

Service-Dominant Logic

In 2004, Robert F. Lusch and Stephen L. Vargo published their ground-breaking article on the evolution of marketing theory and practice toward “service-dominant (S-D) logic,” describing the shift from a product-centered view of markets to a service-led model. Now, in this keenly anticipated book, the authors present a thorough primer on the principles and applications of S-D logic. They describe a clear alternative to the dominant worldview of the heavily planned, production-oriented, profit-maximizing firm, presenting a coherent, organizing framework based on ten foundational premises. The foundational premises of S-D logic have much wider implications beyond marketing for the future of the firm, transcending different industries and contexts, and will provide readers with a deeper sense of why the exchange of service is the fundamental basis of all social and economic exchange. This accessible book will appeal to students, as well as to researchers and practitioners.

Robert F. Lusch is the James and Pamela Muzzy Chair in Entrepreneurship, and Professor of Marketing at the Eller College of Management, University of Arizona. He is past editor of the *Journal of Marketing* and chairperson of the American Marketing Association. Professor Lusch’s research focuses on marketing strategy and theory with a major focus on the service-dominant logic of marketing. He is the recipient of many awards including the 2013 AMA/Irwin Distinguished Marketing Educator Award.

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Robert F. Lusch and Stephen L. Vargo

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“Lusch and Vargo’s new volume is a radical innovation in marketing thinking. The volume brilliantly advances and consolidates the S-D logic initial research proposal, intriguingly suggesting an interdisciplinary scientific paradigm which will engage numerous scholars across various knowledge domains.”

Sergio Barile, Full Professor of Business Management,
University of Rome “La Sapienza”

“In *Service-Dominant Logic: Premises, Perspectives, Possibilities*, Bob Lusch and Steve Vargo bring us to an elevated understanding of *service* as the foundation of value and exchange in modern society. The book provides in one place a compendium of existing S-D logic knowledge and, at the same time, takes us to new levels of possibilities achievable through adopting a service mindset. The book should be required reading for all students of business and society, old and young. Bravo!”

Mary Jo Bitner, Professor and Executive Director, Center for Services Leadership,
W. P. Carey School of Business, Arizona State University; Editor of the *Journal of Service Research*

“If you are a business practitioner or academic who has been following, either casually or carefully, the development of service-dominant (S-D) logic, you should read this book, for it pulls together the foundations, structure, and implications of S-D logic for business practice and theory. If you have not been following the development of S-D logic, you should *definitely* read this book, for it will alert you to a transformational framework for thinking about economic activity.”

Shelby D. Hunt, The Jerry S. Rawls and P.W. Horn Professor of Marketing,
Rawls College of Business Administration,
Texas Tech University

“This is the most seminal contribution to management and economic thinking that I have encountered during the whole of my career. Lusch and Vargo offer theory and concepts that unite the exponentially growing volume of data and research fragments from our complex modern society. Still, it is not the hard sell of yet another magic management bullet. The book should be read by everyone in management and economic disciplines: students, practitioners and politicians.”

Evert Gummesson, Emeritus Professor, Stockholm University, Sweden

“Ten years ago, Lusch and Vargo turned upside down more than 200 years of economic thought, advancing the view that capabilities rather than goods are fundamental to economic exchange, and setting the stage for the emergence of a new science of service. Now they have distilled their argument to its essence in a remarkable new book that is sure to become required reading for service scientists everywhere.”

Paul P. Maglio, Professor of Technology Management at the University of California, Merced and Editor-in-Chief, *Service Science*

“Service-Dominant Logic: Premises, Perspectives, Possibilities draws together nearly two decades of pioneering work and thought leadership by the authors. This scholarly and provocative text provides a penetrating analysis of the new discipline of service science. It combines groundbreaking research, deep insight and practical models and is an essential read for both reflective practitioners and students.”

