

# Evolving to a New Dominant Logic for Marketing

Marketing inherited a model of exchange from economics, which had a dominant logic based on the exchange of "goods," which usually are manufactured output. The dominant logic focused on tangible resources, embedded value, and transactions. Over the past several decades, new perspectives have emerged that have a revised logic focused on intangible resources, the cocreation of value, and relationships. The authors believe that the new perspectives are converging to form a new dominant logic for marketing, one in which service provision rather than goods is fundamental to economic exchange. The authors explore this evolving logic and the corresponding shift in perspective for marketing scholars, marketing practitioners, and marketing educators.

The formal study of marketing focused at first on the distribution and exchange of commodities and manufactured products and featured a foundation in economics (Marshall 1927; Shaw 1912; Smith 1904). The first marketing scholars directed their attention toward commodities exchange (Copeland 1920), the marketing institutions that made goods available and arranged for possession (Nystrom 1915; Weld 1916), and the functions that needed to be performed to facilitate the exchange of goods through marketing institutions (Cherington 1920; Weld 1917).

By the early 1950s, the functional school began to morph into the marketing management school, which was characterized by a decision-making approach to managing the marketing functions and an overarching focus on the customer (Drucker 1954; Levitt 1960; McKitterick 1957). McCarthy (1960) and Kotler (1967) characterized marketing as a decision-making activity directed at satisfying the customer at a profit by targeting a market and then making optimal decisions on the marketing mix, or the "4 P's." The fundamental foundation and the tie to the standard economic model continued to be strong. The leading marketing management textbook in the 1970s (Kotler 1972, p. 42, emphasis in original) stated that "marketing management seeks to determine the settings of the company's *marketing decision variables* that will maximize the company's objective(s) in the light of the expected behavior of noncontrollable *demand variables*."

Beginning in the 1980s, many new frames of reference that were not based on the 4 P's and were largely independent of the standard microeconomic paradigm began to emerge. What appeared to be separate lines of thought sur-

faced in relationship marketing, quality management, market orientation, supply and value chain management, resource management, and networks. Perhaps most notable was the emergence of services marketing as a subdiscipline, following scholars' challenges to "break free" (Shostack 1977) from product marketing and recognize the inadequacies of the dominant logic for dealing with services marketing's subject matter (Dixon 1990). Many scholars believed that marketing thought was becoming more fragmented. On the surface, this appeared to be a reasonable characterization.

In the early 1990s, Webster (1992, p. 1) argued, "The historical marketing management function, based on the microeconomic maximization paradigm, must be critically examined for its relevance to marketing theory and practice." At the end of the twentieth century, Day and Montgomery (1999, p. 3) suggested that "with growing reservation about the validity or usefulness of the Four P's concept and its lack of recognition of marketing as an innovating or adaptive force, the Four P's now are regarded as merely a handy framework." At the same time, advocating a network perspective, Achrol and Kotler (1999, p. 162) stated, "The very nature of network organization, the kinds of theories useful to its understanding, and the potential impact on the organization of consumption all suggest that a paradigm shift for marketing may not be far over the horizon." Sheth and Parvatiyar (2000, p. 140) suggested that "an alternative paradigm of marketing is needed, a paradigm that can account for the continuous nature of relationships among marketing actors." They went as far as stating (p. 140) that the marketing discipline "give up the sacred cow of exchange theory." Other scholars, such as Rust (1998), called for convergence among seemingly divergent views.

Fragmented thought, questions about the future of marketing, calls for a paradigm shift, and controversy over services marketing being a distinct area of study—are these calls for alarm? Perhaps marketing thought is not so much fragmented as it is evolving toward a new dominant logic. Increasingly, marketing has shifted much of its dominant logic away from the exchange of tangible goods (manufactured things) and toward the exchange of intangibles, spe-

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cialized skills and knowledge, and processes (doing things for and with), which we believe points marketing toward a more comprehensive and inclusive dominant logic, one that integrates goods with services and provides a richer foundation for the development of marketing thought and practice.

Rust (1998, p. 107) underscores the importance of such an integrative view of goods and services: "[T]he typical service research article documented ways in which services were different from goods.... It is time for a change. Service research is not a niche field characterized by arcane points of difference with the dominant goods management field." The dominant, goods-centered view of marketing not only may hinder a full appreciation for the role of services but also may partially block a complete understanding of marketing in general (see, e.g., Gronroos 1994; Kotler 1997; Normann and Ramirez 1993; Schlesinger and Heskett 1991). For example, Gummeson (1995, pp. 250–51, emphasis added) states the following:

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

The purpose of this article is to illuminate the evolution of marketing thought toward a new dominant logic. A summary of this evolution over the past 100 years is provided in Table 1 and Figure 1. Briefly, marketing has moved from a goods-dominant view, in which tangible output and discrete transactions were central, to a service-dominant view, in which intangibility, exchange processes, and relationships are central. It is worthwhile to note that the service-centered view should not be equated with (1) the restricted, traditional conceptualizations that often treat services as a residual (that which is not a tangible good; e.g., Rathmell 1966); (2) something offered to enhance a good (value-added services); or (3) what have become classified as services industries, such as health care, government, and education. Rather, we define *services* as the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself. Although our definition is compatible with narrower, more traditional definitions, we argue that it is more inclusive and that it captures the fundamental function of all business enterprises.<sup>1</sup> Thus, the service-centered dominant logic represents a reoriented philosophy that is applicable to all marketing offerings, including those that involve tangible output (goods) in the process of service provision.

<sup>1</sup>Typical traditional definitions include those of Lovelock (1991, p. 13), "services are deeds, processes, and performances"; Solomon and colleagues (1985, p. 106), "services marketing refers to the marketing of activities and processes rather than objects"; and Zeithaml and Bitner (2000), "services are deeds, processes, and performances." For a definition consistent with the one we adopt here, see Gronroos (2000).

## A Fundamental Shift in Worldview

To unravel the changing worldview of marketing or its dominant logic, we must see into, through, and beyond the extant marketing literature. A worldview or dominant logic is never clearly stated but more or less seeps into the individual and collective mind-set of scientists in a discipline. Predictably, this requires viewing the world at a highly abstract level. We begin our discussion with the work of Thomas Malthus.

In his analysis of world resources, Thomas Malthus (1798) concluded that with continued geometric population growth, society would soon run out of resources. In a Malthusian world, "resources" means natural resources that humans draw on for support. Resources are essentially "stuff" that is static and to be captured for advantage. In Malthus's time, much of the political and economic activity involved individual people, organizations, and nations working toward and struggling and fighting over acquiring this stuff. Over the past 50 years, resources have come to be viewed not only as stuff but also as intangible and dynamic functions of human ingenuity and appraisal, and thus they are not static or fixed. Everything is neutral (or perhaps even a resistance) until humankind learns what to do with it (Zimmerman 1951). Essentially, resources *are* not; they *become*. As we discuss, this change in perspective on resources helps provide a framework for viewing the new dominant logic of marketing.

Constantin and Lusch (1994) define *operand resources* as resources on which an operation or act is performed to produce an effect, and they compare operand resources with *operant resources*, which are employed to act on operand resources (and other operant resources). During most of civilization, human activity has been concerned largely with acting on the land, animal life, plant life, minerals, and other natural resources. Because these resources are finite, nations, clans, tribes, or other groups that possessed natural resources were considered wealthy. A goods-centered dominant logic developed in which the operand resources were considered primary. A firm (or nation) had factors of production (largely operand resources) and a technology (an operant resource), which had value to the extent that the firm could convert its operand resources into outputs at a low cost. Customers, like resources, became something to be captured or acted on, as English vocabulary would eventually suggest; we "segment" the market, "penetrate" the market, and "promote to" the market all in hope of attracting customers. Share of operand resources and share of (an operand) market was the key to success.

