within marketing, especially its subdisciplines (see Vargo and Lusch 2008c), as well as related disciplines, such as economics and human resources. Additionally, the further development and elaboration of S-D logic since Vargo and Lusch (2004a) has been characterized by collaboration and co-creation. However, S-D logic has also been developed in the paradigmatic context and pervasive lexicon of G-D logic. Thus, in addition to the contentious substantive issues that are expected in any major scientific endeavor, there are issues of communication and interpretation. Most of these issues of understanding can be organized around the following topics: (1) general issues related to the G-D logic lexicon, (2) value as a phenomenological concept, (3) service logic as transcendence versus a goods-services dichotomy, (4) service provision as the common denominator of all exchange, and (5) the role of S-D logic as a foundation for a positive theory of the market versus S-D logic as a normative theory of marketing.

The Goods-Dominant Logic Lexicon Influence

As mentioned, the deeply seeded roots of a goods-centered lexicon have created difficulties for the communication and development of S-D logic in marketing. That is, the language of G-D logic is the foundational language of marketing and, as such, contributes both directly and indirectly to much of the concern regarding S-D logic. The dominant lexicon reflects more than just words available to talk about marketing; it reflects the underlying paradigm for the thinking about and understanding commerce, the market, and exchange in general. This presents problems for discussing and describing a counter-paradigmatic view, such as S-D logic. Often, there are no alternative, generally acceptable, counter-paradigmatic or even neutral words available. Several misperceptions of S-D logic have been noted (Lusch and Vargo 2006c; Vargo and Lusch 2006; Vargo and Lusch 2008a) that can be directly attributable to language limitations, such as the concepts of "service" versus "services," "co-creation" versus "co-production," and "use value" versus "utility."

Arguably, the most critical semantic issue surrounding S-D logic centers on the use of "service" as its designator. Also arguably, no other issue is as tied to the difficulty of using words that have specific G-D logic meanings for explicating the nuances of S-D logic. Some have raised concerns that "service" has too much baggage (e.g., Lehmann 2006). Others have suggested that the S-D logic definition of service is "novel" or "inconsistent" (e.g., Achrol and Kotler 2006; Levy 2006), and still others have argued that it is just the wrong choice and/or it creates a false dichotomy between goods and service (e.g., Brodie, Pels, and Saren 2006).

Most of the issues surrounding the use of the term "service" by S-D logic seem to be tied to the fact that in G-D logic, the term "services" is usually intended to refer to units of output, intangible goods. S-D logic, on the other hand, uses the singular term "service" to refer to a process, and is neither faulty nor novel (Vargo and Lusch 2006). We Vargo and Lusch (2006; 2008b) have acknowledged the baggage associated with the term "services," but emphasize that the term "service" is precisely correct, if not essential, because no other word is more appropriate. Likewise, the use of the term service transcends the old, intractable (see Vargo and Lusch 2004b) debate concerning the difference between goods and services (intangibility, heterogeneity, inseparability, and perishability) by reframing the issue to emphasize the *relationship*: service is the *common denominator* of exchange; goods are *service-provision mechanisms*. Thus, the notion of a false dichotomy between goods and service(s) (Brodie et al., 2006) is not created by S-D logic, but rather was created by G-D logic and is, arguably, resolved by S-D logic (Lusch and Vargo 2006c; Vargo and Lusch 2008b).

The problem and difficulty of G-D logic-inspired words' being inadvertently used to describe S-D logic were evident in the initial selection of the term "co-production" (Vargo and Lusch

2004a) to capture the collaborative nature of value creation. Perhaps at least in part, the use of co-production led to the argument that S-D logic does not always apply, because customers do not always want to be active participants (e.g., Wilkie and Moore 2006; Rust and Thompson 2006). As we Lusch and Vargo (2006c; Vargo and Lusch 2006, 2008a) have acknowledged, co-production is an inappropriate term to capture the “co-creation” of value, the term used since the modification of FP6, “The customer is always a co-creator of value” (Vargo and Lusch 2006). Nonetheless, “co-production” was retained to describe the involvement of the customer in the creation (e.g., codesign, or shared production, etc.) of a firm’s core offering. This argument is made with the caveat that co-production is an option (for both the provider and the customer), but *value is always co-created*. That is, co-creation is the common denominator for value creation and superordinate to co-production in the same way that service is superordinate to goods.

Value as a Phenomenological Concept

For somewhat the same, G-D lexicon-based reasons for the confusion between co-creation of value and co-production, the S-D logic meaning of value is also sometimes misunderstood. Some have suggested that the service in S-D logic implies only utilitarian or “functional” benefits, essentially what has been captured by concepts of “utility” or “value-added” (e.g., Prahalad 2004; Schembri 2006). Typically, in conversation explaining S-D logic, the use of “utility” and “value-added” are avoided. The problem is that, even though “utility” was originally intended to capture “value-in-use,” or “usefulness,” it morphed into a meaning of embedded value, or “value-in-exchange,” essentially the same as value-added, a clearly G-D logic-related concept (see Vargo and Lusch 2006). S-D logic generally supports a “value-in-use” interpretation, but even that term has at least subtle G-D logic connotations.

This G-D logic connotation of “value-in-use” might also exacerbate the occasional interpretation of service as referring to value in terms of functional benefits, rather than a phenomenological interpretation by the customer. As Vargo and Lusch (2006, p. 50) noted:

We suspect that our emphasis on service satisfying higher-order needs is missed because, as with many misperceptions about S-D logic, the dominant paradigmatic perspective is G-D logic. Arguably, G-D logic implies functional benefits and its dominance is why the literature is just now evolving toward grasping the role of more experiential, expressive, phenomenological, and emotional benefits.

To further clarify this issue, FP10 was added (Vargo and Lusch 2008a), which captures S-D logic’s phenomenological view of value and also helps to clarify the misunderstanding that S-D logic is a restatement of the consumer orientation. S-D logic’s emphasis on value-in-use centers on the phenomenological view of value and, thus, is inherently customer oriented and customer centered. Within S-D logic, the identification of consumer orientation becomes redundant.

Although S-D logic takes a customer-centric approach to value creation and emphasizes that value is derived through use, it does not suggest that value-in-exchange is not important. Rather, S-D logic recognizes the importance of financial feedback from the market (exchange value) as a learning mechanism and is compatible with the idea that such feedback is tied to accounting systems that capture value-in-exchange. Thus, while S-D logic argues that value-in-exchange could not exist independent of value-in-use, it recognizes the importance of value-in-exchange as feedback to the firm and an intermediary of service provision.

The transition in thinking that occurs when one moves from focusing on value-in-exchange to

value-in-use is illustrated in Table 6.2. We are now beginning to recognize that value-in-use is a transitional concept that takes us from the goods-dominant concept of value-in-exchange toward a service-dominant concept of value. However, "value-in-use" does not fully reflect S-D logic thought—that is, it is transitional—and thus the term "*value-in-context*" (see Vargo, Maglio, and Akaka 2008) may be more fitting. Value-in-context suggests that not only is value always co-created, it is also contingent on the integration of other resources and is contextually specific. Consider the purchase of a new car. The price paid for the car is the value-in-exchange; the benefits from the use of the car represent the value-in-use. But that value is contingent on integration with other resources (driving ability, maintenance, fuel, roads,) and the use context—for example, integrating a car with family activities, such as weekend soccer games, establishes a different value-in-use from integrating it with individual needs, such as a daily commute to work.

Service-Dominant Logic as Transcendence Versus a Goods-Services Dichotomy

As noted, in S-D logic, "service" transcends goods (and "services") by delineating the *relationship* between service (a process of using competences for the benefit of another party) and goods (service-provision vehicles), rather than looking for the differences between types of output (goods and "services"). Similarly, rather than replacing goods with service, as some have suggested (e.g., Achrol and Kotler 2006; Brodie et al. 2006) or goods logic with service logic, S-D logic makes service and service logic superordinate to goods and goods logic in terms of classification and function. That is, although some have argued otherwise, S-D logic does not consider service to be a substitute for goods. Rather, S-D logic establishes a nested relationship in which S-D logic transcends G-D logic, meaning that the theoretical and conceptual components of G-D logic are relevant, but are not as deep or broad as those of S-D logic. Thus, it resolves the goods versus service dichotomy that is created by the G-D logic distinctions.

Similarly, this notion of transcendence can be used to respond to arguments that a plurality of paradigms is needed—that is, S-D logic and G-D logic should coexist (e.g., Sweeney 2007; Winklhofer, Palmer, and Brodie 2007). At first glance, this pluralistic stance may seem as if it resolves the debatable ideas stemming from the emergence of S-D logic. However, this pluralistic approach is also unnecessary and conceivably incoherent. A service logic and a goods logic can coexist in a nested relationship, as they do in S-D logic, but that is very different from making both service and goods primary (e.g., "dominant"). Essentially, "plurality is what the discipline has had with the separation of goods marketing and services marketing. In S-D logic, that separation is not only unnecessary; it (arguably) is resolved—service and goods coexist with a common purpose (service) in S-D logic" (Vargo 2007b, p. 109).

