

## The new service marketing

Evert Gummesson

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### Overview

A few years ago it would have been much easier to write this chapter. Marketing of services had established itself and become mainstream. It built on differences between goods and services and their consequences for marketing. This was productive for a period and contributed to a deepened understanding of marketing. The problem was that goods and services and other products such as software, information and knowledge – it has never been agreed if these are goods or services or something very different – always appear together. It has now come to a point where goods and services merge and the recognition of the interdependency between the two is a more productive vantage point.

This means that we have entered a transition phase in marketing thought and the student may easily feel lost in contradictions. The transition will take time, some adopting it quickly, with others still attached to the services marketing from the 1980s and 1990s. To facilitate the student's understanding of the differences between mainstream services marketing and the new service marketing, this chapter will explain both and compare them. The chapter therefore starts with a background to the ongoing changes in the perception of service and services and proceeds with a review of the contributions of mainstream services marketing. The second half of the chapter is assigned to the drivers of a new service logic and how this logic enters into the new service marketing. The chapter wraps up with views on the future.

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### From the marketing of services to the new service marketing

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The 1970s was a milestone in marketing. The hegemony of the 1960s marketing management began to crack when conceptualization of services marketing gathered a critical mass of researchers from Europe and the US. It happened in conflict with mainstream marketing management where consumer goods were the focal point of interest. Official statistics had long shown that the service sector, including private and government providers, accounted for the larger part of economic activity. Despite this, services were absent in marketing textbooks. On the other hand, service practitioners had found limited inspiration in marketing theory and advice. Hotels, airlines, consultants and others developed their own practices. Until the 1970s, marketing scholars had failed to note these signs.

Gradually the way was paved for a new tradition in marketing theory, referred to as services marketing or service management and marketing. The latter expression emphasized interfunctional dependency and the avoidance of organizational silos; contributions from human resources, organization, operations management, quality management, and other areas were needed to put services marketing activities in context. This was further supported by recognizing that consumption sometimes (but not always) takes place simultaneously with the customer's active participation in production and delivery.

This observation led to an innovation, *the service encounter*, as a platform for service providers and customers to build interactive relationships. At the same time a school of thought in business-to-business (B2B) marketing began to stress networks between organizational sellers and buyers as the key to efficient marketing, purchasing and resource utilization. Through these contributions *relationships*, *networks* and *interaction* stood out as overriding concepts in marketing. This conclusion has been further reinforced by the internet, e-mail and other information technology (IT) applications.

Inspired by these developments *relationship marketing*, *CRM (customer relationship management)* and *one-to-one marketing* had their breakthrough in the 1990s. With some differences in emphasis all three stress the creation and maintenance

of long-term relationships with individual customers. These dimensions of marketing were missing in research and education. Successful practitioners, on the other hand, have always known that relationships with customers and the interaction in networks are fundamental in business. Again, marketing theory and education showed a blind spot.

The new millennium started with a gradual change in our perception of what suppliers deliver and where and when service, value, quality, excellence and customer satisfaction are brought into being. The circle is closed. From an initial focus on goods marketing the focus went to services marketing and now the two have merged on a higher level of understanding, the new service marketing. It prepares the ground for more general, valid and relevant marketing theory.

Above all, three developments are turning the tide. They will be explained later in the chapter but a brief introductory characteristic of them will facilitate the reading. The first, *service-dominant (S-D) logic*, merges goods and services into value propositions and the outcome of economic activity is defined as service and value, no matter if it is based on what is traditionally called services or goods. S-D logic acknowledges the crucial role of the customer in co-creating service. The second is *service science* which aims to develop our ability to design and maintain efficient and innovative service systems. The third, *many-to-many marketing*, is based on the application of network theory to marketing, putting emphasis on the relational, complex and contextual aspects.