Operant resources are resources that produce effects (Constantin and Lusch 1994). The relative role of operant resources began to shift in the late twentieth century as humans began to realize that skills and knowledge were the most important types of resources. Zimmermann (1951) and Penrose (1959) were two of the first economists to recognize the shifting role and view of resources. As Hunt (2000, p. 75) observes, Penrose did not use the popular term "factor of production" but rather used the term "collection of productive resources." Penrose suggested (pp. 24–25; emphasis in original) that "it is never *resources* themselves that are the



**TABLE 1**  
**Schools of Thought and Their Influence on Marketing Theory and Practice**

Timeline and Stream of Literature	Fundamental Ideas or Propositions
<b>1800–1920: Classical and Neoclassical Economics</b> Marshall (1890); Say (1821); Shaw (1912); Smith (1776)	Economics became the first social science to reach the quantitative sophistication of the natural sciences. Value is embedded in matter through manufacturing (value-added, utility, value in exchange); goods come to be viewed as standardized output (commodities). Wealth in society is created by the acquisition of tangible “stuff.” Marketing as matter in motion.
<b>1900–1950: Early/Formative Marketing</b> <ul style="list-style-type: none"> <li>•Commodities (Copeland 1923)</li> <li>•Institutions (Nystrom 1915; Weld 1916)</li> <li>•Functional (Cherington 1920; Weld 1917)</li> </ul>	Early marketing thought was highly descriptive of commodities, institutions, and marketing functions: commodity school (characteristics of goods), institutional school (role of marketing institutions in value-embedding process), and functional school (functions that marketers perform). A major focus was on the transaction or output and how institutions performing marketing functions added value to commodities. Marketing primarily provided time and place utility, and a major goal was possession utility (creating a transfer of title and/or sale). However, a focus on functions is the beginning of the recognition of operant resources.
<b>1950–1980: Marketing Management</b> <ul style="list-style-type: none"> <li>•Business should be customer focused (Drucker 1954; McKittrick 1957)</li> <li>•Value “determined” in marketplace (Levitt 1960)</li> <li>•Marketing is a decision-making and problem-solving function (Kotler 1967; McCarthy 1960)</li> </ul>	Firms can use analytical techniques (largely from microeconomics) to try to define marketing mix for optimal firm performance. Value “determined” in marketplace; “embedded” value must have usefulness. Customers do not buy things but need or want fulfillment. Everyone in the firm must be focused on the customer because the firm’s only purpose is to create a satisfied customer. Identification of the functional responses to the changing environment that provide competitive advantage through differentiation begins to shift toward value in use.
<b>1980–2000 and Forward: Marketing as a Social and Economic Process</b> <ul style="list-style-type: none"> <li>•Market orientation (Kohli and Jaworski 1990; Narver and Slater 1990)</li> <li>•Services marketing (Gronroos 1984; Zeithaml, Parasuraman, and Berry 1985)</li> <li>•Relationship marketing (Berry 1983; Duncan and Moriarty 1998; Gummesson 1994, 2002; Sheth and Parvatiyar 2000)</li> <li>•Quality management (Hauser and Clausing 1988; Parasuraman, Zeithaml, and Berry 1988)</li> <li>•Value and supply chain management (Normann and Ramirez 1993; Srivastava, Shervani, and Fahey 1999)</li> <li>•Resource management (Constantin and Lusch 1994; Day 1994; Dickson 1992; Hunt 2000; Hunt and Morgan 1995)</li> <li>•Network analysis (Achrol 1991; Achrol and Kotler 1999; Webster 1992)</li> </ul>	<p>A dominant logic begins to emerge that largely views marketing as a continuous social and economic process in which operant resources are paramount. This logic views financial results not as an end result but as a test of a market hypothesis about a value proposition. The marketplace can falsify market hypotheses, which enables entities to learn about their actions and find ways to better serve their customers and to improve financial performance.</p> <p>This paradigm begins to unify disparate literature streams in major areas such as customer and market orientation, services marketing, relationship marketing, quality management, value and supply chain management, resource management, and network analysis. The foundational premises of the emerging paradigm are (1) skills and knowledge are the fundamental unit of exchange, (2) indirect exchange masks the fundamental unit of exchange, (3) goods are distribution mechanisms for service provision, (4) knowledge is the fundamental source of competitive advantage, (5) all economies are services economies, (6) the customer is always a coproducer, (7) the enterprise can only make value propositions, and (8) a service-centered view is inherently customer oriented and relational.</p>

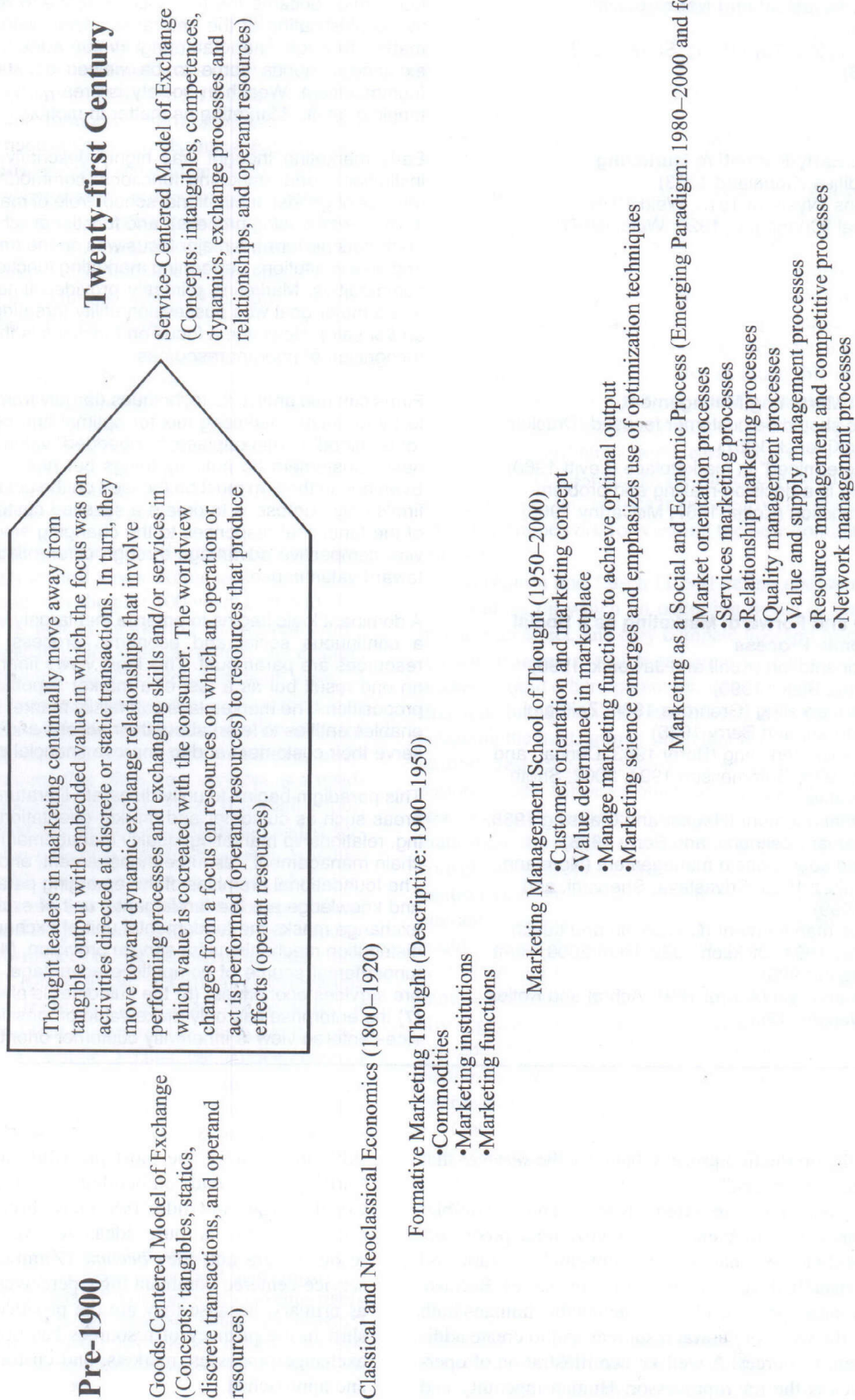
‘inputs’ to the production process, but only the *services* that the resources can render.”