Service Provision as the Common Denominator of All Exchange

One of the most consistent restatements and misstatements of the S-D logic thesis is that it is appropriate for marketing to adopt models of "services," rather than goods, because the former are now dominant in developed economies (see, e.g., Achrol and Kotler 2006; Ambler 2006; Brodie et al. 2006; Shugan 2004). Some have even suggested that S-D logic does not go far enough in reflecting the transition in the market (e.g., Rust 2006). S-D logic does not deny that service dominates exchange today; however the transition-focused perspective does not reflect a full understanding of the central tenet of S-D logic: service is exchanged for service. Thus, service has always been the foundational basis for all exchange.

Importantly, goods neither become replaced nor unimportant in S-D logic. Service is just the

common denominator. The function of goods, when involved, is to enable service—that is, goods represent a special case of service provision. As noted, it is only from the perspective of a model that includes the fundamental assumption that exchange is driven by goods (G-D logic) that the importance of service is just now becoming apparent and that the economy is perceived to be transitioning from goods to service focused.

In S-D logic, service provision is the basis of exchange in all economies as well as industries and is the primary function of all organizations. Thus, though some have argued that S-D logic is not likely to apply to all organizations and/or situations (e.g., Day 2006), once service is accepted and understood as the basis of all exchange, S-D logic does not have boundary conditions. That is, it applies equally to what have traditionally (under G-D logic) been differentiated as “services” and “manufacturing” industries and organizations.

The Positive vs. Normative Nature of S-D Logic

Some (e.g., Venkatesh et al. 2006; Wilkie and Moore 2006) have either implicitly or explicitly indicated that S-D logic might not go far enough because it does not move marketing beyond its present managerial, or firm-centric, orientation and/or does not adequately provide a *market* focus. Based solely on the original *Journal of Marketing* article (Vargo and Lusch 2004a), their observations are possibly well founded. *Marketing*, by definition, is largely a managerial activity, as it should be given its origin and its original focus on application. That is, it has normative connotations. Even the word “marketing” implies doing something—going to market, acting on the market, and so on—as opposed to a more positive term like market science. Also, the conceptualization of S-D logic emerged (Vargo and Lusch 2004a) in the *Journal of Marketing*, which has an editorial policy of managerial relevance. Thus, Vargo and Lusch (2006) have recognized that some of the initial presentation of S-D logic was couched in managerial terms. However, S-D logic is not inherently managerial, and the non-managerial implications need to be more fully explored (see, e.g., Gummesson 2006; Laczniak 2006; Venkatesh et al. 2006; Wilkie and Moore 2006; and Lusch and Vargo 2006b).

More importantly, Venkatesh et al. (2006) argue that what is missing in marketing is an adequate understanding of the market (Vargo and Lusch 2006). In agreement, Lusch and Vargo (2006b; Vargo 2007a; Vargo and Lusch 2008c) suggest that S-D logic offers a foundation for a much-needed positive theory of *markets*, on which better normative theories of *marketing* could be based. That is, the basic premise of S-D logic, the mutual exchange of applied, specialized skills and knowledge, is a more solid foundation for understanding markets and marketing than is the very limited foundation of exchange centered on goods. Thus, S-D logic not only points toward better marketing theory but also possibly points toward a better, process-centered theory of economics and society. Further integration of the literature and generation of knowledge will likely offer insight on social and not-for-profit entities as well as ethical, legal, societal, and ecological issues (Vargo and Lusch 2008c). Such areas are already being examined (see, e.g., Abela and Murphy 2008) and show initial support for S-D logic as a more integrative approach for studying ethical and socially beneficial aspects of marketing.

Service-Dominant Logic Knowledge Extensions and Integration

Since its introduction in academic marketing, S-D logic (Vargo and Lusch 2004a) has stimulated scholarly dialogue concerning marketing theory and thought in general, as well as more specific phenomena of concern in various subdisciplines (e.g., service marketing, relationship marketing,

industrial marketing, etc.). Although the dialogue surrounding S-D logic continues to evolve, three subthemes have emerged that underlie much of the elaboration of service-centered concepts and reflect the foundational premises of S-D logic. These subthemes are: (1) the S-D logic meaning of service, (2) a resource-based perspective of the market, and (3) the process-orientation of value co-creation. The growing conversation built upon the three subthemes of S-D logic has contributed back to the research streams from which S-D logic was derived (e.g., service and relationship marketing) and continues to expand into other areas of marketing and marketing-related research (e.g., consumer behavior and business-to-business marketing). The purpose of the following section is to highlight the primary, salient issues and insights emerging from these scholarly conversations. This dialogue integrates S-D logic with existing and developing ideas related to marketing and elaborates and/or extends service-centered concepts.

S-D Logic Meaning of Service

Growing research focused on service-centered thinking suggests that S-D logic has the potential to provide a foundation for a paradigm shift in marketing. As a result, the existing concepts and models for marketing are increasingly being questioned and reconsidered to reflect the evolutionary transition (e.g., Ekeledo and Sivakumar 2004; Rust 2004; Woodruff and Flint 2006). The discussion surrounding the S-D logic meaning of service, as the application of operant resources (e.g., knowledge and skills) for the benefit of another, has been at the core of this dialogue and evolution. While the clarifications of why the term “service” is appropriate and precise have been discussed above, the following sections provide extensions in the literature that further develop this core concept (cf. Vargo and Lusch 2004b).

Rethinking Service Marketing

The S-D logic conceptualization of service appears to have a significant impact on the service marketing literature. Ottenbacher et al. (2006, p. 346) argue that S-D logic introduces “a renewed focus on the conceptual fluency between what is relevant in product marketing and what is relevant in services marketing.” As mentioned, “services” are conventionally distinguished from goods by four differentiating characteristics: intangibility, heterogeneity, inseparability, and perishability (Zeithaml et al. 1985), designated as “IHIP” characteristics (Lovelock and Gummesson 2004). Over the past few decades, the IHIP characteristics of services have been widely accepted and applied as the conventional wisdom of service marketing. However, the introduction of S-D logic directly challenges these characteristics by arguing that the IHIP differentiators assume the primacy of goods (i.e., services are what goods are not) and therefore are evidence of a G-D logic (Vargo and Lusch 2004b). Lovelock and Gummesson (2004) have questioned their usefulness in the delineation of services from goods on somewhat similar grounds.

The S-D logic conceptualization of service has at least partially redirected the discussion of service from the distinction of “goods versus services” by obviating the need for a “goods versus services” dichotomy because, in S-D logic, “service,” is a transcending concept. That is, service, defined in terms of using competences for the benefit of another party, is an inclusive term, with goods representing a mechanism for service provision.

While the discussion has been redirected, in part, the issues are not fully resolved, perhaps somewhat reflecting the paradigmatic power of G-D logic. For example, Edvardsson et al. (2005) question the traditionally accepted definition of services for its managerial and firm-centered focus and argue that services may be defined from the customer’s perspective by incorporating the

conceptualization of service and the idea of value co-creation supported by S-D logic (Vargo and Lusch 2004a, 2006). Edvardsson et al. (2005) reported preliminary research findings that support the connection between the S-D logic conceptualization of service and the definition of services in the traditional “services industry.”

Some scholars continue, however, to consider the goods versus service(s) debate valid and useful. For example, Sampson and Froehle (2006) argue that there is no single, comprehensive, and consistent structure to differentiate goods and services, while others suggest that the characteristics of exchange phenomena should be considered on a case-by-case basis (Laine et al. 2005). Still others continue to believe that it is important to distinguish between goods and services in order to capture the important differences in consumer price fairness perceptions (Bolton and Alba 2006). As S-D logic evolves, its service-centered understanding of exchange continues to develop and raises questions regarding the relative role of goods.

In contrast to this continuing debate, and consistent with S-D logic, several marketing scholars have initiated attempts to redefine the role of service marketing with regard to the overall discipline. For example, Gronroos (2006, p. 362) contends that “goods marketing” is a special case of service marketing and proposes three conclusions for marketing’s traditional focus on goods:

1. Concentrating on the product draws the marketer’s attention away from what ultimately is important for the customers: their value-creating processes.
2. Goods can be seen as a platform for services.
3. For the customer to use goods, other resources must accompany them, and the goods are only one resource among others in the process of supporting customers’ value-generating processes.

Focusing on the centrality of service in marketing not only informs the marketing of goods, but also sheds light on the management of marketing in general. For example, Brown and Bitner (2006, p. 31) suggest six service-centered best practices that serve as a foundation for contemporary marketing. These best practices are proposed for all types of organizations and include:

1. Keeping promises to customers
2. Understanding service from the customer’s point of view
3. Recognizing that employees are the product
4. Involving customers in co-producing services
5. Enabling customers to serve themselves
6. Recovering when failures occur.

The emergence of S-D logic has emphasized the centrality of service in marketing and suggests that the theories and models developed in service marketing are applicable to all of marketing (Vargo and Lusch 2008c), including the subset of instances in which goods are involved. The dialogue surrounding service-centered phenomena has marked a starting point to broaden the scope of service marketing literature and reexamine service, in terms of what it is and where it stands in the field of marketing.