Adrian Payne, Professor of Marketing, Australia School of Business,
University of New South Wales

“Two thirds of the world’s population still live on less than two dollars per day. To start changing this, we need to understand this huge segment of society not as passive aid recipients and consumers (Goods Dominant Logic), but as innovative entrepreneurs constantly co-creating solutions to survive in their daily life (Service-Dominant Logic). The *base of the pyramid* is a rich, living laboratory where actor-to-actor collaboration integrating scarce resources for value co-creation in complex subsistence ecosystems is rooted and practiced every day; where people are *SDL Natives*. This definitive book by Lusch and Vargo provides us with the ultimate platform to better understand the complexities and opportunities of a service-dominant culture.”

Professor Javier Reynoso, Service Management Research Chair,
EGADE Business School, Mexico

“Service-dominant logic has been widely accepted as a leading theory and thinking framework for service sciences and engineering. It is now entering the consciousness of business leaders and practitioners: in multiple disciplines in business research and technology development, service-dominant logic is becoming part of the standard vocabulary and its relevance to practice is even more prominent as the data- and analytics-driven economy is emerging. Written by the pioneers who defined and framed the theory and applications of service-dominant logic, this monograph is a must read for researchers and practitioners alike.”

Daniel Dajun Zeng, Professor in Management Information Systems,
 Eller College of Management, University of Arizona;
Research Faculty, Chinese Academy of Sciences; Editor-in-Chief of *IEEE Intelligent Systems*

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PREMISES, PERSPECTIVES, POSSIBILITIES

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To Mark and Stephen Lusch for their assistance, encouragement,
and lively debates.

Robert F. Lusch

To my students, past, present, and future.

Stephen L. Vargo

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FOREWORD

Service-dominant (S-D) logic has rapidly become an essential new way to see and think about our world today, its history, and possible futures.

Why S-D logic?

The two-decade collaboration of Lusch and Vargo reflects the influence of thinkers across the ages, integrating elements from Aristotle, Bastiat, Clark, Gummesson, Hunt, Kotler, Levitt, McLuhan, Normann, Penrose, Romer, Smith, Williamson, Zimmermann, and many others, yet nevertheless manages to succinctly tell a unique and compelling story for today’s researchers, practitioners, leaders, and innovators. I first heard the story when Lusch visited IBM Almaden in the fall of 2004, and then again in conversations with Vargo at the Frontiers in Service Conference in 2005. These were exciting conversations, providing fresh perspective on a subject of great economic importance and scientific significance, and conversations have continued to this day as S-D logic has evolved.

This latest book more than any other work brings us all along on their journey together, and invites us to contribute as well. After all, cocreation of value is at the heart of service-for-service exchange and S-D logic. Hundreds have already contributed to this rapidly growing body of knowledge and practice, and this book will invite hundreds, if not thousands, more to contribute in the years to come. This book is a wonderful invitation to cocreate the future together; by first understanding what constrains our thinking today and historically how we got here.

The way we see and understand our world of human activities, economic exchanges, and social interactions, matters a great deal. Think of how intellectually important and economically significant Newton’s view on mass and gravity or Hooke and Pasteur’s views on cells and bacteria were and have become, and quite quickly one comes to appreciate the way we see and understand our world matters a great deal.

Also, these earlier stories of scientific progress reinforce that much of what matters to people is invisible, and only with new tools can we appreciate what is real, and what is really going on all around us. By the end of this decade smart phones will not only be much smarter, but perhaps half of the world’s growing population will keep one close-at-hand as they live their daily life. New tools for seeing the big data of economic exchanges and social interactions are already clearly on the horizon.

The way we talk about our world matters too. To explain S-D logic, Lusch and Vargo meet head on the challenge of working with the existing lexicon. The S-D logic foundational premises interconnect and move old words and new concepts forward step by step in the direction demanded by our times. Terms like “service ecosystem,” “resource integrators,” and of course “cocreating value” have become well-established S-D logic vocabulary.

