

The Service-Dominant Mindset¹

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ABSTRACT

We argue that the universal role of service in the economy and firm can provide a frame of reference to help guide a management philosophy that is more effective and better contributes to competing in the future than a frame of reference based on tangible goods. We call this revised philosophy service-dominant logic (S-D logic) and suggest eight key behaviors that characterize its effective implementation.

INTRODUCTION

As the world becomes more globally interconnected and turbulent the words of Peter F. Drucker are especially poignant, “The greatest danger in times of turbulence is not the turbulence; it is to act with yesterday’s logic.” Yesterday’s logic, which continues to linger, focused on separating the producer from the consumer. This was done for maximum production control, efficiency and profit maximization and usually accomplished by standardizing the product and producing it away from the market [2]. In contrast, the emerging service-dominant logic is focused on the interaction of the producer and the consumer and other supply and value network partners as they co-create value through collaborative processes. This new logic is being referred to as service-dominant (S-D) logic [3,6,7].

S-D logic is driven by an innate purpose of doing something for and with another party, and is thus customer-centric and customer responsive. In fact, it defines service as the application of competences through deeds, processes and performances for the benefit of another entity or the entity itself [6]. It leverages the strengths of the firm to satisfy customer needs and achieve organizational and societal objectives. The unique matching of firm capabilities with customer needs, guided by an on-going conversation between them generates long-term customer loyalty and competitive advantage.

A NEW MINDSET

A dramatic new mindset is required for S-D logic to be effective. This shift can be captured in eight areas: (1) a shift to the process of serving rather than the creation of goods, (2) a shift to the primacy of intangibles rather than tangibles, (3) a shift to the creation and use of dynamic operant resources as opposed to the consumption and depletion of static operand resources, (4) a recognition of

the strategic advantage of symmetric rather than asymmetric information, (5) a shift to conversation and dialog as opposed to propaganda, (6) an understanding that the firm can only make and follow through on value propositions rather than create or add value, (7) a shift in focus to relational rather than transactional exchange, and (8) a shift to an emphasis on financial performance for information feedback rather than a goal of profit maximization (Table-1) [4].

Goods Dominant Logic	Service-Dominant Logic
Goods	Service(s)
Tangible	Intangible
Operand Resources	Operant Resources
Asymmetric Information	Symmetric Information
Propaganda	Conversation
Value Added	Value Proposition
Transactional	Relational
Profit Maximization	Financial Feedback

Table-1. Contrasting G-D and S-D Logics

GOODS TO SERVICE

When a firm sees itself primarily as a manufacturer with an implied purpose of selling what it makes, it sees the key to making more money as selling more goods. There is little or no logic in selling fewer goods--why should Volkswagen want to sell fewer cars or Dow to sell fewer chemicals? In contrast, the service-dominant logic suggests that since these goods are actually mechanisms for service provision, the customer is always buying a service flow rather than a tangible thing, and thus the firm should focus on selling a flow of service. This would encourage it to determine the optimal configuration of goods, if any, for a level of service, the optimal organization or network configuration to maintain the service, and the optimal payment mechanism in exchange for providing the service. That is, the organization is encouraged to think about the service system. Tangible resources that are part of our ecosystem

¹ This essay draws substantial material from [4].

can also be viewed in terms of service provision. For example, natural pollination of crops by insects or trees that help prevent erosion and protect the watershed are examples of service provision, as are trees planted around houses to provide shade in summer but sunlight and warmth during winter. These service flows can be a substitute for industrial products. For instance, sediment and nutrients flow into the Panama Canal due to deforestation along the canal. The sediments clog the canal while the nutrients do so indirectly by stimulating growth of waterweeds. The government can purchase equipment and hire workers to continuously dredge the canal to keep it clean or, alternatively, replant trees. The trees would trap sediments and nutrients and also help regulate the supply of fresh water. The forests would serve as a replacement for building vast reservoirs and filtration beds [1].

TANGIBLES TO INTANGIBLES

MasterCard has developed a global marketing campaign around the theme of “priceless.” A typical advertisement shows consumers purchasing tangible goods such as food, wine, furniture, apparel, or jewelry. The advertisement then displays the price (value-in-exchange) of each of the items. However, each advertisement ends with a statement emphasizing that the goods were only the means to provide a “priceless” experience (value-in-use)—for instance, spending time with your loved one at a special dinner or watching your children win a soccer game. In a service-dominant world, it is central to understanding: exchange is fundamentally, primarily about the intangible rather than the tangible.