Solutions and Symbols

The service-centered perspective of S-D logic has punctuated the emerging shift from an output-oriented to a solution-oriented approach for marketing (Michel, Vargo, and Lusch 2008).

Sawhney (2006, p. 365) urges marketers to go beyond the product and focus on service provision that integrates customized solutions for customers by “embracing a solutions mind-set” and focusing on providing “customized outcomes for specific customers.” He further specifies that the solution-centered mindset reflects an S-D logic for marketing and is fundamentally different from G-D logic. Contrasting the goods-centered mindset that starts with products, a solution-centered design begins with an analysis of a customer’s problem and ends with the identification of the resources, both operant and operand, that will be needed to solve the entire problem.

The solution-centered mindset emphasizes the central role of the customers and customized experiences in the overall marketing process. Rust and Thompson (2006, p. 284) suggest, “as companies become increasingly service-oriented, marketing strategy will need to accompany this shift and become less product-centered and increasingly customer-centered.” The authors argue that using a customer-based, flexible framework to guide marketing strategy will lead to the greatest payoff for firms.

While many are supportive of a solution-orientation for marketing, several researchers have recognized the challenges associated with the transition from a product mindset to a solution-centered approach to marketing. Day (2006, p. 88) notes that it will be difficult for firms to pursue an S-D logic and a solution-oriented marketing strategy because it would entail satisfying five criteria (integration, interaction, co-production, customization (tailored), and customer risk) for a deep relationship that transfers a supplier’s skills and knowledge to a customer who lacks such competences.

Extending the movement from a product- toward solution-oriented approach for marketing, several researchers emphasize the symbolic and experiential, rather than purely functional, nature of service. For example, Flint (2006) calls upon symbolic interactionism to discuss the dynamic meanings of customer resources. “Rather than focusing on products as vessels that hold symbolic meaning for the possessor/user [symbolic interactionism] focuses on the dynamic use, interpretation, and changing meanings of symbols within social interaction” (p. 351). Flint explains that symbolic interaction echoes the notion of co-creation in S-D logic by emphasizing the active, rather than reactive, role of customer value.

Along the same vein, Venkatesh et al. (2006, p. 253; emphasis in original) extend S-D logic’s view of the service nature of the economy (Vargo and Lusch 2004a) to that of a system of symbolic meaning and explain, “[Vargo and Lusch] use the term *service economy* in moving from an emphasis on products to services in understanding market exchange. In contrast we put forward the term *market*, in which the sign is a key in understanding exchange.” In addition, Duncan and Moriarty (2006) apply the notion of service and symbols in the branding literature and argue that service and integrated marketing communications perspectives and brands are correlated and interdependent. The authors suggest using integrated marketing communication touchpoints to operationalize S-D logic. Brodie et al. (2006) recognize the conceptual similarities between S-D logic and the service brand (Berry 2000). Brodie et al. (2006, p. 372) draw on the discussion of sign systems raised by Venkatesh et al. (2006) and suggest that “the service brand is a sign system that symbolizes the value processes.”

While the scholarly debate on the S-D logic meaning of service continues throughout various research streams, Anderson (2006) anticipates that future modeling in the marketing discipline will continue to evolve. He argues that marketing models will shift from a goods-based perspective, which examines how marketing can influence individual purchase decisions, to a service-based perspective of customer solutions and interdependent relationships. Through this elaboration of S-D logic’s meaning of service, particularly as a solution and/or symbol (phenomenological interpretation), the intangible and dynamic forces that underlie the creation of value are highlighted, and the operant resources that drive exchange are difficult to ignore.

Resource-Based Perspective of Marketing

As noted, S-D logic adopts a resource-based perspective of marketing and argues for the primacy of operant, rather than operand, resources in exchange (Vargo and Lusch 2004a). Since operant resources are usually infinite and dynamic, the sustainable comparative advantages of firms are usually derived from the application and management of such resources (e.g., knowledge, skills, and competences), especially those that are tacit and not easily imitable or transferable (Lusch et al. 2007; Madhavaram and Hunt 2008). This resource-based perspective, focused on operant resources, serves as an instrumental conceptual framework to understand marketing phenomena.

Elaborating the Concept of Resources

A resource-based perspective on business activities was introduced into marketing largely through resource-advantage (R-A) theory (e.g., Hunt and Morgan 1995; Hunt 2000, 2002). This theory has been recognized as one of the fundamental conceptualizations tied to the emergence of S-D logic (Vargo and Lusch 2004a). R-A theory argues that heterogeneous, imperfectly mobile resources meet heterogeneous demands in the market. This theory implies significant diversity among firms and proposes resource-based comparative advantages.

Supporting a resource-based perspective for marketing, Hunt and Madhavaram (2006) suggest using R-A theory to guide business and marketing strategy and further develop an S-D logic for marketing. The authors suggest that R-A theory provides S-D logic with a definition of resources: “tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some marketing segment(s)” (p. 69). Maintaining a strong focus on the competitiveness of the firm, Hunt and Madhavaram (2006, p. 70) also explain how the value of a resource is determined,

For R-A theory, not all resources that have value to the firm have an exchange value or price. That is, relatively immobile resources such as competences are not commonly or easily bought and sold in the marketplace. . . . Therefore, the value of such operant resources is determined not by exchange, but by the extent to which each contributes to the firm’s ability to produce efficiently/effectively market offerings that are perceived by some market segments to have value.

While R-A theory’s focus aligns with S-D logic’s emphasis on the exchange and application of operant resources, S-D logic expands the focus of resources beyond the firm to systems of service exchange (Lusch and Vargo 2006c). S-D logic considers the operant resources of customers, employees, and the environment endogenous, rather than exogenous, to the firm. Thus, the competences of customers (e.g., Prahalad and Ramaswamy 2000), employees, and other stakeholders are key components in the competitive advantage of the firm (Lusch et al. 2007). In addition, the distinction of operant versus operand resources in S-D logic has further extended R-A theory by suggesting the primacy of operant resources in achieving competitive advantage. Madhavaram and Hunt (2008) have furthered the integration of S-D logic’s primacy of operant resources with R-A theory by developing a hierarchy of operant resources for the firm: basic, composite, and interconnected.

The primacy of operant resources is not limited to those of the firm. The nature and purpose of operant resources have also been elaborated in relation to the customer, through the intersection of S-D logic and consumer culture theory (CCT) (Arnould and Thompson 2005; Arnould 2005;

Arnould, Price, and Malshe 2006). In particular, Arnould et al. (2006, pp. 93–94) define customers' operant resources as physical, social, and cultural:

Physical Resources: Consumers vary in their physical and mental endowments. This affects their life roles and projects; for example, low literate and physically challenged consumers' life roles and life projects appear to differ qualitatively from those with average physical endowments. . . . Through understanding customers' operant physical resources, firms can tailor their offerings including virtual environments that relieve physical constraints.

Social Resources: Social operant resources are networks of relationships with others including traditional demographic groupings (families, ethnic groups, social class) and emergent groupings (brand communities, consumer tribes and subcultures, friendship groups) over which consumers exert varying degrees of command (Giddens 1979).

Cultural Resources: Consumer culture theorists conceive of cultural operant resources as varying amounts and kinds of knowledge of cultural schemas, including specialized cultural capital, skills, and goals.

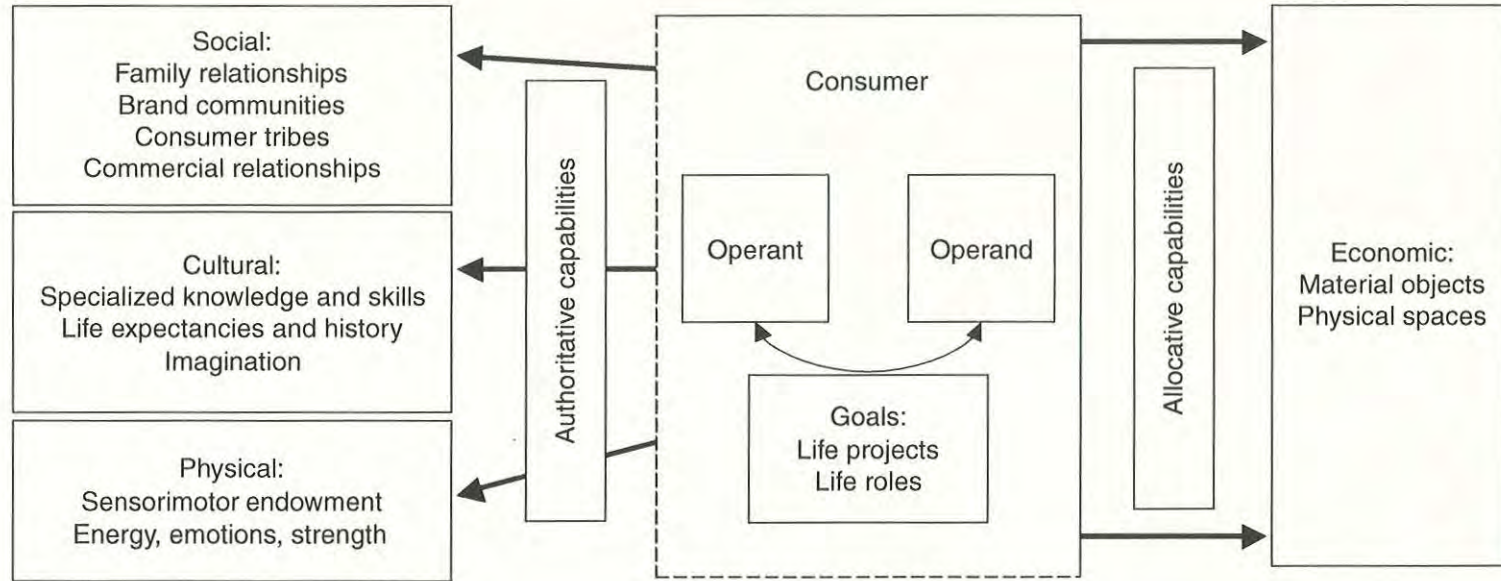
Arnould et al. (2006) emphasize the role of customers as active players in economic activities and suggest that customers, like businesses, possess different types of resources. These resources are integrated "to co-create value through patterns of experiences and meanings embedded in the cultural life-worlds of consumers" (p. 91).