Operant resources are often invisible and intangible; often they are core competences or organizational processes. They are likely to be dynamic and infinite and not static and finite, as is usually the case with operand resources. Because operant resources produce effects, they enable humans both to multiply the value of natural resources and to create additional operant resources. A well-known illustration of operant resources is the microprocessor: Human ingenuity and

skills took one of the most plentiful natural resources on Earth (silica) and embedded it with knowledge. As Copeland (qtd. in Gilder 1984) has observed, in the end the microprocessor is pure idea. As we noted previously, resources *are* not; they *become* (Zimmermann 1951). The service-centered dominant logic perceives operant resources as primary, because they are the producers of effects. This shift in the primacy of resources has implications for how exchange processes, markets, and customers are perceived and approached.



**FIGURE 1**  
**Evolving to a New Dominant Logic for Marketing**





## Goods Versus Services: Rethinking the Orientation

Viewed in its traditional sense, marketing focuses largely on operand resources, primarily goods, as the unit of exchange. In its most rudimentary form, the goods-centered view postulates the following:

1. The purpose of economic activity is to make and distribute things that can be sold.
2. To be sold, these things must be embedded with utility and value during the production and distribution processes and must offer to the consumer superior value in relation to competitors' offerings.
3. The firm should set all decision variables at a level that enables it to maximize the profit from the sale of output.
4. For both maximum production control and efficiency, the good should be standardized and produced away from the market.
5. The good can then be inventoried until it is demanded and then delivered to the consumer at a profit.

Because early marketing thought was concerned with agricultural products and then with other physical goods, it was compatible with this rudimentary view. Before 1960, marketing was viewed as a transfer of ownership of goods and their physical distribution (Savitt 1990); it was viewed as the "application of motion to matter" (Shaw 1912, p. 764). The marketing literature rarely mentioned "immaterial products" or "services," and when it did, it mentioned them only as "aids to the production and marketing of goods" (Converse 1921, p. vi; see Fisk, Brown, and Bitner 1993). An early fragmentation in the marketing literature occurred when Shostack (1977, p. 73) noted, "The classical 'marketing mix,' the seminal literature, and the language of marketing all derive from the manufacture of physical-goods."

Marketing inherited the view that value (utility) was embedded in a product from economics. One of the first debates in the fledgling discipline of marketing centered on the question, If value was something added to goods, did marketing contribute to value? Shaw (1912, p. 12; see also Shaw 1994) argued that "Industry is concerned with the application of motion to matter to change its form and place. The change in form we term production; the change in place, distribution." Weld (1916) more formally defined marketing's role in production as the creation of the time, place, and possession utilities, which is the classification found in current marketing literature.

The general concept of utility has been broadly accepted in marketing, but its meaning has been interpreted differently. For example, discussing Beckman's (1957) and Alderson's (1957) treatments of utility, Dixon (1990, pp. 337-38, emphasis in original) argues that "each writer uses a different concept of value. Beckman is arguing in terms of *value-in-exchange*, basing his calculation on value-added, upon 'the selling value' of products.... Alderson is reasoning in terms of *value-in-use*." Drawing on Cox (1965), Dixon (1990, p. 342) believes the following:

The "conventional view" of marketing as adding properties to matter caused a problem for Alderson and "makes more difficult a disinterested evaluation of what marketing is and does" (Cox 1965). This view also underlies the dissatisfaction with marketing theory that led to the services

marketing literature. If marketing is the process that adds properties to matter, then it can not contribute to the production of "immaterial goods."

Alderson (1957, p. 69) advised, "What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating utility." Dixon (1990, p. 342) suggests that "the task of responding to Alderson's challenge remains."

The service-centered view of marketing implies that marketing is a continuous series of social and economic processes that is largely focused on operand resources with which the firm is constantly striving to make better value propositions than its competitors. In a free enterprise system, the firm primarily knows whether it is making better value propositions from the feedback it receives from the marketplace in terms of firm financial performance. Because firms can always do better at serving customers and improving financial performance, the service-centered view of marketing perceives marketing as a continuous learning process (directed at improving operand resources). The service-centered view can be stated as follows:

1. Identify or develop core competences, the fundamental knowledge and skills of an economic entity that represent potential competitive advantage.
2. Identify other entities (potential customers) that could benefit from these competences.
3. Cultivate relationships that involve the customers in developing customized, competitively compelling value propositions to meet specific needs.
4. Gauge marketplace feedback by analyzing financial performance from exchange to learn how to improve the firm's offering to customers and improve firm performance.

This view is grounded in and largely consistent with resource advantage theory (Conner and Prahalad 1996; Hunt 2000; Srivastava, Fahey, and Christensen 2001) and core competency theory (Day 1994; Prahalad and Hamel 1990). Core competences are not physical assets but intangible processes; they are "bundles of skills and technologies" (Hamel and Prahalad 1994, p. 202) and are often routines, actions, or operations that are tacit, causally ambiguous, and idiosyncratic (Nelson and Winter 1982; Polanyi 1966). Hunt (2000, p. 24) refers to core competences as higher-order resources because they are bundles of basic resources. Teece and Pisano (1994, p. 537) suggest that "the competitive advantage of firms stems from dynamic capabilities rooted in high performance routines operating inside the firm, embedded in the firm's processes, and conditioned by its history." Hamel and Prahalad (pp. 202, 204) discuss "competition for competence," or competitive advantage resulting from competence making a "disproportionate contribution to customer-perceived value."

The focus of marketing on core competences inherently places marketing at the center of the integration of business functions and disciplines. As Prahalad and Hamel (1990, p. 82) suggest, "core competence is communication, involvement, and a deep commitment to working across organizational boundaries." In addition, they state (p. 82) that core competences are "collective learning in the organization, especially [about] how to coordinate diverse production skills." This cross-functional, intraorganizational boundary-



spanning also applies to the interorganizational boundaries of vertical marketing systems or networks. Channel intermediaries and network partners represent core competences that are organized to gain competitive advantage by performing specialized marketing functions. The firms can have long-term viability only if they learn in conjunction with and are coordinated with other channel and network partners.

The service-centered view of marketing is customer-centric (Sheth, Sisodia, and Sharma 2000) and market driven (Day 1999). This means more than simply being consumer oriented; it means collaborating with and learning from customers and being adaptive to their individual and dynamic needs. A service-centered dominant logic implies that value is defined by and cocreated with the consumer rather than embedded in output. Haeckel (1999) observes successful firms moving from practicing a "make-and-sell" strategy to a "sense-and-respond" strategy. Day (1999, p. 70) argues for thinking in terms of self-reinforcing "value cycles" rather than linear value chains. In the service-centered view of marketing, firms are in a process of continual hypothesis generation and testing. Outcomes (e.g., financial) are not something to be maximized but something to learn from as firms try to serve customers better and improve their performance. Thus, a market-oriented and learning organization (Slater and Narver 1995) is compatible with, if not implied by, the service-centered model. Because of its central focus on dynamic and learned core competences, the emerging service-centered dominant logic is also compatible with emerging theories of the firm. For example, Teece and Pisano (1994, p. 540) emphasize that competences and capabilities are "ways of organizing and getting things done, which cannot be accomplished by using the price system to coordinate activity."

Having described the goods- and service-centered views of marketing, we turn to ways that the views are different. Six differences between the goods- and service-centered dominant logic, all centered on the distinction between operand and operant resources, are presented in Table 2. The six attributes and our eight foundational premises (FPs) help present the patchwork of the emerging dominant logic.

### **FP<sub>1</sub>: The Application of Specialized Skills and Knowledge Is the Fundamental Unit of Exchange**

People have two basic operand resources: physical and mental skills. Both types of skills are distributed unequally in a population. Each person's skills are not necessarily optimal for his or her survival and well-being; therefore, specialization is more efficient for society and for individual members of society. Largely because they specialize in particular skills, people (or other entities) achieve scale effects. This specialization requires exchange (Macneil 1980; Smith 1904). Studying exchange in ancient societies, Mauss (1990) shows how division of labor within and between clans and tribes results in the tendering of "total services" by gift giving among clans and tribes. Not only do people contract for services from one another by giving and receiving gifts, but, as Mauss (p. 6) observes, "there is total service in

the sense that it is indeed the whole clan that contracts on behalf of all, for all that it possesses and for all that it does."