In the next sections the characteristics of services marketing as it developed from the 1970s until the 2000s will be reviewed. The vantage point for services marketing was the existence of a service sector of identifiable services. Services were claimed to have certain unique traits that made them different from goods. With the spotlight on differences we learnt new lessons which we should now bring forward to the new service marketing. The marketing of services also established a mythology about goods/services differences that we now carry as a burden. It needs to be weeded out of the minds of researchers, educators, textbook writers and practitioners to form a new era.

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### **The service sector: from garbage can to universal sector**

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Official statistics report changes in three economic sectors: the manufacturing/industrial sector; the service sector; and the agricultural sector. Once everything was agriculture (including fishing, hunting and forestry). The Industrial Revolution swung the economy towards manufacturing and the industrial sector grew. What was not allocated to these two sectors was labelled miscellaneous, intangibles, invisibles, the tertiary sector and later the service sector. Numerous efforts to define the sector have been made with limited success. Service sector statistics include: trade; hotels and restaurants; transport (including tourism, travel agencies, tour operators); storage and communication; financial services; real estate and dwellings; business services (e.g. accounting, software development, management

consultancy, technical consultancy); public administration; defence; education; health services; religious and other community services; legal services; recreation; entertainment; and personal services. What is meant, for example, by 'communication' and 'personal services' and where the internet and the web come in is far from obvious. No wonder that the service sector may seem like a garbage can.

Today official statistics report that the service sector in developed economies is growing while the manufacturing and agricultural sectors are shrinking. Then consider that we:

- never had so many goods and so much product waste
- never had so much food and were never so fat – but at the same time undernourished
- lack basic services such as healthcare for everyone, affordable care for the elderly, good schools, security in the streets, and working legal systems.

The sector definitions are diffuse and arbitrary compromises. For example, a restaurant offers agricultural and manufactured products, and has its own in-house manufacturing plant, the kitchen. Waiters take orders and bring the food and drink to the table. The food cannot be excluded – then it is no restaurant – but the service can be cut down to a minimum. The guests can pick the food themselves at lavish buffets in high-class restaurants or at the counter in cheap fast-food outlets. All the same the restaurant is referred to the service sector.

Scales are presented that range from pure goods to pure services. They may sound compelling but what marketing strategies and action can they inspire? One 'continuum' puts clothing as the pure goods extreme and a visit to the psychiatrist as the pure services extreme. However, retailing offers conveniently located stores which surround clothing with different types of service, from the availability of cheap ready-to-wear and self-service in special fitting-rooms to expensive made-to-measure with assistance in selecting suitable designs. Huge resources are put into clothes brands to fit lifestyle, luxury, romance and sex. The service of the shrink is more often than not a prescription for manufactured pills. It is not possible to 'purify' goods and services.

As the service sector is now defined, 80–90 per cent of all people employed work in services and all new jobs come from services. Keeping in mind how arbitrary the definitions of the economic sectors are and that they do not acknowledge the interdependence between goods, services and other phenomena, the sector division is meaningless for marketers. It has lost its ability to discriminate, which is the meaning of categorization.

The former special case of the service sector has now become the universal case. The way service is being re-conceptualized in the new service marketing – to signify value to customers and complex networks of stakeholders – moves the focus to users without losing sight of suppliers.

What should replace the three economic categories then? Nothing, really, these overriding categories do not serve any purpose. We should talk about healthcare as healthcare and not mix it into a service sector with hamburger restaurants, lawyers and sports events. But even healthcare is so diverse that the category has little

meaning. It could be divided into private and government hospitals, physicians' offices, nursing facilities, health insurers and diagnostic labs. It could be divided by type of illness and type of therapy as it is experienced by patients. Performing eye surgery is very different from cosmetic surgery, the treatment of gastric disorders, stopping contagious global epidemics, or offering pain relief. Take another example, the housing sector. It consists of the subsectors and professions of building and construction; building supplies; real estate and mortgage brokers; furniture and appliance manufacturing and distribution; home-supply stores; architects; and interior designers. If we build or repair a house we may need all or part of this. The subsectors and professionals are each operating in their special market contexts requiring different marketing skills and strategies.