The notion of operant customer resources has stimulated the discussion of value co-creation and resource-integration from a customer's perspective. Arnould et al. (2006) parallel the role of firms and customers in the value creation process, in which firms deploy operant resources to mold operand resources and value propositions, while customers use operant resources to co-create value and determine value-in-use. Such interactions present opportunities for developing and enhancing value propositions by leveraging customers' operant resources. Figure 6.3 (Arnould et al. 2006, p. 92) illustrates the role of the customer's operant and operand resources in the co-creation of value.

Along a similar vein, Etgar (2006) brings the resource-based notion into understanding consumer behavior. He argues that customers need to make economic decisions like those used by managers in firms to optimize the use of resources available to them. Therefore, like managers, customers strive for a balance between minimizing costs and optimizing performance.

S-D logic's perspective that customers and suppliers are operant resources suggests a symmetrical, rather than asymmetrical, relationship among exchange partners (Lusch et al. 2006). This balance of mutual service provision is not limited to the dyadic relationship between a firm and customer; rather, service is continually provided through a network or constellation of value-creating activities. As S-D logic evolves, the central role of networks and interaction in value creation draws increasing attention and continues to be more heavily emphasized (e.g., Lusch and Vargo 2006b; Vargo and Lusch 2008a). Arnould (2008) argues for the further integration of S-D logic with various resource-oriented theories to investigate how operant resources interact and create value for individuals, firms, and society. Developing research on the market as a network and service as the basis of exchange will continue to refocus the understanding of value creation away from a unidirectional, chainlike process to the integration of dynamic and interconnected processes that make up systems, or networks, of service-for-service exchange.

Figure 6.3 The Consumer's Operant and Operand Resources



Source: From Eric J. Arnould, Linda L. Price, and Avinash Malshe, "Toward a Cultural Resource-Based Theory of the Customer," in *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, ed. Robert F. Lusch and Stephen L. Vargo (Armonk, NY: M.E. Sharpe, 2006), p. 92. Used by permission.

Systems of Resource Integration

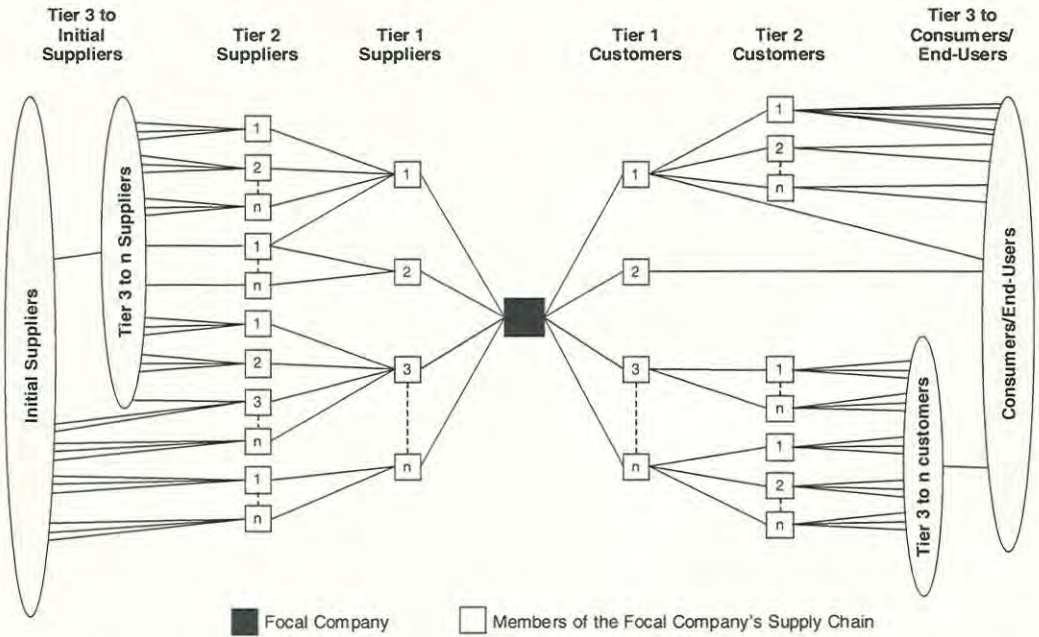
The examination of resource-based processes for value creation offers insight concerning how firms should integrate resources through various marketing systems, networks, and intermediaries. Within S-D logic, the “venue” of value creation is found in value configurations—interactions among economic and social actors—and thus, value is created within and among systems of exchange, at various levels of aggregation (Vargo and Lusch 2008a). Based on an S-D logic view, a “value network” or “service ecosystem” (Lusch et al. forthcoming) has been recognized as a “spontaneously sensing and responding spatial and temporal structure of largely loosely coupled value proposing social and economic actors interacting through institutions and technology, to (1) co-produce service offerings, (2) exchange service offerings, and (3) co-create value.” Recent literature integrates this S-D-logic conceptualization of a value network with models of value chain management. Although “value chains” are used to describe several of these related models, it is important to note that while S-D logic recognizes that linear processes exist, they do so within the framework of complex interconnections and interactions with other actors and processes. For example, Flint and Mentzer (2006, p. 140) present an S-D logic model for integrated value chain management with “fully interconnected and smoothly operating supply chains . . . [that] clearly reflect the goal for which supply chain management now strives: a service orientation to multiple enterprise management.”

Within a business-to-business context, Flint and Mentzer (2006, p. 139) substantiate the notion of integrated value chain management by emphasizing the use of information about and by all business functions to facilitate the flow of value propositions, which now involve “products, processes, experience (history), and network relationships, all aimed at superior value creation.” The information flow in value chains aids both suppliers and firms to ensure the accuracy and efficiency of the co-production process. In addition, Flint and Mentzer suggest that the integrated supply chains facilitate the process of co-creating knowledge about markets and operations, as well as the knowledge about knowledge generation; that is, firms learn how to learn together. Kalaiganam and Varadarajan (2006) further explore the involvement of customers as co-producers along a firm’s value chain and the implications for marketing strategy effectiveness and marketing operations efficiency. They examine how product, market, customer, and firm characteristics affect the extent of customer involvement in value chain management. In sum, the notion of systems of resource integration has redefined the role of channel members, including customers, in the integrated value chain or value constellation (in S-D logic terms) management system.

Mouzas (2006) investigated the underlying processes of marketing action within manufacturer-retailer networks and found that companies’ marketing actions may be best understood through their network relationships. Along a similar vein, Lambert and Garcia-Dastugue (2006) present a network framework for supply chain management and address the complexity of value creation by discussing the cross-functional business processes required for implementing S-D logic in an organization. The authors integrate S-D logic with the Global Supply Chain Forum (GSCF) framework for supply chain management. The GSCF framework suggests that “whoever has the relationship with the end user has the power in the supply chain” (p. 153) and focuses the firm on value-in-use for an individual end user.

Lambert and Garcia-Dastugue (2006, p. 153) demonstrate the support for an S-D logic framework for managing supply networks by using three steps: (1) mapping the network structure, (2) deciding which customers and suppliers to link with which business process, and (3) deciding the level of management to dedicate to each relationship. Figure 6.4 illustrates the complexity of managing suppliers of resources, which begins at the access of raw materials and continues through to customer use.

Figure 6.4 **Supply Chain Network Structure**



Source: Douglas M. Lambert (ed.), *Supply Chain Management: Processes, Partnerships, Performance*, 2d ed. (Sarasota, FL: Supply Chain Management Institute, 2006), 5. Adapted from Douglas M. Lambert, Martha C. Cooper, and Janus D. Pagh, "Supply Chain Management: Implementation Issues and Research Opportunities," *The International Journal of Logistics Management* 9, 2 (1998), 3. Copyright © 2008 Supply Chain Management Institute. See www.scm-institute.org.

The resource-based perspective of marketing supports S-D logic's premise that value is always co-created through the integration of multiple resources and is largely dependent on individual circumstance. This understanding of resource integration suggests that value is created through a continuous process of knowledge sharing and generation and is largely influenced by culture, competences, and context. This systematic view has been captured by the emergence of service science (see Maglio and Spohrer 2008), which focuses on the examination of service systems—interactive and dynamic interactions among technology, individuals, and firms. Value, within this context, is created through the integration of various resources, including existing knowledge and skills, and determined through experience. These experiences trigger learning and the generation of new operant resources and form pathways for feedback and dialogue among firms, customers, and other social and economic actors are formed.