This exchange of specializations leads to two views about what is exchanged. The first view involves the output from the performance of the specialized activities; the second involves the performance of the specialized activities. That is, if two parties jointly provide for each other's carbohydrate and protein needs by having one party specialize in fishing knowledge and skills and the other specialize in farming knowledge and skills, the exchange is one of fish for wheat or of the application of fishing knowledge or competence (fishing services) for the application of farming knowledge or competence (farming services).

The relationships between specialized skills and exchange have been recognized as far back as Plato's time, and the concept of the division of labor served as the foundation for Smith's (1904) seminal work in economics. However, Smith focused on only a subclass of human skills: the skills that resulted in surplus tangible output (in general, tangible goods and especially manufactured goods) that could be exported and thus contributed to national wealth. Smith recognized that the foundation of exchange was human skills as well as the necessity and usefulness of skills that did not result in tangible goods (i.e., services); they were simply not "productive" in terms of his national wealth standard. More than anything else, Smith was a moral philosopher who had the normative purpose of explaining how the division of labor and exchange should contribute to social well-being. In the sociopolitical milieu of his time, social well-being was defined as national wealth, and national wealth was defined in terms of exportable things (operand resources). Thus, for Smith, "productive" activity was limited to the creation of tangible goods, or output that has exchange value.

At that time, Smith's focus on exchange value represented a departure from the more accepted focus on value in use, and it had critical implications for how economists, and later marketers, would view exchange. Smith was aware of the schoolmen's and early economic scholars' view that "The Value of all Wares arises from their use" (Barbon 1903, p. 21) and that "nothing has a price among men except pleasure, and only satisfactions are purchased" (Galvani qtd. in Dixon 1990, p. 304). But this use-value interpretation was not consistent with Smith's national wealth standard. For Smith, "wealth consisted of tangible goods, not the use made of them" (Dixon 1990, p. 340). Although most early economists (e.g., Mill 1929; Say 1821) took exception to this singular focus on tangible output, they nonetheless acquiesced to Smith's view that the proper subject matter for economic philosophy was the output of "productive" skills or services, that is, tangible goods that have embedded value.

Frederic Bastiat was an early economic scholar who did not acquiesce to the dominant view. Bastiat criticized the political economists' view that value was tied only to tangible objects. For Bastiat (1860, p. 40), the foundations of economics were people who have "wants" and who seek "satisfactions." Although a want and its satisfaction are specific to each person, the effort required is often provided by others. For Bastiat (1964, pp. 161-62), "the great economic law is



**TABLE 2**  
**Operand and Operant Resources Help Distinguish the Logic of the Goods- and Service-Centered Views**

	Traditional Goods-Centered Dominant Logic	Emerging Service-Centered Dominant Logic
Primary unit of exchange	People exchange for goods. These goods serve primarily as <i>operand resources</i> .	People exchange to acquire the benefits of specialized competences (knowledge and skills), or services. Knowledge and skills are <i>operant resources</i> .
Role of goods	Goods are <i>operand resources</i> and end products. Marketers take matter and change its form, place, time, and possession.	Goods are transmitters of <i>operant resources</i> (embedded knowledge); they are intermediate "products" that are used by other operant resources (customers) as appliances in value-creation processes.
Role of customer	The customer is the recipient of goods. Marketers do things to customers; they segment them, penetrate them, distribute to them, and promote to them. The customer is an <i>operand resource</i> .	The customer is a coproducer of service. Marketing is a process of doing things in interaction with the customer. The customer is primarily an <i>operant resource</i> , only functioning occasionally as an operand resource.
Determination and meaning of value	Value is determined by the producer. It is embedded in the <i>operand resource (goods)</i> and is defined in terms of "exchange-value."	Value is perceived and determined by the consumer on the basis of "value in use." Value results from the beneficial application of <i>operant resources</i> sometimes transmitted through <i>operand resources</i> . Firms can only make value propositions.
Firm-customer interaction	The customer is an <i>operand resource</i> . Customers are acted on to create transactions with resources.	The customer is primarily an <i>operant resource</i> . Customers are active participants in relational exchanges and coproduction.
Source of economic growth	Wealth is obtained from surplus tangible resources and goods. Wealth consists of owning, controlling, and producing <i>operand resources</i> .	Wealth is obtained through the application and exchange of specialized knowledge and skills. It represents the right to the future use of <i>operant resources</i> .

this: *Services are exchanged for services....* It is trivial, very commonplace; it is, nonetheless, the beginning, the middle, and the end of economic science." He argued (1860, p. 43) the following: "[I]t is in fact to this faculty ... *to work the one for the other*; it is this *transmission of efforts, this exchange of services* [this emphasis added], with all the infinite and involved combinations to which it gives rise ... which constitutes Economic Science, points out its origin, and determines its limits."

Therefore, value was considered the comparative appreciation of reciprocal skills or services that are exchanged to obtain utility; value meant "value in use." As Mill (1929) did, Bastiat recognized that by using their skills (operant resources), humans could only transform matter (operand resources) into a state from which they could satisfy their desires.

However, the narrower focus on the tangible output with exchange value had several advantages for the early economists' quest of turning economic philosophy into an eco-

nomic science, not the least of which was economics' similarity to the subject matter of the archetypical science of the day: Newtonian mechanics. The treatment of value as embedded utility, or value added (exchange value), enabled economists (e.g., Marshall 1927; Walras 1954) to ignore both the application of mental and physical skills (services) that transformed matter into a potentially useful state and the actual usefulness as perceived by the consumer (value in use). Thus, economics evolved into the science of matter (tangible goods) that is embedded with utility, as a result of manufacturing, and has value in exchange.

It was from this manufacturing-based view of economics that marketing emerged 100 years later. Throughout the period that marketing was primarily concerned with the distribution of physical goods, the goods-centered model was probably adequate. However, as the focus of marketing moved away from distribution and toward the process of exchange, economists began to perceive the accepted idea of marketing adding time, place, and possession utility (Weld



1916) as inadequate. As we noted previously, Alderson (1957, p. 69) advised, "What is needed is not an interpretation of the utility created by marketing, but a marketing interpretation of the whole process of creating utility." Shostack (1977, p. 74) issued a much more encompassing challenge than to "break [services marketing] free from product marketing"; she argued for a "new conceptual framework" and suggested the following:

One unorthodox possibility can be drawn from direct observation of the nature of market "satisfiers" available to it.... How should the automobile be defined? Is General Motors marketing a *service*, a service that happens to include a by-product called a car? Levitt's classic "Marketing Myopia" exhorts businessmen to think exactly this generic way about what they market. Are automobiles "tangible services"?

Shostack concluded (p. 74) that "if 'either-or' terms (product [versus] service) do not adequately describe the true nature of marketed entities, it makes sense to explore the usefulness of a new structural definition." We believe that the emerging service-centered model meets Shostack's challenge, addresses Alderson's argument, and elaborates on Levitt's (1960) exhortation.

## **FP<sub>2</sub>: Indirect Exchange Masks the Fundamental Unit of Exchange**

Over time, exchange moved from the one-to-one trading of specialized skills to the indirect exchange of skills in vertical marketing systems and increasingly large, bureaucratic, hierarchical organizations. During the same time, the exchange process became increasingly monetized. Consequently, the inherent focus on the customer as a direct trading partner largely disappeared. Because of industrial society's increasing division of labor, its growth of vertical marketing systems, and its large bureaucratic and hierarchical organizations, most marketing personnel (and employees in general) stopped interacting with customers (Webster 1992). In addition, because of the confluence of these forces, the skills-for-skills (services-for-services) nature of exchange became masked.

The Industrial Revolution had a tremendous impact on efficiency, but this came at a price, at least in terms of the visibility of the true nature of exchange. Skills (at least "manufacturing" skills, such as making sharp sticks) that had been tailored to specific needs were taken out of cottage industry and mechanized, standardized, and broken down into skills that had increasingly narrow purposes (e.g., sharpening one side of sticks). Workers' specialization increasingly became microspecialization (i.e., the performance of increasingly narrow-skilled proficiencies). Organizations acquired and organized microspecializations to produce what people wanted, and thus it became easier for people to engage in exchange by providing their microspecializations to organizations. However, the microspecialists seldom completed a product or interacted with a customer. They were compensated indirectly with money paid by the organization and exchangeable in the market for the skills the microspecialists needed rather than with direct, reciprocal skill-provision by the customer. Thus, organizations fur-

ther masked the skills-for-skills (services-for-services) nature of exchange. Organizations themselves specialized (e.g., by making sticks but relying on other organizations such as wholesalers and retailers to distribute them), thus further masking the nature of exchange.