In fact, this book provides a primer for S-D logic newcomers and a compact summary for established S-D logic collaborators. For readers unfamiliar with the attempts of economists to throw off the deeply rooted neoclassical economic worldview and move towards evolutionary economics, new institutional economics, and experimental economics, S-D logic is to many a much more accessible starting point, laying out goods-dominant (G-D) logic versus service-dominant (S-D) logic as the fundamental dichotomy to grasp.

Practitioners in search of ways to apply S-D logic to enhance their firm’s transformation from a producer of output for customers to a cocreator of outcomes with stakeholders will also find this book invaluable. In an interconnected world where insights derived from human activities in context matter most, we are all increasingly indistinguishably simultaneously customers and providers of service. In short, we as individuals, our firms, and our government institutions as well, are resource integrators cocreating value in a service ecosystem. Service science terms these resource integrators “service system entities” and studies their evolution in a nested, networked service ecology. S-D logic is the foundation on which service science is being built.

“Jot down ideas and discuss”

The best way to read and benefit from this book is to follow the authors’ advice, and to jot down notes and discuss them with a colleague.

There is no better time to do this than when you read and study the ideas and concepts in this book. Jot down ideas as they occur that relate to your situation and then revisit those as you read more and engage with others in a discussion around these ideas.

As I read the book for the first time, I extracted over ten pages of quotes that sparked ideas in my head, and to share just a few, I would like to highlight the following ten, one from each chapter.

Chapter 1 introduces the notions of the institutionalization and performativity of logics, the way we see and think about our world, illustrated compellingly by G-D logic and S-D logic. I was most struck by this statement to which I subscribe:

In this more dynamic, actor-centric view of the economy, it follows that there are no fixed, preexisting markets; rather, the market is more a representation of the continual quest of human actors for well-being in an ever-changing context.

Actors create markets to push the limits. The quest to improve quality of life drives generation after generation of innovators to challenge and then transcend limits, to raise the ceiling (improve the strongest link) and the floor (improve the weakest link). It is not just about reducing costs (e.g., resource specialization); it is also about improving the capabilities of actors (e.g., resource integration) – pushing beyond all limits.

Chapter 2 has such depth and breadth of connections, exposing the intricate roots and heritage of S-D logic, it is hard to settle on just one quote to highlight. However, practitioners with less interest in the evolution of academic thought should not miss this nugget:

Translated into a normative, managerial approach, S-D logic becomes something like:

- Identify or develop core competences, the fundamental knowledge and skills of an economic and social actor that represent potential competitive advantage.
- Identify other actors (potential customers) that could benefit from these competences.
- Cultivate relationships that involve the customers in developing customized, competitively compelling value propositions to meet specific needs.
- Gauge the success of your value proposition by obtaining economic and non-economic feedback and use it to improve your value proposition and your performance.
- Involve customers collaboratively in value creation – that is, cocreate value.

This normative approach more than hints at the importance of co-elevation of competences that should accompany actors cocreating value, while they actively compete for collaborators in the service ecosystem. Fundamentally, competing for collaborators drives the upward spiral of capabilities in the service ecosystems.

Chapter 3 presents the lexicon, axioms, and foundational premises of S-D logic:

Resource integration can also be used to describe the process of innovation.

More than anything else, what makes learning the lexicon, axioms, and foundational premises of S-D logic essential today is the way it can change conversations about innovation. Using examples from Brian Arthur to explain the nature of technology and its evolution, they demonstrate that resource integration is unbounded. S-D logic opens the doors wide for rethinking technology, value propositions, business models, institutions, stakeholder roles, and the process of innovation.

Chapter 4 addresses perhaps one of the most telling and fundamental questions from critics of S-D logic:

“Why ‘service’?”