The network structure of value creation suggests that value cannot be created and delivered by any one entity. This process inherently involves customer competences in the co-creation of value, in their own context, but may also include the participation of customers in co-production of the firm's value proposition or core offering. Etgar (2008) provides a model of the co-production process, in which the firm establishes five stages: (1) development of antecedent conditions, (2) development of motivations that prompt customers to engage in "co-production," (3) calculation of the co-production cost-benefits, (4) activation when the customers engage in co-producing activities, and (5) generation of outputs and evaluation of the process.

In addition, Xie, Bagozzi, and Troye (2008) argue for the “productive” nature of “consumption” by exploring a theory of co-creation based on the idea of “prosumption.” The authors argue that “prosumption is a process rather than a single act (e.g., purchase) and consists in an integration of physical activities, mental effort, and socio-psychological experiences” (p. 10). Although this terminology seems reflective of the G-D logic language, with its emphasis on production, the underlying meaning of prosumption appears closely in line with S-D logic’s understanding of the co-creation of value, as “people participate in this process by providing input of money, time, effort and skills” (ibid., p. 10).

The Process Orientation of Value Co-creation

According to S-D logic, value is “defined by and co-created with the consumer rather than embedded in output” (Vargo and Lusch 2004a, p. 6). This viewpoint highlights the inherent consumer-orientation of S-D logic (FP8) and stresses the importance of collaboration and learning from and with customers by being sensitive to ever-changing individual needs.

From an S-D logic perspective, value creation is a continuous process focused on the provision of service, and, when production is involved, it is considered as an intermediary step (Vargo and Lusch 2004a). As such, S-D logic stresses a process-oriented value creation model (rather than the output-oriented value creation model derived from G-D logic). This process orientation of value co-creation has been extended by the discussion of relationships and interaction and emphasizes S-D logic’s phenomenological view of value.

Relationships and Interaction

Once the study of marketing focuses on processes rather than outputs, there is a natural link among value-in-context, value-in-use, and value-in-exchange that points toward the process-oriented and relational nature of exchange. Payne, Storbacka and Frow (2008) provide a framework for the process orientation of value co-creation from an S-D logic perspective. They propose a model that examines the value-creation processes of the firm and those of the customer as well as the interaction that occurs in market encounters. Gummesson (2006) commends the evolution of S-D logic and takes a network approach to value creation by suggesting the implementation of a win-win strategy held by relationship marketing, particularly through the use of “lean production” and “lean consumption” (see Womack and Jones 2005). Gummesson (2006, 2008) argues for balanced centrality among firms and customers and extends this view by widening the context of value creation beyond a dyadic relationship between a firm and a customer and presents a many-to-many theory for creating value.

Highlighting the interdependent relationships among firms and customers, Roos, Gustafsson, and Edvardsson (2006) use S-D logic as part of their theoretical framework in defining relationship quality for customer-driven business development. They argue that no objective definition of a company’s service really exists: it is all a question of perspective. If the aim is to strive for relationship strategy, the perspective has to be that of the customer and may have to include an additional behavioral aspect. As such, similar to the notion of value co-creation and inherent to S-D logic, interaction and interdependence are central to developing relationships in the market.

Several marketing scholars (e.g., Achrol and Kotler 2006; Gronroos 2006; Gummesson 2006) have pointed out that interaction and networks play a more central role (beyond relationships) in value creation and exchange than was immediately apparent in the initial S-D logic article (Vargo and Lusch 2004a). However, Lusch and Vargo (2006b) have argued that it is not so much that

S-D logic ignores interaction and networks, but rather they were originally dealt with somewhat implicitly. The centrality of markets as networks and interaction has been made considerably more explicit throughout the development of S-D logic (e.g., Vargo and Lusch 2008c). Through this elaboration, it becomes considerably more evident that S-D logic embraces the idea that value creation is a process of exchanging, integrating, and generating resources, which requires interaction and implies networks.

Ballantyne and Varey (2006, p. 224) extend S-D logic's notion of interaction and suggest that "dialogical" interaction appears to be "an ideal form of communication within the S-D logic because it supports the potential for co-creation of value and sustainable competitive advantage." The authors advance S-D logic's focus on operant resources by providing a triad of exchange activities that represent the fundamentals for service-dominant marketing. They suggest that the three strands—communicative interaction, relationship development, and knowledge application—make up "a fundamental conceptual unity of exchange activities," and it is "difficult to isolate one strand of exchange activity and its effects without reference to the others" (2006, p. 230). Further, they suggest that understanding value co-creation from a triangulated viewpoint supports mutual learning and knowledge renewal. Figure 6.5 (Ballantyne and Varey 2006, p. 231) illustrates this triangular relationship and presents the tripartite fundamentals for S-D logic in marketing.

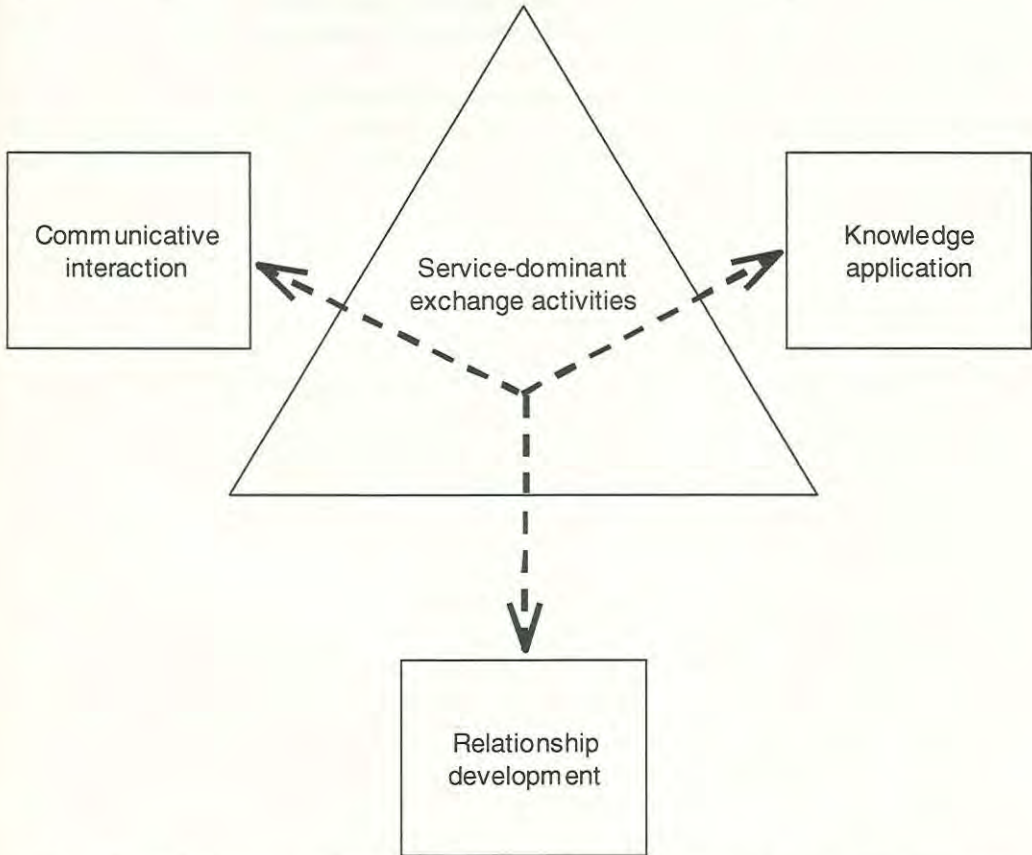
While Ballantyne and Varey (2006) demonstrate the connections between interaction, dialogue, and knowledge in exchange, Berthon and John (2006) focus on the role of interactions in the exchange process. In recognition of interaction as the root of S-D logic, the authors call for a shift in focus from the entities in an exchange process to the interaction between entities. This is because service is codesigned and co-created through interaction, which constitutes "the very fabric of exchange" (p. 196). Applying the notion of interaction and dialogue in the business process, Jaworski and Kohli (2006) suggest that customer needs should be identified by the process in which a firm and its customers co-create the voice of customers. In particular, they suggest that in the needs co-creation process, both firms and customers are engaged in a joint learning process, followed by a mutual understanding concerning customers' wants and needs.

Offering a more critical approach toward the interaction among customers and firms, Wilkie and Moore (2006) emphasize the challenges with engaging in dialogue with customers. They argue that customers are often not aware of their own needs and best options for solving problems, or they are unable to communicate reliable information and are not always straightforward with firms. Further, Rust and Thompson (2006) express concerns that customers cannot, and many times do not, want to keep close, one-to-one relationships with all the firms that they interact with. In this case, an assessment process, such as that proposed by Moller (2006), appears to be crucial. His assessment involves an evaluation of the competency and accessibility of the customer, which is critical to the optimization of performance in the value co-creation process and the creation of a "user friendly" offering. The complexities that arise in the examination of relationships and interaction in marketing emphasize the process-orientation of exchange and point toward both opportunities and challenges that underlie value creation. Arguably, some of these discussions do not make the distinction between co-creation of value and co-production that Vargo and Lusch (2008a) offer, as discussed above.