As organizations continued to increase in size, they began to realize that virtually all their workers had lost sense of both the customer (Hauser and Clausing 1988) and the purpose of their own service provision. The workers, who performed microspecialized functions deep within the organization, had internal customers, or other workers. One worker would perform a microspecialized task and then pass the work product on to another worker, who would perform an activity; this process continued throughout a service chain. Because the workers along the chain did not pay one another (reciprocally exchange with one another) and did not typically deal directly with external customers, they could ignore quality and both internal and external customers. To correct for this problem, various management techniques were developed under the rubric of total quality management (Cole and Mogab 1995). The techniques were intended to reestablish the focus of workers and the organization on both internal and external customers and quality.

The problem of organizations and their workers not paying attention to the customer is not unique to manufacturing organizations. If an organization simply provides intangibles, has some microspecialists who interact with customers, and is in an industry categorized as a "service" industry, it is not necessarily more customer focused. Many non-goods-producing organizations, especially large bureaucracies, are just as subject as goods-producing institutions to the masking effect of indirect exchange; they also provide services through organized microspecializations that are focused on minute and isolated aspects of service provision.

Regardless of the type of organization, the fundamental process does not change; people still exchange their often collective and distributed specialized skills for the individual and collective skills of others in monetization and marketing systems. People still exchange their services for other services. Money, goods, organizations, and vertical marketing systems are only the exchange vehicles.

## **FP<sub>3</sub>: Goods Are Distribution Mechanisms for Service Provision**

The view of tangible products as the fundamental components of economic exchange served reasonably well as Western societies entered the Industrial Revolution, and the primary interest of the developing science of economics was manufacturing. Given its early concerns with the distribution of manufactured and agricultural goods, the view also worked relatively well when it was adopted by marketing. However, marketing has moved well beyond distribution and is now concerned with more than the exchange of goods. Goods are not the common denominator of exchange; the common denominator is the application of specialized knowledge, mental skills, and, to a lesser extent, physical labor (physical skills).



Knowledge and skills can be transferred (1) directly, (2) through education or training, or (3) indirectly by embedding them in objects. Thus, tangible products can be viewed as embodied knowledge or activities (Normann and Ramirez 1993). Wheels, pulleys, internal combustion engines, and integrated chips are all examples of encapsulated knowledge, which informs matter and in turn becomes the distribution channel for skill application (i.e., services).

The matter, embodied with knowledge, is an "appliance" for the performance of services; it replaces direct service. Norris (1941, p. 136) was one of the first scholars to recognize that people want goods because they provide services. Prahalad and Hamel (1990, p. 85) refer to products (goods) as "the physical embodiments of one or more competencies." The wheel and pulley reduce the need for physical strength. A pharmaceutical provides medical services. A well-designed and easy-to-use razor replaces barbering services, and vacuum cleaners and other household appliances make household chores less labor intensive. Computers and applications software can substitute for the direct services of accountants, attorneys, physicians, and teachers. Kotler (1977, p. 8) notes that the "importance of physical products lies not so much in owning them as in obtaining the services they render." Gummesson (1995, p. 251) argues that "activities render services, things render services." Hollander (1979, p. 43) suggests that "services may be replaced by products" and compares barber shaves to safety razors and laundry services to washing machines.

In addition to their direct service provision, the appliances serve as platforms for meeting higher-order needs (Rifkin 2000). Prahalad and Ramaswamy (2000, p. 84) refer to the appliances as "artifacts, around which customers have experiences" (see also Pine and Gilmore 1999). Gutman (1982, p. 60) has pointed out that products are "means" for reaching "end-states," or "valued states of being, such as happiness, security, and accomplishment." That is, people often purchase goods because owning them, displaying them, and experiencing them (e.g., enjoying knowing that they have a sports car parked in the garage, showing it off to others, and experiencing its handling ability) provide satisfactions beyond those associated with the basic functions of the product (e.g., transportation). As humans have become more specialized as a species, use of the market and goods to achieve higher-order benefits, such as satisfaction, self-fulfillment, and esteem, has increased. Goods are platforms or appliances that assist in providing benefits; therefore, consistent with Gutman, goods are best viewed as distribution mechanisms for services, or the provision of satisfaction for higher-order needs.

## **FP<sub>4</sub>: Knowledge Is the Fundamental Source of Competitive Advantage**

Knowledge is an operant resource. It is the foundation of competitive advantage and economic growth and the key source of wealth. Knowledge is composed of propositional knowledge, which is often referred to as abstract and generalized, and prescriptive knowledge, which is often referred to as techniques (Mokyr 2002). The techniques are the skills and competences that entities use to gain competitive advantage.

This view is consistent with current economic thought that the change in a firm's productivity is primarily dependent on knowledge or technology (Capon and Glazer 1987; Nelson, Peck, and Kalachek 1967). Capon and Glazer (1987) broadly define *technology* as know-how, and they identify three components of technology: (1) product technology (i.e., ideas embodied in the product), (2) process technology (i.e., ideas involved in the manufacturing process), and (3) management technology (i.e., management procedures associated with business administration and sales). Mokyr (2002) reviews historical developments in science and technology to demonstrate that the Industrial Revolution was essentially about the creation and dissemination of propositional and prescriptive knowledge.

In the neoclassical model of economic growth, the development of knowledge in society is exogenous to the competitive system. However, in Hunt's (2000) general theory of competition, knowledge is endogenous. The process of competition and the information provided by profits result in competition being a knowledge-discovery process (Hayek 1945; Hunt 2000). Therefore, not only are mental skills the fundamental source of competitive advantage, but competition also enhances mental skills and learning in society. Dickson (1992) suggests that the firms that do the best are the firms that learn most quickly in a dynamic and evolving competitive market.

Quinn, Doorley, and Paquette (1990, p. 60) state that "physical facilities—including a seemingly superior product—seldom provide a sustainable competitive edge." Quinn, Doorley, and Paquette's suggestion that "a maintainable advantage usually derives from outstanding depth in selected human skills, logistics capabilities, knowledge bases, or other service strengths that competitors cannot reproduce and that lead to greater demonstrable value for the customer" is consistent with our own views. Normann and Ramirez (1993, p. 69) state, "the only true source of competitive advantage is the ability to conceive the entire value-creating system and make it work." Day (1994) discusses competitive advantage in terms of capabilities or skills, especially those related to market-sensing, customer-linking, and channel-bonding. Barabba (1996, p. 48) argues that marketing-based knowledge and decision making provide the core competence that "gives the enterprise its competitive edge." These views imply that operant resources, specifically the use of knowledge and mental competences, are at the heart of competitive advantage and performance.

The use of knowledge as the basis for competitive advantage can be extended to the entire "supply" chain, or service-provision chain. The goods-centered model necessarily assumes that the primary flow in the chain is a physical flow, but it acknowledges the existence of information flows. We argue that the primary flow is information; *service* is the provision of the information to (or use of the information for) a consumer who desires it, with or without an accompanying appliance. Evans and Wurster (1997, p. 72) state this idea as follows: "[T]he value chain also includes all the information that flows within a company and between a company and its suppliers, its distributors, and its existing or potential customers. Supplier relationships, brand identity, process coordination, customer loyalty,



employee loyalty, and switching costs all depend on various kinds of information." Evans and Wurster suggest that every business is an information business. It is through the differential use of information, or knowledge, applied in concert with the knowledge of other members of the service chain that the firm is able to make value propositions to the consumer and gain competitive advantage. Normann and Ramirez (1993, pp. 65–66) argue that value creation should not be considered in terms of the "outdated" value-added notion, "grounded in the assumptions and models of an industrial economy," but in terms of the value created through "coproduction with suppliers, business partners, allies, and customers."

