

# Service-Dominant Logic: A Consequence of Emerging Marketing Theory

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**Abstract** — Marketing science always looks forward to the emergence of methods and models which improve the profitability of enterprises, principally through the acquisition and/or maintenance of customers. Typical approaches to marketing, however, have contradicted this outcome because the consumer has only been considered at the end of the marketing process. To overcome this problem, the customer must be made the central focus of any marketing planning.

Marketing theory has expressed the need for this paradigm shift for many decades; lesser developments have occurred (for example, the emergence of relationship marketing) but more complex methods are lacking. Service-dominant logic (SD logic) is designed to fill this gap. However, the progress of the practical implementation of this approach is far behind what was originally expected.

This paper is designed to highlight the roots and novelty of SD logic in marketing theory. The main value of SD logic is not found to be SD's innovative nature but rather the novelty of its emphasis, such as how it provides a service view of marketing and transposes the consumer from alpha to omega in the process. Customers are not incorporated only as 'results' and 'consequences' of the planning process but rather as actors. Moreover, following an SD logic can create value by increasing and improving the resources which are available, especially as regards the capabilities of multiple customers.

**Keywords**—*Service-Dominant Logic (SDL), marketing theory, service marketing*

## I. Introduction

In the more than ten years since Vargo and Lusch (2004a) introduced their concept of service-dominant logic (SD logic) their original approach has been refined several times. The authors have called for contributions to be made to the theory by researchers, but despite widespread efforts and the logical approach of the theory there has been a bottleneck in its practical application. This paper has been written to describe some of the barriers that hinder the bridging of the gap between theory and practice, and to highlight the foundations of SD logic in the literature. This interpretation contributes to exploring the theoretical fundamentals of marketing literature from an evolutionary perspective.

Firstly, the paper highlights the primary characteristics of SD logic. Then follows a literature review which refers to the antecedents of service-oriented thinking that were employed prior to the emergence of SD logic. The starting-point for examining the failure of SD logic thus makes reference to the success of McCarthy's 4P (1960) approach, with its extensions. Why do practitioners still employ this approach despite its obvious weaknesses as regards understanding market problems – especially in relation to customers? What are the difficulties with understanding and applying the novel method? The paper presents an analysis of these problems and makes suggestions about the practical outcomes of such a critique.

## II. Defining Service-dominant Logic: A Critical Perspective

### A. *Service-Dominant Logic in the Light of Goods-Dominant Logic*

In the 1980s service marketing achieved its prominent role in marketing and was accepted as an independent science. However, the underlying thinking of service marketing is still goods-based. This observation applies to McCarthy's (1960) well-known 4 Ps (product, price, place, promotion) with the 3 Ps (people, process, physical evidence) extensions of Booms and Bitner (1981). 7 Ps model was also applied to goods (Bitner, 1991), but this approach is still based on output (i.e. how to sell what the company produces), not on exploring consumer wants and needs, and even less on involving customers in interactive processes that would help with developing and improving goods and services (Kelemenné, 2014). Nevertheless, these models have been employed to considerable effect.

SD logic assumes an endogenous role for customers which encourage them to contribute to development processes. The premise of this approach is that, without consumers, value creation is impossible (Lusch et al. 2007). The environment (e.g. resource allocation) is incorporated into the model as an endogenous variable.

In terms of SD logic the 4 Ps approach belongs to an older theoretical approach which includes goods-based logic. The contradiction becomes apparent when one examines how Lusch and Vargo (2006, p. 408.) define their alternative 4 Ps using such outdated logic: (1) co-creating service vs. product (2) co-creating value vs. price (3) co-creating interactive communication vs. promotion (4) co-creating value processes and networks vs. place. McCarthy (1960) built his model with reference to the durable goods available on the US market although it is applied to a variety of types of products around

the world. A further oddity is that the other three specific dimensions of service are partly neglected and partly embedded in the four Ps approach.

SD logic has been established theoretically without an empirical basis so its assumptions have not been tested using research methods (Ehrenthal, 2012, Grönroos, 2011).

### B. *The Main Characteristics of Service-Dominant Logic*

The essential characteristics of SD logic are contained in foundational premises (FPs). Parallel to the development of SD logic, the numbers of these principles first increased; later, the salient ones became emphasized. The following four premises remain as prior tenets: (FP1) when services are provided, competences are exchanged; (FP6) customers are interactively involved; and, (FP9) their resources contribute to service co-creation; however, (FP10) the value of the exchange depends on the customer's judgment (Vargo, 2013).