Experiential Nature of Customer Value

S-D logic's notions of value co-creation and value-in-use (or, more recently, value-in-context) are directly tied with literature relating to customer value. Holbrook (2006) draws connections between the original eight FPs of S-D logic and the concept of customer value (CCV) with a

Figure 6.5 Tripartite Fundamentals for Service-Dominant Marketing



Source: David Ballantyne and Richard J. Varey, "Introducing a Dialogical Orientation to the Service-Dominant Logic of Marketing," in *The Service-Dominant Logic of Marketing: Dialog, Debate, and Directions*, ed. Robert F. Lusch and Stephen L. Vargo (Armonk, NY: M.E. Sharpe, 2006), p. 231. Used by permission.

model of a service-logic schema. According to Holbrook, the evolution of S-D logic argues for marketing as resource operant (RO), skills exchanging (SE), performance experiencing (PE), knowledge informed (KI), competence enacting (CE), co-producer involved (CI), value emerging (VE), and customer interactive (CI), which he abbreviates as "ROSEPEKICECIVECI." Holbrook compares S-D logic with CCV and argues that CCV provides a more compact foundation for a marketing paradigm than S-D logic. In fact, he suggests that CCV provides a "wholesale" version of S-D logic. Vargo and Lusch (2006, p. 182) responded to this claim by explaining S-D logic's compact or "wholesale" foundation is that "service is exchanged for service," which offers even more parsimony than "ROSEPEKICECIVECI" and also importantly is more isomorphic with markets and exchange systems.

Against the background of the evolving S-D logic, Woodruff and Flint (2006) critically examine the consumer value literature and suggest that the extant marketing research on consumer value has primarily focused on defining and categorizing consumer value typology. They argue, "For

the S-D logic to succeed as a paradigm shift, marketing thought and practice must be founded on greater in-depth understanding of customer value phenomena” (p. 183). Although S-D logic’s emphasis on the phenomenological nature of value has been addressed, the elaborations in the literature are important here.

Arguing for a stronger emphasis on the experiential nature of exchange in S-D logic, Woodruff and Flint (2006) discuss the phenomenological nature of customer value. The authors propose the examination of specific value-related phenomena and offer a research agenda for studying value creation (understand customer value phenomena, understand seller value phenomena, and test theories across contexts). Others have also elaborated and extended the experiential nature of value in S-D logic. For example, in response to the emergence of S-D logic, Prahalad (2004) elaborates the idea of the customer’s involvement and engagement in the value-creation process. He argues that “when we escape from the firm and product-/service-centric view of value creation . . . and move onto an experience-centric cocreation view, new and exciting opportunities unfold” (p. 23). In addition, Schembri (2006) advocates customer experience as “the point of departure for a new service orientation within marketing” (p. 390).

Arnould et al. (2006, p. 94) build upon the experiential nature of co-creation and introduce the term “co-consumption.” They extend the phenomenological nature of value co-creation beyond the isolated experience of one customer by explaining four ways that value is increased for a customer through co-consumption:

1. Co-consuming groups represent a form of consumer agency. Enhanced by computer-mediated communication . . . consumer groups have a greater voice in the co-creation of value than in the more atomistic situations that prevailed in the recent past.
2. Co-consuming communities represent an important information resource for participants. Co-consumer participants in brand fests and other such manifestations can not only easily turn to one another for information about products and brand, but share cultural schema nuances associated with how to consume the product or brand creatively, and interpret these experiences “properly” (Cova and Cova 2001).
3. Co-consuming groups often exhibit a sense of moral responsibility that translates to socialization of other co-consumers . . . Building on the interconnected structure of relationships and sentiments, ritual activities in consumption-oriented groupings facilitate, create and reproduce community.
4. Co-consuming groups tend to bring a relatively celebratory ethos to the consumption context.

Similarly, Denegri-Knott, Zwick, and Schroeder (2006) draw from the discursive-power model to depict the increasingly powerful role of customers in the process of exchange and interaction, or the co-creation of value. The discursive-power model attempts to capture the value co-creation process, as it views power as the force that structures the possible interactions and exchanges of free agents (Foucault 1994). This theoretical framework helps illustrate the process of value co-creation and, thereafter, introduces innovation opportunities for marketers. The elaborations and extensions of value co-creation have helped to extend the service-logic perspective toward the phenomenological nature of customer value.

In addition, although not directly referring to S-D logic, recent publications in major marketing journals have also reflected and alluded to the fundamental viewpoints that are highlighted in the three subthemes of S-D logic—the S-D logic meaning of service, the resource-based perspective of marketing, and the co-creation of value—presented above. In line with the S-D logic meaning

of service, Constantinides (2006) pointed out the limitations of a goods-dominant framework, or 4Ps marketing mix, especially the model's managerial orientation and lack of personalization. Similarly, Iacobucci (2006) observed the adoption of the core ideas of service marketing into the mainstream. Support has been offered for the resource-based perspective of marketing through numerous studies that have recently been published on resource integration or collaboration on both the intra-organizational (e.g., Chimhanzi 2004) and the inter-organizational levels (e.g., Amaldoss and Rapoport 2005; Bradford, Stringfellow, and Weitz 2004; Yaprak, Cavusgil, and Kandemir 2006; Ross and Robertson 2007; Singh et al. 2005; Srinivasan et al. 2004). In particular, these recent publications point toward the complexity, interconnectivity, and multiplicity of the network relationships between firms (e.g., Ross and Robertson 2007; Singh et al. 2005). Finally, the discussions of the process of value co-creation can be found in recent scholarly works on relationship marketing (e.g., Rust and Chung 2006; Singh et al. 2005; Peng and Wang 2006; Palmatier et al. 2006) and customer orientation (Bettencourt et al. 2005; Donovan et al. 2004).

The evolution of S-D logic continues as elaborations and extensions are made on service-centered phenomena in the literature. The ongoing discussions surrounding the S-D logic meaning of service, the resource-based perspective of marketing, and the process orientation of value co-creation are at their early stages of development. However, increasing attention toward the major concepts associated with or supported by S-D logic indicates the need for a unification of emerging ideas. In this sense, S-D logic appears to provide a unifying framework for alternative thinking in marketing that points toward service as the basis of exchange, the primacy of operant resources, and the necessity of interaction and interdependence in value creation. The ongoing development of service-centered research seems to call for a grand theory of marketing (e.g., Gummesson 2006; Hunt and Madhavaram 2006) that connects the complexities of the market with the fundamental drivers of exchange. While S-D logic itself is not a theory (e.g., Lusch and Vargo 2006a; Vargo 2007a), it provides a revised understanding of market-related phenomena that could establish the foundation for the development of a unifying theory of the market and marketing.

S-D Logic and the Evolution of Marketing Knowledge: An Assessment

The marketing discipline has evolved drastically through decades of integrating research on economic, social, and psychological phenomena. Even a cursory audit of the collective knowledge generation and impact of the evolution of marketing would reveal the impressive exponential expansion of the discipline over the past century. One hundred years ago there were essentially no university professors formally educated in marketing. As late as fifty years ago the discipline was growing through the teachings of a substantial number of PhD-qualified faculty from the social sciences, particularly economics, sociology, and psychology. The hiring of such faculty is now the exception. Since the early twentieth century, formal literature on marketing has expanded to include specialized research in an increasing number of subdisciplines in marketing. Research outside North America has grown, and advances in research methods, particularly quantification, have been significant. A variety of scholarly marketing journals focused on a growing number of subareas (e.g., industrial, international, and service) are now published throughout the world in a number of languages.

The most advanced form of study in marketing, the pursuit of the PhD, has flourished beyond North America over the years and is now conducted across the globe and is supplying business schools in North America, Europe, Asia, and South America with marketing-specialized faculty. In addition, marketing as an undergraduate major is often number one or two in popularity for business students, and many MBA students focus their studies on either marketing or finance.

Along with indicators of increased volume of interest and specialization in marketing, there is evidence of the influential quality of marketing research. For instance, the *Journal of Marketing* is among over seventeen hundred journals tracked by the social science citation index (SSCI) and is often among the top five to ten percent in terms of impact ratings.

It is evident that the marketing discipline has made tremendous strides in advancing the study of economic and social exchange phenomena. However, is it possible that this assessment of the collective knowledge and influence of marketing as a discipline may be misguided? The emergence of a service-logic for marketing forces the discipline to question the marketing knowledge base that has been developed over the past century. A meta-analysis of traditional goods-centered literature (e.g., pricing, promotion, placement, and products) raises more questions than answers when approached from an S-D logic lens.