Why not “knowledge” or “value” or “actors” or “resources” or “capabilities” or “networks” or “relationships” or “interaction” or “progress” or “change” or “context” or “outcomes” or “cooperation” or any of a thousand other important words and concepts associated with the evolution of markets, economies, and society? The six reasons Lusch and Vargo provide are worth the price of this book. The application of knowledge by actors to create change that is mutually beneficial is both profoundly simple and profoundly integrating.

Chapter 5 delves into the nature of actors, ranging from individuals to businesses to nations:

Viewing actors generically allows the development of a logic of human exchange systems that includes the economy and society and transcends academic disciplines. We argue that it also allows for an academic discipline that has robust, practical application.

S-D logic encourages an A2A, or actor-to-actor view of the world, which subsumes business-to-consumer (B2C), business-to-business (B2B), customer-to-customer (C2C), government-to-citizen (G2C), and much more. Individuals augmented with tools and organizations deserve a great deal more study, as we enter the age of cognitive computing and our tools and systems become much smarter. A transdiscipline, such as service science, borrows from many disciplines, without replacing any. However, S-D logic helps us to better appreciate the institutional logics we use even when we aspire to be more transdisciplinary T-shaped thinkers, with depth and breadth, across disciplines, sectors, and cultures.

Chapter 6 in many ways is the most challenging, and deals with resources. According to Erich Zimmermann:

Resources are not, they become.

The improvisational nature of actors as they struggle for viability, sometimes grasping at straws and managing to do the improbable, is hard to explain. Because it is one of the most challenging chapters in the book, I jotted down more ideas from this one than from any other. This is one I plan to go back and read several times more.

Chapter 7 addresses collaboration and normalizing practices such as language, standards, and information technology.

Modular architecture can be thought of as a normalizing practice. Modularization is a means of parts and job standardization.

Information technology as a meta-force simultaneously reducing transaction costs and expanded capabilities is explored here. This chapter provokes many ideas about the fundamentally nested, networked structure of the world's systems, and hierarchical complexity.

Chapter 8 delves deeply into service ecosystems:

With the emergence and growth of service science, interest has arisen in studying major service systems in society, often a geopolitical area such as a city.

Over the coming decades, governments, businesses, academics, and entrepreneurs will increasingly need to apply S-D logic to rethink cities.

Chapter 9 explains service-dominant strategy:

Service-dominant (S-D) strategy focuses on increasing the effectiveness of the firm's roles as an integrator of resources and a cocreator of value, through service exchange, in complex, dynamic systems.

Society is in the early stages of understanding how to dynamically reconfigure resources in direct and indirect service-for-service exchanges. Business model innovations and platform innovations, especially information technology enabled platforms, are often successful because they allow actors to dynamically reconfigure resources better.

Chapter 10 both summarizes and sets the stage for several future considerations. The notion of S-D logic as a meta-idea is advanced:

Paul Romer refers to a meta-idea as one that helps to support the creation and transfer of other ideas. However, meta-ideas can also provide a transcending worldview, a fertile and robust platform for the creation and application of other, more specific ideas.

Romer’s own meta-idea in the context of Charter Cities, where people can experiment with rule systems as easily as they can experiment with technology systems, is all about accelerating the unlocking of human potential trapped in institutional logics that do not serve them well. The links between S-D logic and Charter Cities are one of many important areas touched on in this book ripe for further exploration.

Where to from here?

In sum, as Paul Maglio and I have written frequently, S-D logic provides the logic and deep philosophical foundation for service science. In fact, Lusch and Vargo correctly note that IBM’s focus on service science, management, and engineering (SSME) is a direct reflection of the two-decade transformation journey of one whole firm from G-D logic toward S-D logic. Furthermore, everyone in the service science community can most certainly benefit from a deeper appreciation of S-D logic, as that community works together to build the body of knowledge and tools (service appliances) that will help us to better understand service systems and value cocreation phenomena. I thank Bob and Steve for their inspiring spirit of adventure, insatiable curiosity about the world, and inviting us all along on this exciting journey.