According to SD logic, services are the basis of all exchanges which take place on the market (Vargo and Lusch, 2004a, 2007). Accordingly, services create the foundation of the economy; in particular, trade. Products are considered to be supporting tools in the process of exchange.

Vargo and Lusch define their method as consumer-oriented: it involves the competences of customers as a key starting point for the service logic process (Vargo and Lusch, 2004b). However, Baron et al. (2010) disagree with the proposition that the method is consumer-oriented because it is not the customer but value creation that is the primary focus of the approach. SD logic offers a dynamic view and is based on social and economic relationships (Gummesson et al. 2010), in contrast to such goods-based approaches.

The theory of SD logic sheds light on service using a novel perspective: it provides a new approach to understanding how important partners are, and which roles they can play. The theory maintains that economic actors are not only able to integrate resources but, without them, value cannot be created at all (Lusch and Vargo, 2012). Multiple customers are the very source of value creation which cannot be produced or isolated at a company but requires their competency-based involvement (Vargo and Lusch, 2004a, 2007).

Multiple customers are different target groups from distinct markets with a variety of wants and needs (Lovell and Weinberg, 1990, Kelemenné, 2014). Here arises the problem that the different economic actors and their activities and roles (competencies) in value creation must be individually, and often simultaneously, handled. This creates management problems and indicates that there are limits to handling customers in a cost-effective way.

Customers are required to virtually cross a company's threshold, a part of the service co-creation logic of SD theory which presents an unusual challenge for companies without a front office. This is also necessary because the interactive co-creation of value is the other central point of the approach. Vargo has emphasized that customers assess service, and how they perceive it determines its value (Vargo and Lusch, 2007).

Overall, the SD logic is characterized by its orientation around consumer and value.

### C. *Service-Dominant Logic in service science*

Service-dominant logic is theoretically founded, a fact which highlights the importance of research into its theoretical roots. The development of marketing theory and the adaptation of earlier models are interesting with special regard to possible reinterpretation. Taking a critical view enables one to define problems and gaps in the theory, such as the existence of ill-defined definitions and the lack of a guide for practitioners.

Analysis of earlier marketing literature provides a picture of the former models which are parts of the novel theory and indicates that this former literature contains content similar to the core foundational premises of SD logic. However, it is precisely the system of principles that is SD logic's outstanding theoretical component. For theorists and also for companies, the service view of market mechanisms and the importance of customer involvement may be highlighted. Customers who are involved in SD logic mandated transactions are obviously satisfied, thus loyalty and – correspondingly – profitability can be fostered. The role of service is underlined in the customer experience which is said to be necessary to create “lovemarks”. Obtaining customers' love can also encourage loyalty, thereby ensuring long-term market presence.

On the grounds of the FPs the relationships between SD logic and marketing theory were explored and highlighted. A summary of the components of SD logic as they can be found in the literature and their relationship to current SD theory are provided in Table 1.

TABLE I. THE RELATIONSHIP BETWEEN SD LOGIC IN ANTECEDENT LITERATURE AND THE FOUNDATIONAL PREMISES (FPs) OF SD LOGIC

FP	Marketing background	SD logic approach	Relationship
FP1	Exchange is the essential component of marketing (Bagozzi, 1975)	The basis of service is exchange	In an extended sense, the basis of market processes is exchange
FP1	Institutional services (Hilke, 1989)	The basis of exchange is service	Service relates to all transactions
FP2	The role of bureaucracy in transactions (Ouchi, 1980)	Products, funds and organizations hid exchanges	Exchanges are often impenetrable
FP3	Every product provides a service (Jobber, 2002)	While providing a service, the product is the medium of exchange	Service process is dependent on the product
FP4	The source of competitive and economic advantage is discrimination (Porter, 1974)	Competition is determined by operant resources (knowledge, skills)	Competitive advantage is based on competences and discrimination