A recent addition to the service sector is administrative routines and internal services that have progressively been incorporated to form subsidiaries or are outsourced to independent providers. Examples are computer support, property maintenance, security and cleaning. It means re-registration in the official statistics, augmenting the service sector and reducing the manufacturing sector. The same or similar service is still performed but the hidden services have become visible in the market and are often exposed to competition.

Service sector classifications are concerned with macro level criteria whereas in marketing practice micro level criteria must be considered. Several such efforts were made, for example pinpointing the difference in marketing high versus low contact services, or frequently versus infrequently bought services. It is evident that the diversity within services requires specific marketing solutions for each instance and context. Knowledge of the conditions of a particular service, its provision and markets, is necessary in order to design a proper marketing plan and marketing organization.

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### Alleged differences between goods and services

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In mainstream services marketing literature and education the big issue is differences between goods and services and what effect these may have on marketing strategies and customer behaviour. Unfortunately the 'differences' are seldom well grounded in empirical data and experience. They are generalized far beyond their capacity to discriminate between goods and services, but they may appear together with a plethora of other dimensions in specific marketing situations.

The 'differences' form the introduction to almost every mainstream textbook and chapter on services marketing. They are listed below with examples and their usefulness or inadequacy is exemplified:

- Services are characterized by *intangibility*; goods by *tangibility*. The idea is that services are activities and processes that cannot be touched – for example, the service of getting a meal to your table or an opera performance. A surgeon is in a healthcare service but it seems odd that the service of cutting your belly open,

messing around with your physical organs and then suturing your belly together again, could be perceived by either the provider or the patient as intangible. Could it be more tangible? Further, it has often been claimed that services do not need investment in tangible goods to the same degree as manufacturing; services are performed by people and service firms are thus people-intensive while manufacturing is capital-intensive. Then just consider the enormous investment in tangible goods of an airport and an airline in order to make the flying service possible, and the high-tech hardware necessary to make internet and mobile service possible.

- Services are characterized by *heterogeneity*, *variability* or *non-standardization*; goods by *homogeneity* and *standardization*. This is based on the observation that services are often performed by people and goods are primarily produced by machines. People are individuals who tend to do it their way based on differences in competence, willingness to serve, mood swings and so on. Thanks to IT, service can increasingly be performed in a strictly standardized mode. This is often called 'mass customization', which seems like a paradox. By, for example, withdrawing money from a cash machine, millions of standardized services are performed every day. Although it is standardized mass production, the service is adapted to each customer by considering the sum to be withdrawn, the customer's personal account and its balance, and the time and place for withdrawal. Goods manufacturing can be extremely standardized and even live up to a zero defects strategy.
- Services are characterized by *inseparability* between production, delivery and consumption, also expressed as *simultaneity*; goods by *separability* as goods are produced without the presence of the customer. This service encounter is characterized by interaction between: (1) the supplier's contact personnel (the front line) and the customer; (2) those customers who are present at a specific place and point of time – customer-to-customer (C2C) interaction, for example in a retail store or on a ferry; (3) the customer and the supplier's products and physical environment, the servicescape, which is recognition that physical objects play a role in services marketing; and (4) the customer and the supplier's service system which consists of the logic through which all bits and pieces of a service have been put together to form a coherent network. In many businesses the service encounter constitutes the essence of its marketing but it is not limited to services in the mainstream sense. This will be further explained later in the chapter.
- Services are characterized by *perishability* meaning that they cannot be stored; goods by *non-perishability*. The rationale behind this claim is that a service expires if not used immediately, for example a hair stylist who has no customers at a particular time cannot just style a few heads and store them on a shelf, waiting for buyers to come. On the other hand service can be stored in systems and equipment and a provider's preparedness to perform the service when a customer enters. Although many manufactured goods can be stored, some goods are highly perishable like fresh fish, not to mention oysters. Furthermore, long storage can cause damage; fashion clothes become unfashionable after the season is over and can then only be

put on sale at 50 per cent or more discount; and it is costly to store because it ties up capital and physical space. A current 'good' example is the market for passenger cars that went down by 50 per cent in 2008–2009. Where should the cars be stored, what damage will they be exposed to during the storage, what is the cost of storing them, and will they become obsolete?