JIM SPOHRER
SAN JOSE, CA
2013

PREFACE

For nearly two decades we have collaborated on developing a more unifying and transcending view of business and, more broadly, economic and social organization. It began, more modestly, as an exercise in sense-making for ourselves, concerned with intractable issues such as the distinction between goods and services – and the related implication that goods marketing and services marketing are different – and the notion that service only becomes economically important after industrialization.

Over the past decade, it has grown to more encompassing concerns. For example, we were struck by alternative and competing views and frameworks, for managing business and marketing effort, as represented by the various subdisciplines and research streams in marketing – B2B marketing, international marketing, industrial marketing, consumer marketing, services marketing, retail marketing, tourism marketing, high-technology marketing, social marketing, macromarketing, and so on – that were, for the most part, seemingly irreconcilable. However, it became apparent that all of these had a common driver: the inadequacy of the logic of the underlying model of economic exchange, what we now call “goods-dominant (G-D) logic.” We also sensed that there were similarities in the perspectives of not only these research traditions, but in many business practices in general (as evidenced in the popular, trade press): a move toward understanding business in terms of intangibilities and human experiences, interactions and collaborations, the evolution and integration of resources, and so on. In short, we saw business thought moving toward a convergence that has now become known as “service-dominant (S-D) logic.”

The scope and purpose of our collaboration have broadened from curious sense-making to the facilitation of the development of a more transcending, unifying, and robust framework for thinking about economic and social activity. Not only has the scope of our collaboration expanded, so has the number of participants, to the point where it now involves, in varying degrees, hundreds of academics and practitioners around the world. Increasingly, we are sensing the need for our writing to be accessible to a wider audience, especially students and thoughtful and seasoned practitioners.

Although it took us a decade to publish our first work, which appeared in early 2004 in the *Journal of Marketing* and was titled “Evolving to a New Dominant Logic for Marketing,” the next decade witnessed many more articles by us and hundreds by others. Throughout the past decade we found the central ideas and concepts of S-D logic seeping into areas that went well beyond marketing. Importantly, it became viewed by many as the foundation upon which the new discipline of service science was being assembled and we witnessed rising interest in design thinking and science, business strategy, and information technology, as well as other fields. Not surprisingly, we thus began to realize we were not just presenting a new dominant logic for marketing (as our initial article suggested) but, more importantly, a new dominant logic for creating the wealth (and viability) of a nation, city, enterprise, or simply a household or any other economic and social organization.

A key challenge we have faced in developing and communicating S-D logic is the precision of its lexicon. We soon realized how important words and language are in framing our view and conceptualization of the world and, hence, how it influences our actions or behavior. We found subtle yet important distinctions between terms such as “services” versus “service,” “customers” versus “consumers,” static and tangible resources and dynamic and intangible resources. Thus, much of what is to be learned from this book concerns how to uncompact new and/or revised meanings for old terms – for example, what are a resource, cocreation, and value? But we also found it necessary to develop new “concepts” and language, which we will introduce and explain here. These include “service ecosystems,” “resource integration,” “resourceness,” and “value-in-context.” We believe that, although it will take some effort to develop an understanding of the lexicon, most readers will find it worthwhile.

In this book we wish to accomplish three goals. First, due to requests of scholars, consultants, and enterprise leaders, we hope to provide a basic primer on S-D logic that is accessible and can, if needed, replace reading our numerous writings on this topic. Second, our intent is to provide a sufficient grounding in S-D logic to allow the reader to begin to question old practices that are overly bound to a neoclassical economics view of the firm as producing units of output and attempting the maximization of a single profit outcome. We actually refer to this as goods-dominant (G-D) logic. In brief, our goal is to help rid the reader of his or her G-D logic thinking and mindset. Third, we hope this book will provide the knowledge to develop more innovative service offerings and compelling value propositions. Much of this will come not from strategies for competitive advantage but rather from collaborative advantage through cocreation to design the future of the enterprise.