The move toward a service-dominant logic is grounded in an increased focus on operant resources and specifically on process management. Webster (1992) and Day (1994) emphasize the importance of marketing being central to cross-functional business processes. To better manage the processes, Moorman and Rust (1999) suggest that firms are shifting away from a functional marketing organization and toward a marketing process organization. Taking this even further, Srivastava, Shervani, and Fahey (1999, p. 168) contend that the enterprise consists of three core business processes: (1) product development management, (2) supply chain management, and (3) customer relationship management. They also contend that marketing must be a critical part of all these core business processes "that create and sustain customer and shareholder value." Similarly, Barabba (1996) argues that marketing is an organizational "state of mind."

## FP<sub>5</sub>: All Economies Are Services Economies

As we have argued, the fundamental economic exchange process pertains to the application of mental and physical skills (service provision), and manufactured goods are mechanisms for service provision. However, economic science, as well as most classifications of economic exchange that are based on it, is grounded on Smith's narrowed concern with manufactured output. Consequently, services have traditionally been defined as anything that does not result in manufactured (or agricultural) output (e.g., Rathmell 1966).

In addition, as we have suggested, specialization breeds microspecialization; people are constantly moving toward more specific specialties. Over time, activities and processes that were once routinely performed internally by a single economic entity (e.g., a manufacturing firm) become separate specializations, which are then often outsourced (Shugan 1994). Giarini (1985, p. 134) refers to this increasing specialization as "complication." The complication process causes distortions in national economic accounting systems, such as the one used in the United States, that are based on types of output (e.g., agricultural, manufacturing, intangible). The U.S. government is aware of these distortions, as is evidenced in the Economic Classification Policy Committee of the Bureau of Economic Analysis's (1994, pp. 3–4) citation of Hill (1977, p. 320) on the issue:

[O]ne in the same activity, such as painting, may be classified as goods or service production depending purely on

the organization of the overall process of production... If the painting is done by employees within the producer unit [that] makes the good, it will be treated as [part of] the goods production, whereas if it is done by an outside painting company, it will be classified as an intermediate input of services. Thus, when a service previously performed in a manufacturing establishment is contracted out, to a specialized services firm, data will show an increase in services production in the economy even though the total activity of "painting," may be unchanged.

It is because of the differentiation of specialized skills (services) in an output-based classification model rather than a fundamental economic shift that scholars definitionally, rather than functionally, have only recently considered that a shift is occurring toward a "services economy" (see Shugan 1994).

Similarly, economists have taught marketing scholars to think about economic development in terms of "eras" or "economies," such as hunter-gatherer, agricultural, and industrial. Formal economic thought developed during one of these eras, the industrial economy, and it has tended to describe economies in terms of the types of output, or operand resources (game, agricultural products, and manufactured products), associated with markets that were expanding rapidly at the time. However, the "economies" might be better viewed as macrospecializations, each characterized by the expansion and refinement of some particular type of competence (operand resource) that could be exchanged. The hunter-gatherer macrospecialization was characterized by the refinement and application of foraging and hunting knowledge and skills; the agricultural macrospecialization by the cultivation of knowledge and skills; the industrial economy by the refinement of knowledge and skills for large-scale mass production and organizational management; and the services and information economies by the refinement and use of knowledge and skills about information and the exchange of pure, unembedded knowledge.

In both the classification of economic activity and the economic eras, the common denominator is the increased refinement and exchange of knowledge and skills, or operand resources. Virtually all the activities performed today have always been performed in some manner; however, they have become increasingly separated into specialties and exchanged in the market.

All this may seem to be an argument that traditional classificatory systems underestimate the historical role and rise of services. In a sense, it is. Services are not just now becoming important, but just now they are becoming more apparent in the economy as specialization increases and as less of what is exchanged fits the dominant manufactured-output classification system of economic activity. Services and the operand resources they represent have always characterized the essence of economic activity.

## FP<sub>6</sub>: The Customer Is Always a Coproducer

From the traditional, goods-based, manufacturing perspective, the producer and consumer are usually viewed as ide-



ally separated in order to enable maximum manufacturing efficiency. However, if the normative goal of marketing is customer responsiveness, this manufacturing efficiency comes at the expense of marketing efficiency and effectiveness. From a service-centered view of marketing with a heavy focus on continuous processes, the consumer is always involved in the production of value. Even with tangible goods, production does not end with the manufacturing process; production is an intermediary process. As we have noted, goods are appliances that provide services for and in conjunction with the consumer. However, for these services to be delivered, the customer still must learn to use, maintain, repair, and adapt the appliance to his or her unique needs, usage situation, and behaviors. In summary, in using a product, the customer is continuing the marketing, consumption, and value-creation and delivery processes.

Increasingly, both marketing practitioners and academics are shifting toward a continuous-process perspective, in which separation of production and consumption is not a normative goal, and toward a recognition of the advantages, if not the necessity, of viewing the consumer as a coproducer. Among academics, Normann and Ramirez (1993, p. 69) state that "the key to creating value is to coproduce offerings that mobilize customers." Lusch, Brown, and Brunswick (1992) provide a general model to explain how much of the coproduction or service provision the customer will perform. Oliver, Rust, and Varki (1998) echo and extend the idea of coproduction in their suggestion that marketing is headed toward a paradigm of "real-time" marketing, which integrates mass customization and relationship marketing by interactively designing evolving offerings that meet customers' unique, changing needs. Prahalad and Ramaswamy (2000) note that the market has become a venue for proactive customer involvement, and they argue for co-opting customer involvement in the value-creation process. In summary, the customer becomes primarily an operant resource (coproducer) rather than an operand resource ("target") and can be involved in the entire value and service chain in acting on operand resources.

## FP<sub>7</sub>: The Enterprise Can Only Make Value Propositions

As we noted previously, marketing inherited a view that value was something embedded in goods during the manufacturing process, and early marketing scholars debated the issue of the types and extent of the utilities, or value-added, that were created by marketing processes. This value-added view functioned reasonably well as long as the focus of marketing remained the tangible good. However, arguably, it was the inadequacy of the value-added concept that necessitated the delineation of the consumer orientation—essentially, the admonition that the consumer ultimately needed to find embedded value (value in exchange) useful (value in use). As Dixon (1990, p. 342) notes, the "conventional view of marketing adding properties to marketing ... underlies the dissatisfaction with marketing theory that led to the services marketing literature" (see also Shaw 1994).

Services marketing scholars have been forced both to reevaluate the idea of value being embedded in tangible

goods and to redefine the value-creation process. As with much of the reexamination and redefinition that has originated in the services marketing literature, the implications can be extended to all of marketing. For example, Gummesson (1998, p. 247) has argued that "if the consumer is the focal point of marketing, value creation is only possible when a good or service is consumed. An unsold good has no value, and a service provider without customers cannot produce anything." Likewise, Gronroos (2000, pp. 24–25; emphasis in original) states,

*Value for customers is created throughout the relationship by the customer, partly in interactions between the customer and the supplier or service provider. The focus is not on products but on the customers' value-creating processes where value emerges for customers and is perceived by them, ... the focus of marketing is value creation rather than value distribution, and facilitation and support of a value-creating process rather than simply distributing ready-made value to customers.*

We agree with both Gummesson and Gronroos, and we extend their logic by noting that the enterprise can only offer value propositions; the consumer must determine value and participate in creating it through the process of coproduction.

If a tangible good is part of the offering, it is embedded with knowledge that has value potential for the intended consumer, but it is not embedded with value (utility). The consumer must understand that the value potential is translatable to specific needs through coproduction. The enterprise can only make value propositions that strive to be better or more compelling than those of competitors.