The shift from the tangible to the intangible also focuses the organization on the solution that the customer is seeking. It is the old adage that people don’t buy drills they buy quarter inch holes. In business-to-business marketing it is called solution selling. But in all firms and industries, the increasing mantra is about providing solutions [5]. DuPont and Dow providing solutions that use chemistry to improve life and global sustainability, Cargill providing solutions to improve yields for farmers or enhance the nutritional value of foods, British Petroleum providing solutions to help industry and consumers meet their energy needs. When the focus becomes the solution and the intangible, what firms learn is that the tangible content cost of their product becomes smaller and smaller and the brand rises in value and importance. Adidas, Apple, Benetton, Coca Cola, Rolex, Starbucks all are about the intangible experience; the tangible content is only the appliance used for the more important and more enduring experience [7].

OPERAND TO OPERANT RESOURCES

A static operand resource is usually tangible and requires something be done to it to be useful, whereas a dynamic operant resource is largely intangible and can produce an effect [6]. In service-dominant logic, knowledge an intangible resource is the primal source of wealth and the only sustainable source of competitive advantage. The

global companies (and countries) that will be able to adapt in a rapidly changing technological world are those that invest heavily in knowledge development. Even firms (or countries) that move labor to lower-cost areas of the world, such as China or India, need to recognize that it is in their interest to develop the knowledge and skills of their new work force.

Service-dominant logic suggests that all participants in the value-creation process be viewed as dynamic operant resources. Accordingly, they should be viewed as the primary source of firm and national innovation and value creation.

ASYMMETRIC TO SYMMETRIC

Service-dominant logic suggests that all exchanges should be symmetric. A focus on symmetric information and treatment implies: (1) one does not mislead customers, employees or partners by not sharing relevant information that could enable them to make better and more informed choices, and (2) all exchange or trading partners are treated equitably. The first implication is largely at the firm level, however, the second provides major guidance for countries.

In a globally networked economy, information symmetry becomes essential because the system will drive out those organizations that are not trustworthy. Organizations must promote the symmetric flow of information both across firms and customers and within the firm where different departments and divisions can be internal customers and suppliers of one another. In brief, this argues for truth telling as a globally pervasive norm in business.

A second type of symmetry advocated by service-dominant logic relates to the treatment of trading partners. This has national and global, in addition to inter-firm, implications. Essentially the symmetric treatment of trading partners means treating others the way you would want to be treated. It means removing barriers that are artificially created to give differential advantage to one partner over others.

PROPAGANDA TO CONVERSATION

Advertising, at least as normally practiced, has tended to be propagandistic. Since its purpose is to sell the advertiser’s products, it typically advocates the views and perspective of that advertiser, the seller, and thus, is one-sided and favorably biased. While this is not necessarily bad, buyers now have access to more and more information, causing them to turn away from communications that appear to be inaccurate, abusive, intrusive or overly one-sided.

Service-dominant logic argues that communication should be characterized by conversation and dialog. This approach should include not only customers, but also employees and other relevant stakeholders that may be affected by service exchange. All stakeholders need to be part of the market dialog.

In service-dominant logic, firms are encouraged to emphasize listening as much, if not more than, talking. It

suggests that marketers should focus on hearing the voice of the market and the signals that arise from the market. In this regard, more and more people that are not part of a direct economic exchange are voicing their views about the economic exchanges of global entities. For instance, the voicing of views about the practices of firms or their suppliers in employing child labor or the marketing practices that spread global brands that influence local cultures. The service-dominant logic enterprise will not only listen to all of these voices, but will also participate in the conversations.

VALUE ADDED TO VALUE PROPOSITION

In the goods-dominant logic, value was viewed as a property (utility) of a good that was added in the manufacturing process, equivalent to value-in-exchange. Thus, if a customer paid a price for an offering, then the exchange of money was assumed to reflect the value in the transaction. This logic implied that as firms accumulated costs in manufacturing and distribution (they exchanged money for capital and labor), they should set prices based on these added costs. Traders adopted a “cost-plus” mindset, believing that any cost could be pushed onto the next party in the supply chain and eventually onto consumers and society.

This idea that value is something determined by the customer implies that the firm can only make an offer of value creation through the application of its resources to some need of the customer—that is, through service. Thus, the firm can only make a value proposition and then, if it is accepted, value is co-created in concert with the customer. Value-in exchange, as reflected in price paid, is just an indication of the customer’s perceived probability that at least some minimum desired value results from acceptance of the value proposition.