Enterprise and industry groups, doctoral students, and others often ask us to “teach” the basics of S-D logic. From the outset, we try to be clear, and wish also to make the message clear in this book: “S-D logic cannot be taught but S-D logic can be learned.” Certainly this book and our lectures can be teaching vehicles but, for the reader to understand and embrace S-D logic, he or she has to be an active and engaged learner. We also often receive the related request, “Tell us how to apply S-D logic.” Once again, it is necessary to adopt the mindset and perspective that S-D logic offers and determine for the enterprise or other entity how to apply these ideas to its unique context. There is no better time to do this than when reading and studying the ideas and concepts in this book. We recommend that readers jot down ideas as they occur that relate to their situation and then revisit these as they read more and engage with others in a discussion about these ideas.

The book comprises three parts. Part I, “Premises,” offers an introduction to the premises of S-D logic and is organized into four chapters. Chapter 1, “The service-dominant mindset,” provides the necessary concepts and ideas behind S-D logic to allow the reader to begin to view and think about social and economic organization in terms of the exchange of service among human actors. Chapter 2, “Roots and heritage,” explains how political and economic thought developed over hundreds of years around the concept of the production and export of surplus tangible goods as the key to national wealth and, subsequently, to the major paradigm for firm management, through profitable production. It also illustrates how repeated attempts to patch up G-D logic, due to its incongruities, has led to the development of, and deep interest in and acceptance of, S-D logic. Chapter 3, “Axioms and foundational premises,” offers a more in-depth discussion and explanation of the ten foundational premises of S-D logic and how they can be summarized in four axioms. “Service as a guiding framework” is the focus of Chapter 4. Often we are challenged on why service should be the guiding framework for social and economic organization and thus in this chapter we provide a more complete response and explanation about why service is the “right” frame of reference.

Part II, “Perspectives,” enables the reader to begin to view the world around him or her differently. We begin with Chapter 5, “It’s all actor-to-actor (A2A),” which provides a perspective based on ending the practice of dividing actors into groups of buyers and sellers or producers and consumers and argues for viewing the social and economic organization as an actor-to-actor network and/or system. In Chapter 6, “The nature, scope, and integration of resources,” we offer a broadened perspective of resources that will expand how resource management is viewed. It also discusses and explains how social and economic actors,

when viewed as resource-integrating actors, become the key to unleashing innovation in the enterprise and in society. “Collaboration” is the focus of Chapter 7. S-D logic is viewed as seeking strategic advantage not through competitive advantage but via collaborative advantage. This lens allows one to see many more possibilities for mutualistic service exchanges. Finally, in Chapter 8, “Service ecosystems,” a framework is presented that enables viewing the most micro service-for-service exchanges between actors, as well as the meso structures that these micro exchanges create and, in turn, the more stable and longer-term macro structures. Thus, this facilitates an understanding of micro- and macromarketing systems, not as separate domains but as part of a unified and coherent system that the enterprise needs to navigate.

Possibilities are the focus of Part III, which comprises two chapters. Chapter 9, “Strategic thinking,” places special emphasis upon expanding enterprise possibilities by developing strategic directions around service ecosystems, design thinking, collaboration, rebundling resources, and value propositions. Chapter 10, “Conclusions and considerations,” discusses how S-D logic is resulting in a convergence of many lines of thought that are creating an emergence of a more unified theory of business and society. We explore the idea of S-D logic as a meta-idea that positions S-D logic as an idea platform upon which enterprises and governments can more easily create specific ideas and strategies to enhance system viability. We conclude with an appeal for more work to be done on the role of institutions in the development of S-D logic and also we echo the need for more mid-range theory.

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Cocreation is a good term to describe this book. Although we are the authors, many of the ideas presented come from scholars and writers over at least 200 years and in some cases longer. We have tried to cite the most central to the development of S-D logic but the list is not exhaustive.

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