FP	Marketing background	SD logic approach	Relationship
FP3, FP5	Product-service integration (Fisk et al. 2000)	All processes can be considered service	Product-service integration
6	Consumer demand for added value (Levitt, 1980, Kotler, 1998)	Value co-creation	The customer should be involved in creating value
FP6, FP7	Customer participation and involvement in value creation (Fisk et al. 2000)	The company itself is unable to create value: this is only created with customer involvement	The need for the involvement of customers and customer engagement
FP7	Rental-access paradigm (Lovelock, 2004)	Resource allocation of involved customers	Resource integration
FP8	Interactivity (Grönroos, 1997)	Customer orientation, reciprocity	Relationship marketing
FP9	Multiple customers (Lovelock and Weinberg, 1990)	Every actor integrates its resources	Customers determine processes
FP8, FP10	Customer and competitor-focused value orientation (Fisk et al. 2000)	Value-driven, consumer-oriented, based on relationships	Value orientation and consumer-orientation

Sources: Above-cited publications and Kelemenné (2014).

The theoretical basis of the premises is the same “exchange” that is identified in the first marketing constructs. Bagozzi (1975) highlights the role of exchange, primarily in relation to the discipline of marketing, and states that the exchange paradigm is the central point of the marketing concept, as well as the exchange of elusive elements which can also be described as service.

The key element of SD logic’s focus on value has appeared before in the theory of Vargo and Lusch and has become increasingly well-elaborated, although its significance and role have changed.

According to Lovelock (2004), value can be created through social behavior by transfer of ownership or by adoption of ideas, or by granting access. Accordingly, the author recommends use of the rental-access paradigm which is essential to resource sharing. Grönroos (1997) highlights the role of relationships. The customer is involved in the process and the network. The values and the preferences of the customer are defining; through them value co-creation occurs. Business and consumer markets require the same tools, although they should be applied with different emphasis: this proposition also applies in SD logic (Grönroos, 1997).

The ratio of products to services and the role of exchange were addressed in the literature prior to the emergence of the SD logic approach when the existence of pure products or services was proposed. Since then the notion has been supported by Hilke (1989) and Kotler (1998) who propose that pure products and services do indeed exist, although all services do have some physical content. Depending on the ratio of service to product, more or less exact comparisons can be made between offerings. Nevertheless, SD logic assumes that the institutional services category of Hilke can be extended to all transactions. Jobber’s concept (2002) also

comes close to SD logic theory as it considers that all products also provide services. The SD logic approach places the product in a service dimension in which the product is just a device, the subject of exchange.

Research by Fisk, Grove and John (2000) reflects “public opinion” in the field of services marketing in relation to which more illustrious representatives of the service marketing discipline have called for a paradigm shift. Theory-building from Vargo and Lusch is almost a direct consequence of the findings of Fisk et al. In-depth studies undertaken by acknowledged experts of the field have displayed many points of attachment to the novel theory (Vargo and Lusch, 2004a, 2007).

Fisk et al. (2000) carried out exploratory research while examining the future of service marketing. Ten of the formerly most prominent experts in the field who had each established an independent theoretical approach and/or formed a model were interviewed. They included the instigators of the theoretical distinction between services marketing and product marketing (such as IHIP – intangibility, heterogeneity, inseparability, perishability – by Zeithaml, Parasuraman, Berry, 1985). Fisk et al.’s research (2000) summarizes what type of framework, expectations and theoretical relationships should be clarified in relation to this new theoretical approach on which the principles of service marketing could be based. The need for renewal is justified because the previously-formulated theory, mainly due to social, cultural and technological development, has become extremely narrow and outdated and allows too many exceptions to be made from the basic axioms of services marketing.

Fisk et al. (2000) defines a more ambitious approach which involves breaking with the approach which is currently widespread: a paradigm shift. According to the abovementioned research findings, the novel principles are expected to be the following (defined in part by Grove et al. (2003)):

- An interdisciplinary approach,
- Replacement of the previous disintegration by integration effort, thus products and services will no longer be so clearly delineated,
- Modification of the service specifics that are part of a narrow framework and do not capture the essence of services,
- Maintaining customer orientation and involvement, consumer satisfaction and loyalty as the key factors of competitive advantage and development,
- Companies’ opening towards service-orientation,
- Maintaining quality of both major processes and output,
- Rethinking of the product/service differentiation (which has served to establish service marketing science) and also the concept of distinction summarized in an IHIP principle.

According to numerous experts, the time has come to integrate service and product marketing, while the earlier distinction may still be understood as a significant achievement for that period (e.g. Fisk et al. 2000, Lovelock, 2004, Vargo and Lusch, 2004b, Gummesson et al. 2010.). Grönroos (2011) pays tribute to Vargo and Lusch because they broke through to the fact that service had been raised to the level of a marketing science. Gummesson and Grönroos (2012) allow that the product-service differentiation was indeed a paradigm shift.