## FP<sub>8</sub>: A Service-Centered View Is Customer Oriented and Relational

Interactivity, integration, customization, and coproduction are the hallmarks of a service-centered view and its inherent focus on the customer and the relationship. Davis and Mandrot (1996, p. 6) approach a service-centered view in their discussion of the customer-interaction process:

*[It] begins with the interactive definition of the individual customers' problem, the development of a customized solution, and delivery of that customized solution to the customer. The solution may consist of a tangible product, an intangible service, or some combination of both. It is not the mix of the solution (be it product or service) that is important, but that the organization interacts with each customer to define the specific need and then develops a solution to meet the need.*

It is in this sense of doing things, not just for the customer but also in concert with the customer, that the service-centered view emerges. It is a model of inseparability of the one who offers (and the offer) and the consumer. Barabba (1995, p. 14) extends the customer-centric idea to the "integration of the voice of the market with the voice of the enterprise," and Gummesson (2002) suggests the term "balanced centrality," concepts that may be particularly compatible with a services-for-services exchange perspective. We also suggest that the interactive and integrative view of exchange is more compatible with the other normative elements of the marketing concept, the idea that all activities of the firm be



integrated in their market responsiveness and the idea that profits come from customer satisfaction (rather than units of goods sold) (Kohli and Jaworski 1990; Narver and Slater 1990). Notably, this view harks back to pre-Industrial Revolution days, when providers were close to their customers and involved in relationships that offered customized services. Hauser and Clausing (1988, p. 64) observe the following:

Marketing, engineering, and manufacturing were integrated—in the same individual. If a knight wanted armor, he talked directly to the armorer, who translated the knight's desires into a product, the two might discuss the material—plate rather than chain armor—and details like fluted surface for greater bending strength. Then the armorer would design the production process.

Consistent with this view, Gummesson (1998, p. 243) suggests that services marketing research, and its emphasis on relationships and interaction, is one of the two “most crucial contributions” to relationship marketing; the other is the network approach to industrial marketing. Similarly, Glynn and Lehtinen (1995) note that services scholars' recognition of characteristics of intangibility, inseparability, and heterogeneity has forced a focus on interaction and relationships. At least in the U.S. marketing literature (Berry 1983), the term “relationship marketing” originated in the services literature (Gronroos 1994).

Although the output-based, goods-centered paradigm is compatible with deterministic models of moving things through spatial dimensions (e.g., distribution of goods), it is considerably less compatible with models of relationship. In their role as distribution mechanisms for service provision (FP<sub>3</sub>), goods may be instrumental in relationships, but they are not parties to the relationship; inanimate items of exchange cannot have relationships. Over the past 50 years, marketing has been transitioning from a product and production focus to a consumer focus and, more recently, from a transaction focus to a relationship focus. The common denominator of this customer-centric, relational focus is a view of exchange that is driven by the individual consumer's perceived benefits from potential exchange partners' offerings. In general, consumers do not need goods. They need to perform mental and physical activities for their own benefit, to have others perform mental and physical activities for them (Gummesson 1995; Kotler 1977), or to have goods that assist them with these activities. In summary, they need services that satisfy their needs.

It might be argued that at least some firms and customers seek single transactions rather than relationships. If “relationship” is understood in the limited sense of multiple transactions over an extended period, the argument might be persuasive. However, even in the cases when the firm does not want extended interaction or repeat patronage, it is not freed from the normative goal of viewing the customer relationally. Even relatively discrete transactions come with social, if not legal, contracts (often relatively extended) and implied, if not expressed, warranties. They are promises and assurances that the exchange relationship will yield valuable service provision, often for extended periods. The contracts are at least partially represented by the offering firm's brand. Part of the compensation for the service provision is the cre-

ation and accumulation of brand equity (an off-balance-sheet resource).

Customers also might not desire multiple discrete transactions; however, a customer is similarly not freed of relational participation. Regardless of whether the service is provided interactively or indirectly by a tangible good, we argue that value is coproduced (FP<sub>6</sub>), and in the case of all tangible goods, the customer must interact with them over some period that extends beyond the transaction. Service provision and the cocreation of value imply that exchange is relational.

In a service-centered model, humans both are at the center and are active participants in the exchange process. What precedes and what follows the transaction as the firm engages in a relationship (short- or long-term) with customers is more important than the transaction itself. Because a service-centered view is participatory and dynamic, service provision is maximized through an iterative learning process on the part of both the enterprise and the consumer. The view necessarily assumes the existence of emergent relationships and evolving structure (e.g., relational norms of exchange learned through reinforcement over time; see Heide and John 1992). The service-centered view is inherently both consumer-centric and relational.

## Discussion

Perhaps the central implication of a service-centered dominant logic is the general change in perspective. The goods-centered view implies that the qualities of manufactured goods (e.g., tangibility), the separation of production and consumption, standardization, and nonperishability are normative qualities (Zeithaml, Parasuraman, and Berry 1985). Thus, even many services marketers have taken up the implied challenge of trying to make services more like goods. These qualities are primarily only true of goods when they are viewed from the manufacturer's perspective (e.g., Beaven and Scotti 1990). From what we argue the marketing perspective should be, the qualities are often neither valid nor desirable. That is, standardized goods, produced without consumer involvement and requiring physical distribution and inventory, not only add to marketing costs but also are often extremely perishable and nonresponsive to changing consumer needs.

A service-centered view of exchange points in an opposing normative direction. It implies that the goal is to customize offerings, to recognize that the consumer is always a coproducer, and to strive to maximize consumer involvement in the customization to better fit his or her needs. It suggests that for many offerings, tangibility may be a limiting factor, one that increases costs and that may hinder marketability. A service-centered perspective disposes of the limitations of thinking of marketing in terms of goods taken to the market, and it points to opportunities for expanding the market by assisting the consumer in the process of specialization and value creation.

A service-centered view identifies operant resources, especially higher-order, core competences, as the key to obtaining competitive advantage. It also implies that the resources must be developed and coordinated to provide (to



serve) desired benefits for customers, either directly or indirectly. It challenges marketing to become more than a functional area and to represent one of the firm's core competences; it challenges marketing to become the predominant organizational philosophy and to take the lead in initiating and coordinating a market-driven perspective for all core competences. As Srivastava, Shervani, and Fahey (1999) suggest, marketing must play a critical role in ensuring that product development management, supply chain management, and customer relationship management processes are all customer-centric and market driven. If firms focus on their core competences, they must establish resource networks and outsource necessary knowledge and skills to the network. This means that firms must learn to be simultaneously competitive and collaborative (Day 1994), and they must learn to manage their network relationships.

Ultimately, the most successful organizations might be those whose core competence is marketing and all its related market-sensing processes (Day 1999; Haeckel 1999). In a service-centered view of marketing, in which the purpose of the firm is not to make and sell (Haeckel 1999) units of output but to provide customized services to customers and other organizations, the role of manufacturing changes. Investment in manufacturing technologies constrains market responsiveness. Together with many goods becoming commodities, as evidenced by the rise in globalized, contract manufacturing services, firms will increasingly become more competitive by outsourcing the manufacturing function. Achrol (1991, pp. 88, 91) identifies "transorganizational firms," which he refers to as "marketing exchange" and "marketing coalition" companies, both of which have "one primary function—all aspects of marketing." Achrol suggests that "the true marketing era may be just over the horizon." Achrol and Kotler (1999) envision marketing as largely performing the role of a network integrator that develops skills in research, forecasting, pricing, distribution, advertising, and promotion, and they envision other network members as bringing other necessary skills to the network.

In a service-centered view, tangible goods serve as appliances for service provision rather than ends in themselves. In this perspective, firms may find opportunities to retain ownership of goods and simply charge a user fee (Hawken, Lovins, and Lovins 1999; Rifkin 2000), thus finding a competitive advantage by focusing on the total process of consumption and use. For example, *chauffagistes* in France have realized that buyers do not want to buy furnaces and air conditioners and units of energy, but comfort, so they now contract to keep floor space at an agreed temperature range and an agreed cost. They are paid for "warmth service," and they profit by finding innovative and efficient ways to provide these services rather than sell more products. Similar examples are found in the United States, where Carrier is testing "comfort leasing" and Dow Chemical is providing "dissolving services" while maintaining the responsibility for disposing and recycling toxic chemicals. Hawken, Lovins, and Lovins (1999, pp. 125–27) cite these and other examples as indicative of the way firms benefit themselves, their customers, and society by increasing this "service flow," or the "continuous flow of value" as "defined by the customer." The observation of the market in terms of

processes and service flows rather than units of output opens many strategic marketing opportunities.