An evaluation of the marketing discipline through an S-D logic lens challenges the underlying G-D logic framework for marketing, as well as the purpose of the firm, and asks, "Is the fundamental purpose of marketing really to maximize firm profits by targeting and capturing customers and making decisions based on the four Ps?" Similarly, challenges to the study of customer intent and behavior surface as well, and ask, "Is the market really driven by customers attempting to make purchase decisions in order to maximize and/or optimize utility or satisfaction for themselves?" or, as suggested by FP1, "Is it possible that the market is essentially driven by the application of competences and service-for-service exchange?" If the latter more adequately reflects the purpose and nature of marketing and the market, then, as suggested by FP9, are not all economic and social actors fundamentally integrating resources to create value for themselves, others, and society at large? If such is the case, then perhaps it makes sense to see economics as addressing issues of *resource allocation*, whereas marketing is addressing issues of *resource creation and integration*. From this perspective, marketing's historical tie to exchange is protected, but the means of exchange are viewed as service through resource integration and application, and the end is viewed as value co-creation.

It may seem that these challenges to the foundation of marketing thought would most likely come from critics of marketing, who have outside paradigms and biased views of the discipline. However, should it not be the individuals that have participated in the evolution of marketing knowledge to ask questions, criticize, and develop answers regarding these critical issues? The marketing discipline has already begun to acknowledge and address deeply rooted limitations in understanding imposed by the constraints of a G-D logic paradigm. As mentioned, these explorations have been made largely under the hats of a variety of subdisciplines (e.g., service marketing, relationship marketing, industrial marketing, etc.) in the pursuit of solving marketing problems that the goods-centered, production-oriented models and concepts could not (Vargo and Lusch 2008c). The fragmentation of these research streams has called attention to the need for a unifying theory for marketing (e.g., Hunt 2000; Gummesson 2006).

In the attempt to develop a grand or general theory of marketing, it seems that the G-D logic paradigm is not conducive to understanding the fundamental basis of exchange and all that results from it (e.g., social and economic systems, higher-order needs, evolution). In fact, this review of the foundation of S-D logic and evolution of marketing has essentially been focused around making this singular point, that the traditional goods-centered paradigm of marketing, focused on the production of units of output (tangible and intangible) to maximize profit, has directed the discipline away from understanding the core purpose and process of exchange. Whereas S-D logic constitutes neither a theory nor a paradigm shift as yet (see Vargo and Lusch 2006; Vargo 2007a), it does appear to provide a more robust perspective and inclusive lens for studying exchange phenomena and the development of market relationships.

The Formalization of S-D Logic

Venkatash et al. (2006; see also Vargo 2007a) have argued that to develop a rich understanding of the purposes, patterns, and processes of marketing phenomena, a theory of the “market” is needed to serve as the foundation for theories of marketing. In support for a positive service-centered theory of the market, Vargo (2007a, p. 60, emphasis in original) explains, “‘Marketing theory,’ almost by any definition, implies normative theory. A theory of the market on the other hand, suggests a positive theory of exchange.” As Hunt (2002) has stressed, normative theory normatively rests on a positive foundation: “good normative theory is based on good positive theory” (p. 238). S-D logic’s focus on the integration of resources, in systems of service exchange, provides a positive approach for studying exchange relationships.

Although S-D logic is not a theory, Vargo and Lusch (2008c; Lusch and Vargo 2006c) have suggested that it could provide a foundation on which a true positive theory of exchange (see also Vargo 2007a) can be built. They have suggested that the development of a positive theory of the market requires a critical shift in thinking, from focusing on how firms should make different goods for different customers and market to them, to studying the meaning and process of value creation for all social and economic actors (Vargo 2008c). They also suggest that it requires getting rid of the producer/consumer distinction. Thus, from an S-D logic viewpoint, positive theory building points toward understanding how operant and operand resources are integrated to benefit individuals, groups of individuals (e.g., an organization), and/or society at large and centers on FP9: All social and economic actors are resource integrators. The development of this positive theory (general theory of the market) could, in turn, provide a foundation for a normative theory (general theory of marketing) to guide managers in effectively and efficiently approaching market-based exchange.

In the meantime, even though a full S-D logic-grounded, positive theory of the market and its associated normative marketing theories have not been established, S-D logic can be used to develop empirically testable propositions. For example, the applicability of S-D logic for developing empirical studies has been demonstrated with a set of nine propositions related to competition in the market (Lusch et al. 2007). While these propositions were derived from and reflect S-D logic’s positive foundations, they also have normative implications and are capable of explaining how firms can compete through service. Table 6.3 (Lusch et al. 2007, p. 8) lists the nine derivative, testable propositions that focus on collaboration, interdependent relationships, and knowledge generation, along with the rationale for each.

Within S-D logic, market competition becomes a function of how one firm provides service, or applies operant resources, to meet the needs of customers relative to other firms applying such operant resources. This has important implications for the societal contributions firms make in their attempts to achieve sustainable competitive advantages, both tactically and strategically. *Proposition 1* suggests that competitive advantage is a function of how one firm applies its operant resources to meet the needs of the customer relative to how another firm applies its own operant resources. S-D logic suggests that a firm’s competitiveness depends on its collaborative abilities and collection of competences and operant resources, which the firm can continually renew, create, and transform. Emphasizing the need for collaboration among firms, *Proposition 2* argues that collaborative competence is a primary determinant of a firm’s ability to acquire knowledge and establish a competitive advantage. Within and throughout the value network or constellation, knowledge and information are highly dispersed, and the firm needs to find a way to integrate knowledge and information resources.

Proposition 3 highlights the influence of information technology on the market, suggesting that the continued ascendance of advancing technologies, with the associated decrease in communication and computation costs, provides firms opportunities for increasing competitive advantage through

Table 6.3

Summary of Derivative Propositions and Rationale

| Proposition | Rationale |
|--|--|
| 1. Competitive advantage is a function of how one firm applies its operant resources to meet the needs of the customer relative to how another firm applies its operant resources. | Since applied operant resources are what are exchanged in the market (FP1), they are the source of competitive advantage (FP4). |
| 2. Collaborative competency is a primary determinant of a firm's acquiring the knowledge for competitive advantage. | The ability to integrate (FP9) operant resources (FP4) between organizations increases ability to gain competitive advantage through innovation. |
| 3. The continued ascendance of information technology, with associated decrease in communication and computation costs, provides firms opportunities for increased competitive advantage through innovative collaboration. | Reduced barriers to technology utilization combined with the trends of open standards, specialization, connectivity, and network ubiquity increase the likelihood of collaboration with firms and customers (FP6, FP8). |
| 4. Firms gain competitive advantage by engaging customers and value network partners in co-creation and co-production activities. | Because the customer is always a co-creator of value (FP6) and the firm is a resource integrator (FP9), competitive advantage is enhanced by proactively engaging both customers and value-network partners. |
| 5. Understanding how the customer uniquely integrates and experiences service-related resources (both private and public) is a source of competitive advantage through innovation. | Since value is co-created (FP6), comprehending how customers combine resources (FP8, FP9) provides insight into competitive advantage. |
| 6. Providing service co-production opportunities and resources consistent with the customer's desired level of involvement leads to improved competitive advantage through enhanced customer experience. | Expertise, control, physical capital, risk taking, psychic benefits, and economic benefits influence customers' motivation, desire, and amount of participation (FP6, FP9) in service provision through collaboration (FP8). |
| 7. Firms can compete more effectively through the adoption of collaboratively developed, risk-based pricing value propositions. | Appropriately shifting the economic risk of either firm or customer through co-created (FP6) value propositions (FP7) increases competitive advantage. |
| 8a. The value network member that is the prime integrator is in a stronger competitive position. | The ability to effectively combine micro-specialized competences into complex services (FP9) provides knowledge (FP1) for increased competitive advantage (FP4). |
| 8b. The retailer is generally in the best position to become the prime integrator. | |
| 9. Firms that treat their employees as operant resources will be able to develop more innovative knowledge and skills and thus gain competitive advantage. | Since competitive advantage comes from the knowledge and skills (FP4) of the employees, it can be enhanced by servant leadership and continual renewal. |

Source: Lusch, Vargo, and O'Brien 2007, p. 8.

innovative collaboration. In line with this notion of collaboration, *Proposition 4* argues that firms can gain a competitive advantage by involving customers, employees, and other network partners in both the co-production and the co-creation of value. *Proposition 5* states that understanding how the customer uniquely integrates and experiences service-related resources (both private and public) is an additional source of competitive advantage.

Concentrating on engaging the customer with the firm, *Proposition 6* says that providing service co-production opportunities and resources consistent with the customer's desired level of involvement leads to improved competitive advantage through enhanced customer experience. While it is generally understood that organizations should proactively link co-production and pricing strategies, S-D logic implies a price co-production (Lusch and Vargo 2006b) link to the firm's value proposition. A co-produced value proposition can make the price contingent upon the quality of service experience or other agreed-upon application of service. Here, the value-in-exchange (price) is tied to the value realized by the customer. Consequently, if both buyer and seller have something at risk and something to gain, then collaboration will be more fruitful. Hence *Proposition 7* states that firms compete more effectively through the adoption of collaboratively developed, risk-based pricing value propositions.