- An additional dimension that was noted early on but then somehow got lost claims that services are characterized by *non-ownership* and goods by *ownership*. Services are often borrowed or rented, like you pay for a day in a theme park, a night in a hotel room or two hours in a cinema seat. A car can be rented and is then referred to the service sector, while if you buy the car it is a deal with the manufacturing sector. In both cases it is about the same core service, transportation. And how many of the goods we have are owned? A car may be leased or bought with money from a bank loan and most homes are mortgaged. In legal terms they are not owned by the customers although they talk about 'my car' and 'my house'. But again, goods and services are there to provide service in some kind of functional combination, and it is the combination that is marketed and bought.

The first four are the top listed differences between goods and service that built a foundation for mainstream services marketing. Intangibility, heterogeneity and perishability will not be brought forward in the new service marketing except as possible dimensions in contingent marketing situations. Inseparability and the service encounter on the other hand bring out the customer's interactive role in all business and not least in marketing, and are reinforced by IT applications. The ownership issue deserves increased attention in the new service marketing. It is a pricing and financial aspect with a huge impact on customer behaviour. The generosity with which mortgages were granted in the US, the subprime loans, was one of the major triggers of the global financial crisis that broke out in 2008.

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### Quality, excellent service and value

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Quality management and the definition of quality went through a revival in the 1980s. In marketing, quality had been used in a loose sense; it was primarily a technical issue for manufacturing. Service quality had not been dealt with in an organized way and was a constant cause for complaints from customers and citizens.

Defining quality is not so easy as it is multifaceted and related to other phenomena such as satisfaction and value. One distinction is between *quality-in-fact*, which is primarily technical, measurable and objective, and *quality-in-perception*, which is primarily relational, perceptual and subjective. These two are in interaction, though. For example, the delay of a flight can be objectively measured in minutes but the delay is perceived differently if the cabin crew is helpful or indifferent.

In the new service marketing, value has taken over as the key concept. Value is dependent on the circumstances; it is *value-in-context* (Vargo et al., 2008). For a

business, value is when customers buy what it sells at a price that leaves a profit. For a consumer value is actualized when you use what you bought.

Services marketing addressed quality by means of the disconfirmation paradigm. It meant that customers have expectations which they compare with their experience of a service and then determine whether their expectations are confirmed or disconfirmed. Ideally there is no gap between the expectations and the experience or the experience exceeds expectations. Marketing can influence customer expectations through, for example, promises in the promotion of the service, and by handling customer relationships well during the service performance. A common problem is the tendency of marketing to overpromise to get an order, leaving the customer dissatisfied and thus jeopardizing long-term relationships.

In earlier publications on the marketing of services I have talked about 'service quality, productivity and profitability' as the triplets, 'separating one from the other makes an unhappy family'. But quality became the pet of services marketing and productivity and profitability were kept at arm's length. However, the disconfirmation paradigm is equally valid for goods.

Today I prefer to call this section 'Quality, excellent service and value'. This is influenced by the new service logic but influences also come from other directions. One is the Malcolm Baldrige National Quality Award which was first handed out in the US in 1988. It approached quality in a holistic way, embracing not only traditional technical dimensions but also such areas as quality of leadership, employee training and marketing, and it put an emphasis on productivity and profitability. It inspired a global upsurge in quality awards but gradually these found difficulties with the broadened quality concept. The Baldrige went over to talking about performance excellence and the European Quality Award changed its name to the EFQM (European Foundation for Quality Management) Excellence Award. Simply put, all these concepts – quality, satisfaction, excellence, value – try to pinpoint whether something is good or bad. They do it from slightly different but overlapping angles. In everyday language we say that the quality of the food in the restaurant was good, so-so, or bad; that we are dissatisfied with our hotel room; that our house has an excellent heating system; and that our new car is good value for money. The list of these everyday expressions is long.