From a service-provision perspective, economic exchange in the marketplace has a competitor: the potential customer (individual or organization) (Lusch, Brown, and Brunswick 1992; Prahalad and Ramaswamy 2000). The potential customer has a choice: engage in self-service (e.g., do-it-yourself activity) or go to the marketplace. However, to be successful at self-service, the entity must have sufficient physical and mental skills and/or the appliances (embedded with knowledge) to make self-service possible. Organizations that recognize this can find opportunities in developing offerings that enable the entity's increasing self-service.

As individual people continue to progress toward finer degrees of specialization, they will find themselves increasingly dependent on the market, both for service provision and for the ability to self-serve. Consequently, consumers will seek to domesticate or tame the market by adopting and developing a relationship with a limited number of organizations. This domestication process increases the consumer's efficiency in dealing with the marketplace and decreases the impact of opportunistic behavior by potential service providers. Consumers will develop relationships with organizations that can provide them with an entire host of related services over an extended period (Rifkin 2000). For example, in the providing for individual transportation, the automobile has associated needs for car insurance, maintenance, repair, and fuel. There will be opportunities for organizations that can offer all these services bundled into periodic user fees. The success of organizations in capitalizing on this need for domesticated market relationships does not come from finding ways to provide efficient, standardized solutions but from making it easier for consumers to acquire customized service solutions efficiently through involvement in the value-creation process.

Achrol and Kotler (1999) extend this service perspective by suggesting that the marketing function may become a customer-consulting function. The marketer would become the buying agent on a long-term, relational basis to source, evaluate, and purchase the skills (either as intangibles or embedded in tangible matter) that the customer needs, wants, or desires. This could be extended to marketers who also serve as selling agents, enabling a customer to exchange his or her skills in the marketplace. This position would enable the marketer not only to evaluate the skills (services) the customer needs but also to advise the customer about which skills (services) he or she can best specialize and exchange in the marketplace and the services (intangible or provided through goods) that might be acquired to leverage his or her own service provision and exchange processes.

Historically, most communication with the market can be characterized as one-way, mass communication that flows from the offering firm to the market or to segments of markets. A service-centered view of exchange suggests that individual customers increasingly specialize and turn to their domesticated market relationships for services outside of their own competences. Therefore, promotion will need to become a communication process characterized by dialogue, asking and answering questions. Prahalad and



Ramaswamy (2000) argue that consumers rather than corporations are increasingly initiating and controlling this dialogue. Duncan and Moriarty (1998, p. 3) believe that marketing theory and communications theory are at an intersection; "[They are] in the midst of fundamental changes that are similar in origin, impact, and direction. Parallel paradigm shifts move both fields from a functional, mechanistic, production-oriented model to a more humanistic, relationship-based model." They point out (p. 2) that "many marketing roles, particularly in services, are fundamentally communications positions that take communication deeper into the core of marketing activities,... which involves the process of listening, aligning, and matching." The normative goal should not be communication to the market but developing ongoing communication processes, or dialogues, with micromarkets and ideally markets of one.

Shostack (1977) and others (e.g., Beaven and Scotti 1990; Schlesinger and Heskett 1991) have indicated that the basic lexicon of marketing is derived from a goods-based, manufacturing exchange perspective. As we believe, if contemporary marketing thought is evolving from an operand-resource-based, good-centered dominant logic to an operant-resource-based, service-centered dominant logic, academic marketing may need to rethink and revise some of the lexicon. The seemingly diverse literature that we cite as converging on this new dominant logic provides the foundation for the revised lexicon. Notably, the need and its existence do not necessarily require discarding the goods-centered counterpart. Its function should be to refocus perspective through reorientation rather than reinvention. For example, the treatment of quality in the services literature has resulted in the distinction between manufactured quality and perceived quality; the former arguably has become a necessary but not sufficient component of the latter. The concept of transaction becoming subordinated to the concept of relationship is another example. Similarly, Rust, Zeithaml, and Lemon (2000) have suggested that the customer-focused term "customer equity" be superordinated to the more traditional, product-focused term "brand equity," which is a component of the former (along with "value equity" and "retention equity").

Marketing educators and scholars should be proactive in leading industry toward a service-centered exchange model. As with the lexicon, this implies reorientation rather than reinvention. This reorientation would not necessitate abandonment of most of the traditional core concepts, such as the marketing mix, target marketing, and market segmentation, but rather it would complement these with a framework based on the eight FPs we have discussed.

A service-centered college curriculum would be grounded by a course in principles of marketing, which would subordinate goods to service provision, emphasizing the former as distribution mechanisms for the latter. The marketing strategy course might be centered on resource advantage theory, building on the role of competences and capabilities in the coproduction of value and competitive advantage. The course could be followed by a new course, one focused on the management of cross-functional businesses processes that support the development of the capabilities and competences needed in a market-driven organi-

zation. Integrated marketing communication would continue to replace limited-focus, promotional courses such as advertising. In addition, the course would emphasize both the means and the mechanisms for initiating and maintaining a continuing dialogue with the customer and for enhancing the relationship by using tools such as branding. Likewise, the consumer behavior course might evolve to increased emphasis on relational phenomena such as brand identification, value perception, and the role of social and relational norms in coproduction and repeat patronage. Similarly, courses in pricing would evolve to focus on strategies for building and maintaining value propositions, including the management of long-term customer equity. The marketing channels course would become a course that addressed coordinating marketing networks and systems. Supply chain management concepts would become subordinated to the management of value constellations and service flows.

Complementing this college curriculum could be the emergence of executive education offerings with similar perspectives and frames of references. It is perhaps in the executive education classroom where the rapid dissemination of the service-centered model of exchange is most likely.

If adopted and diffused throughout industry, what does the service-centered model mean for the role of marketing in the firm? It positions service, the application of competences for the benefit of the consumer, as the core of the firm's mission. Marketing's role as the facilitator of exchange becomes one of identifying and developing the core competences and positioning them as value propositions that offer potential competitive advantage. To do this, marketing should lead the effort of designing and building cross-functional business processes. Therefore, marketing should be positioned at the core of the firm's strategic planning. Relationship building with customers becomes intrinsic not only to marketing but also to the enterprise as a whole. All employees are identified as service providers, with the ultimate goal of satisfying the customer. Everyone in the organization is encouraged to reflect on the firm's value proposition. Indeed, from a service-centered dominant logic, a firm's mission statement should communicate the firm's overall value proposition.

Finally, in the service-centered model, marketplace feedback not only is obtained directly from the customer but also is gauged by analyzing financial performance from exchange relationships to learn how to improve both firms' offering to customers and firm performance. Marketing practice accepts responsibility for firm financial performance by taking responsibility for increasing the market value rather than the book value of the organization as it builds off-balance-sheet assets such as customer, brand, and network equity.

## Conclusion

The models on which much of the understanding of economics and marketing are based were largely developed during the nineteenth century, a time when the focus was on efficiencies in the production of tangible output, which was fundamental to the Industrial Revolution. Given that focus,



perhaps appropriately, the unit of analysis was the unit of output, or the product (good). The central role of the good also fits well with the political goals of exporting manufactured products to the developing and often colonized regions of the world in exchange for raw materials for the purpose of increasing national wealth. In addition, making the good, characterized as "stuff" with embedded properties, the unit of analysis fits well with the academic goals of turning economics into a deterministic science such as Newtonian mechanics. The goods-oriented, output-based model has enabled advances in the common understanding, and it has reached paradigm status.

However, times have changed. The focus is shifting away from tangibles and toward intangibles, such as skills, information, and knowledge, and toward interactivity and connectivity and ongoing relationships. The orientation has shifted from the producer to the consumer. The academic focus is shifting from the thing exchanged to one on the

process of exchange. Science has moved from a focus on mechanics to one on dynamics, evolutionary development, and the emergence of complex adaptive systems. The appropriate unit of exchange is no longer the static and discrete tangible good.

As more marketing scholars seem to be implying, the appropriate model for understanding marketing may not be one developed to understand the role of manufacturing in an economy, the microeconomic model, with its focus on the good that is only occasionally involved in exchange. A more appropriate unit of exchange is perhaps the application of competences, or specialized human knowledge and skills, for and to the benefit of the receiver. These operant resources are intangible, continuous, and dynamic. We anticipate that the emerging service-centered dominant logic of marketing will have a substantial role in marketing thought. It has the potential to replace the traditional goods-centered paradigm.

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