Proposition 8 (a and b) considers the different organizations in the market and suggests that the prime integrator in a system or market is in a stronger competitive position, and that often this prime integrator takes the form of a retailer. While this proposition suggests that there may be optimal positions in the market for integrating resources, it is important to keep in mind that all social and economic actors are resource integrators (FP10) and that all organizations must work with other firms, employees, customers, and other stakeholders to co-create value. *Proposition 9* emphasizes the importance of developing employee competences and argues that firms that treat their employees as operant resources will be able to develop more innovative knowledge and skills and thus gain competitive advantage.

These propositions, derived from S-D logic's foundational premises, focus on the firm's ability to generate internal operant resources and integrate external operant resources, through collaboration and value co-creation. Each proposition provides a positive service-centered perspective of the market, which points toward one or more social and economic managerial implications. The underlying position of this perspective of competition is that firms gain competitive advantage by adopting a business philosophy based on the recognition that all entities collaboratively co-create value by serving each other. Competing through service is ultimately about grasping and applying this understanding of value-creation processes better than the competition.

Advancing Marketing Science

The formalization of an S-D logic lexicon is necessary for advancing the science of marketing through S-D logic, but this initial effort marks only the beginning of the transition. Marketing science, as is true of all sciences, can be viewed as a meta-competency that is co-created by members of a value network or constellation, in which the various actors are linked via value propositions connecting internal and external service subsystems. In order to advance the scientific approach of an S-D logic for marketing, S-D logic must be co-created by the value network of marketing and marketing-related scholars.

The knowledge integration portion of this review presented the early discussions, elaborations, and extensions surrounding the foundational bases of S-D logic. In addition to the development of the core concepts of service-centered marketing, methodological issues in S-D logic have been raised (see Vargo 2007b). Connections have also been made beyond the discipline of marketing to the emerging industry-led, university-supported discipline of service science (Maglio and

Spohrer 2008), in which the S-D logic meaning of service is used and emphasized in the study of interactions within and among service systems. In addition, S-D logic has made its way into the discussion of new approaches toward innovation (Flint 2006; Michel, Brown, and Gallan 2008), as well as management education (Ford and Bowen 2008).

The acceptance of an S-D logic for marketing is in the hands of the academics and practitioners who have built up and will continue to advance the discipline. The development of a service-centered approach to marketing remains in its infancy, and there is much work to be done. It is our hope that scholars from marketing and related social and economic disciplines will continue to participate in this development and evolution of marketing thought. In order to further S-D logic, several fundamental questions about its integration and application in marketing science need to be addressed. We encourage others to join us in exploring several central issues in understanding and developing an S-D logic for marketing science.

The first major area of development that requires attention addresses the contents and processes of value networks or constellations in marketing science. The exploration of questions such as “Who comprises the value-network or constellation for marketing science?” and “What are distinguishing characteristics of internal and external service systems of the discipline?” will provide insight into the nature and evolution of knowledge generation in marketing science. This undertaking presents a variation on stakeholder theory with a new vantage point that all systems and subsystems are involved in the exchange of competences, which both create and integrate resources. To date, most knowledge advances in marketing, at least recognized by the public domain, arise in marketing departments and universities. It is important to understand the value propositions that marketing scientists are making to their departments, universities, and students, as well as to the public and society and the implications made by changes in these relationships.

The second major issue deals with S-D logic’s notion of value co-creation and asks, “How do we begin to study social and economic actors without separating them or assuming one is a ‘consumer’ and one is a ‘producer,’ but that both are creators of value?” In the development of marketing science, the exchange of operant resources and co-creation of value is undeniable, and collaboration and competition are well known as the driving forces of innovation and evolution. However, the questions remain: “Can we co-develop methods and theories that focus more on interaction than the actions of separate actors?” and “How do we shift the focus of analysis from a unit of output to something more amorphous, such as a system?” Perhaps by understanding how value is co-created within marketing science, a general understanding of value co-creation and the value that is derived through interactions among actors can be developed further.

A third area of research that needs further exploration focuses on the primacy of operant resources and S-D logic’s view that resources have no value without human appraisal. Value is only derived through and determined by human ingenuity and judgment. This implies that service-exchange systems are constantly filled with surprise and uncertainty because resources are continuously created and integrated throughout the dynamic network of exchange partners. Thus, linear model fitting and tightly controlled experiments are unlikely to capture this unfolding, as controlling or attempting to control a system creates a different system. The current limitations on measuring systems of exchange increase the need for methods that focus on the logic of discovery, particularly those that can capture emergent phenomena.

Research Frontiers

Although the evolution of S-D logic challenges some central tenets of marketing thought and has the potential to broaden and deepen the scope of marketing science, it is careful to protect certain

aspects that are central to the continued advancement of marketing. It offers marketing a different and, arguably, more robust model of exchange that is also arguably more societally friendly. S-D logic also maintains marketing's managerial relevance and does not reject current marketing knowledge as much as it transcends it. Consider the following examples:

1. Moving from viewing the customer as someone who is exogenous to the firm, to be targeted and captured, to endogenous, a potential collaborator for the co-production of the firm's offerings and co-creator of value. S-D logic's consideration of marketing "with," rather than "to," customers provides opportunities for exploring these phenomena.
2. Moving from being constrained by external environments to drawing upon them and integrating them to develop new resources. Little attention has been paid to how firms can integrate competition, public policy, culture, and technological and ecological environments as sources of support rather than treating them as resistances or constraints.
3. Moving from the marketing mix and strategy being firm designed to being co-created by the customer (and other members of the value network). Although some initial work has been done, a deeper exploration of the customer's involvement in innovation, co-production of value propositions, and dialogue and conversation with the firm is needed.

Each of these examples represents a potentially deep research frontier for marketing science. Although newcomers to the discipline are encouraged to address these topics, it is likely that established scholars in consumer behavior, pricing, promotion, product innovation, placement and distribution, and segmentation will provide very valuable insights on the evolution of S-D logic in marketing science. It is our hope that those who have helped to develop the discipline of marketing will be a part of the community that further develops S-D logic by providing expertise and insight in their respective areas of research.

We have become increasingly aware of the importance of understanding the aggregate marketing system (see Gummeson 2006; Layton 2007; Meade and Nason 1991; Shultz 2007; Wilkie and Moore 2006) and other large-scale marketing systems. We believe the emerging field of service science (Maglio and Spohrer 2008), when coupled with marketing science, using an S-D logic framework, can contribute to this often-neglected topic. This implies something like a fractal model of the market. It views all systems from small systems, such as an individual or family, to larger systems, such as firms and countries, to the global system, as fundamentally comprising resources, resistances, and needs. Each system, micro and macro, strives to meet its needs through reducing resistances and integrating resources using exchange systems.

Some may approach the topic of marketing systems using a different framework, but we believe this systematic, service-centered approach is vital to the advancement of marketing science. Marketing does not occur in the isolation of economic exchange; it is integrated with other elements of society and should be explored from a positive viewpoint. As noted, a theory of markets is central to the development of normative marketing theory and understanding marketing phenomena. A fractal model of marketing systems, focused on service-for-service exchange, potentially provides the fundamental framework needed for a positive exploration of the market and a deeper and broader foundation for the advancement of marketing science.

Concluding Comments

Service-dominant logic is a work-in-progress; in fact, it is more incomplete than it is complete. It also is not fully captured by the work of Vargo, Lusch, and coauthors. As noted, S-D logic

represents the convergence of a host of diverse models, conceptualizations, and research streams, with the common feature of responding to the inadequacies of traditional, goods-centered logic. Importantly, the development of S-D logic is increasingly involving a growing, worldwide community of scholars who have joined to help co-create, elaborate, and extend this “new dominant logic” for marketing. Further, the logic is increasingly being extended not only to marketing but also to the market—the central exchange institution upon which most, if not all, societies are built. Thus, S-D logic has implications in social as well as economic exchange.

There are a host of continuing challenges associated with the further growth and development of S-D logic, but most central is the need to further develop a language and lexicon to describe the market and marketing consistent with a service-centered mindset. Despite the need to continue to refine the lexicon of S-D logic, we believe that now is the time to begin empirical study using a multitude of research methods. Although S-D logic was initially not developed as a theory with testable elements, we believe that propositions like those derived (see Table 6.3) from the initial foundational premises are empirically testable. Also, the revised and expanded foundational premises (Table 6.1) can be used to further derive testable propositions or hypotheses. These premises can be studied in several domains, such as household resource integration, enterprise value-proposing, and customer co-creation, as well as a multitude of others. However, care must be taken to ensure that propositions derived from S-D logic are tested with S-D logic-compatible metrics (see Vargo 2007b).

Finally, we encourage work that deals with multiple levels of aggregation and/or analysis and, in this regard, work that simultaneously deals with the market and marketing. Importantly, this research framework may help to break down the separation between micro-marketing and macro-marketing. All micro-marketing unfolds into larger macro-systems, and all aggregate marketing systems influence the micro-actors in the system. Seeking to understand the market and marketing from a holistic perspective is what S-D logic uniquely offers the marketing discipline (and others). If we neglect to take up this grand challenge of unification, we will have shortchanged both the marketing discipline and society.

Note

1. Because we are consolidating our prior writing on S-D logic, this chapter is a condensed form and, in selected passages, unabridged material, from prior joint publications of Lusch and Vargo or vice versa, as well as other coauthors.

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