TRANSACTIONAL TO RELATIONAL

Whenever there is specialization and division of labor, specialists become interdependent for well-being, if not survival. As specialization increases, as it is presently on a global basis, so does this interdependence. As entities become more interdependent their potential for collective action increases.

One way this collective action is fostered is through the development of relational, or social, contracts. These relational contracts allow the entities (individually and collectively) to relate to the environment. Organizations have been moving toward recapturing and elaborating this relational (as opposed to transactional) orientation for the last 25 years. This is not surprising; since, as specialization and exchange increase over time, so do relationships. In fact, society in general, and the emergence of a global society specifically, are relational phenomena. Service-dominant logic is inherently relational, partly because it implies that parties co-create value. Firms guided by

service-dominant logic cannot be indifferent to customers or society.

PROFITS TO FINANCIAL FEEDBACK

Profit maximization is not in the vocabulary of service-dominant logic. Service-dominant logic views business and marketing as an on-going stream of social and economic processes in which firms continually generate and test hypotheses. Firms learn from financial outcomes as they attempt to better serve customers and obtain cash flows for the firm. Service-dominant logic embraces market and customer orientation and a learning orientation. Therefore, financial success is not just an end in itself but an important form of marketplace feedback about the fulfillment of value propositions.

Thus, price paid, profits and cash flow are important signals (though not the only signals) to the firm regarding the extent to which it is serving and meeting customer needs. The “price” that firms receive for their offerings (value-in-exchange) is essentially a co-produced signal. It represents supply (seller) and demand (buyer) factors coming together to agree upon the minimum potential value of resources in use. These prices are a much better signal or instruction on consumer wants and needs than those that are mandated from top down by a government or other planning organization.

EXECUTING ON SERVICE-DOMINANT LOGIC

Executing on service-dominant logic in a globally hyper-competitive marketplace will be challenging for many organizations. Old ways of doing things and entrenched habits die slowly. When this involves not only ways of doing things in the firm but also across the firms, in today’s large global supply and value-creation networks, the challenge is even more daunting.

Don’t be surprised if your biggest barrier or resistance comes from your marketing staff. They are used to thinking of their job as built around traditional concepts of product, price, promotion and place (the magical “4 P’s” of marketing). In many respects, marketing has failed in the past because marketing actually had little control over these 4 P’s even though they thought they did. Much of product development was housed in the engineering department, price and terms of trade was pretty much the responsibility of the finance department, promotion was usually split between advertising, public relations and sales management but often not reporting through a singular chain of command, and place was often controlled by a transportation and logistics department or the real estate department. This high division of labor and specialization grew out of the classic industrial organization where specialists were separated and unified through a centralized strategic and tactical plan. This simply won’t work in the future because in a hyper-competitive global environment change is both rapid, turbulent and surprising and thus a

model of separation is giving way to a model of interaction which S-D logic embraces.

There are two meta-competences we have found to be pivotal to adopting service-dominant logic. *Collaborative capability* represents the ability of the organization to work with other parties in an open, truthful and symmetric manner. To do so the organization must also have internal specialized capabilities and knowledge because otherwise no other organization would benefit from working with the organization. *Absorptive capability* is the ability of the organization to absorb new information from the environment, including your collaborative partners. Importantly, both of these are organizational capabilities that are part of the organization's culture. We all know cultures change slowly; so if your firm does not have these two meta-competences you need to first work at improving these to provide a platform for more successful service-dominant logic implementation.

CONCLUDING COMMENTS

At least since the days of Adam Smith's study of what contributes to national well-being, we have been taught to think of the value of resources in terms of their tangibility and to view the economic world in terms of the exchange of tangible goods. Service-dominant logic takes a broader, more comprehensive view of exchange. It focuses on the intangible, often information that can now be transmitted across national boundaries instantly, as well as higher-order skills that can be exported in addition to, or increasingly in lieu of, tangible goods. Thus, it is a logic focused primarily on the application of dynamic operant resources—service. This logic points both firms and nations toward policies and approaches to the market that is somewhat contrary to their existing prevailing logic. It implies that just as the well-being of the individual and firm are tied to societal well-being, national wealth is tied to global wealth. The inverse of these well-being and wealth relationships is also true.

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