Grönroos (2011) questions the significance and the practical applicability of value co-creation, which is at the heart of the emerging trend, but Vargo and Lusch do not attempt to precisely define this concept, and nor are details about the preconditions for co-creation (interaction processes) well detailed.

However, the impact of service-dominant logic is indisputable. Researchers are encouraged to participate in the elaboration of this evolving theory (e.g. Gummesson et al. 2010, Lusch and Vargo, 2012) and increasing numbers of scientific publications are making contributions to this effect.

Service-dominant logic is an inevitable yet novel approach, although its features and essence have appeared in earlier marketing literature. To foster its applicability, SD logic should be streamlined and a simple model should be provided to marketing managers.

### III. Service-Dominant Logic in practice

According to a statement by Ehrenthal (2012), following the Anglo-Saxon countries, Scandinavians are leading in adopting and applying the service-dominant approach.

From an organizational perspective, not-for-profit companies are one major area of potential application of the theory. Co-thinking with the market, the co-creation of value, interactivity and the experiences offered are highlighted as sources of competitive advantage (Boenigk et al. 2012). This is probably due to the fact that the level of personal involvement is typically high with not-for-profit services.

The hegemony of the 4 or more Ps approach is hard to overcome, no doubt in part because of the simplicity of the model. One advantage of the Ps is its model-like structure which is built up logically and can be easily applied; it is thus a very practical method for creating marketing strategy. Vargo and Lusch attempted to build up a theory that is widespread and covers all the market processes. Since then, SD logic has become simpler through the highlighting of the more important FPs which makes its application easier. Secondary research has identified the practical shortfalls of SD logic, as summarized in Table 2. Some problem-solving proposals are also presented.

TABLE II. CONTRIBUTING TO SD LOGIC IN PRACTICE

Problems with SD logic	Problem-solving proposal
The complexity of foundational premises	Creating an easier-to-follow, more logical model. The main steps should be summarized by showing the process from customer involvement to value co-creation.
Customer involvement, especially for companies without a front office	Social media channels, especially forums, can maintain an ongoing, interactive relationship
Interaction processes (Grönroos, 2011)	
How to manage customers who do not want to be involved	This concerns customer choice, thus mass products should be provided for these segments.
Co-creation of value in practice (Grönroos, 2011)	Co-creation begins with involvement, followed by the integration of the competencies of the customer into the resources of the company.
Complexity of handling of multiple customer diversity for management	Separate strategies should be created for each target group (including other service providers and suppliers).
Exploring the competences of multiple customers	For each case it depends who the customers are and which competences should be integrated into the process.
Personalizing and adapting versus cost-effective maintenance (Kelemenné, 2014)	A healthy balance should be found between personalizing and mass customization, taking into account the customers' will.

Source: Author's own construction according to the above-cited publications.

As a component of consumer involvement, the role of social media should be better defined to foster interaction processes. However, there are customers who do not want to be involved for various reasons, including their personality or low involvement in purchasing (lack of interest or competences). Accordingly, the customer should choose whether or not to become involved with its competences in the process. Mass products or mass customized products should be provided for these segments.

The competences of customers should be explored and integrated into the process, which can be complicated. Firstly the market players who are involved should be ascertained, which is not always obvious, and then their competences must be assessed. In the specific case of public transit this inquiry has been undertaken in Kelemenné (2014) and in innovation in Kelemen-Vágási (2015).

Another problem concerns the diversity of customers and value co-creation in terms of management skills and capabilities. Separate strategies should be defined for each target group to gain more benefit from integrating resources, thereby enhancing the effectiveness of utilization. The involvement of multiple customers will not increase cost-effectiveness, which is a critical factor when applying the SD logic.

## IV. Concluding remarks

The paper presents an analysis of the theory of SD logic in the light of its antecedents in the literature and identifies where each foundational premise has an attachment point to an earlier marketing approach.

The spirit of SD logic, which treats marketing from the perspective of a service view, opens a new chapter in marketing. The impact of this paradigm shift in theory is inevitable, but its practical application is still pending. The current paper has defined some practical problems with its application and offered problem-solving proposals which may be the basis of further research.

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