*Productivity* has little tradition in services but a long tradition in manufacturing. It is defined as the ratio between output and input; the less input of resources (cost) for manufacturing a unit of a product, the higher the productivity. Eventually a business firm has to make a profit to survive and therefore quality and productivity must be linked to *profitability*. In similar vein government operations and NGOs without a profit motive have to make ends meet, which is controlled through budgeting. The linking of quality, productivity and profitability has turned out to be hard work and is not yet successfully managed. For marketing, service quality and productivity affect the price level, margins, sales volume, and competitiveness in general.

In the new service marketing, part of the value co-creation is in interaction within a network of customers, intermediaries, computers, transport companies, factories, and so on. Although mainstream services marketing defined the service encounter and recognized the customer's role, quality and productivity measurements did not include the customer's contribution, thus making them less valid.



For too long services marketing became preoccupied with customer satisfaction measured through statistical surveys and scales. This drew the attention from more intricate and fundamental issues. Among them are the *design and engineering of service systems*, the very topic of service science. Service systems are often launched without proper design and tests of their workability in practical situations. The goods part of a service is usually much better engineered and tested, based on a long tradition in manufacturing. Efforts were made with service flowcharts or blueprints where service activities and customer interaction were defined and analysed for more efficient ways of performing a service. They were excellent contributions but required technical and specific knowledge and hard empirical and analytical work. Such studies became too complex and demanding for academic service researchers and remained in the background.

As service quality was claimed to be different from goods quality, special service quality dimensions were established. The survey technique Servqual first listed 10 'general' dimensions and later reduced them to five. One was 'tangibles', a modest recognition of the goods part of an offering. It always ranked lowest in the surveys, a fact that should make one suspicious. Consider this: is the technical quality of an aircraft – the engine, the seats, leg space and food – low-ranking, even negligible? Of course not.

Service quality focused more on quality-in-perception and treated the technical aspects and quality-in-fact lightly. Among the specific service quality dimensions were reliability, sensitivity, competence, availability, pleasant behaviour, communication, credibility, security, and recovery (compensation for bad service). In contrast, the manufacturing quality tradition listed performance, features, conformance to specification, durability and aesthetics as central. IT quality did not enter the service agenda until the breakthrough of the internet in the 1990s. For services delivered through the web, e-mail and mobile phones quick response, assistance, flexibility, ease of navigation, efficiency, security, clearly stated prices, and adaptation for individual customer use, have been found to be important.

Lists such as these can offer guidance but each company must define those dimensions that are specific to its actual situation; the effect of the combined dimensions is contextual. Caution should be exerted in ranking the dimensions as they are interdependent. They can all contribute to the quality of the total value proposition and appear in a huge variety of combinations.

Several claims about service quality do not stand the test of time. Their departure from courses and textbooks is already long overdue. Among them are the following:

- *Service quality is difficult to determine while goods quality is easy.* This is built on the obsolete idea that goods are manufactured in standardized components by easily controlled machines whereas services are 'handmade' by erratic human beings.
- *Service quality cannot be assessed before consumption while goods quality can.* This builds on the misunderstanding that it is easy to assess the quality of a product 'as it is tangible'. More realistically, consumers understand very little about the technical quality of a car and therefore buy on trust for the brand and under considerable

stress and insecurity. Among the few quality properties we can assess are size and colour. Not even the fuel consumption can be checked until the car has been used for some time as it also depends on driving style. In light of the definition of service where the customer is co-creator, the quality of a car is variable and dependent on the way the customer creates value for himself or herself.

- *Better quality costs more.* This taken-for-granted assumption has persisted around quality and may still be around. If true, quality improvements lead to rising prices with a negative effect on sales volume and competitiveness. The good news is that it isn't true. Better quality sometimes costs more, sometimes the same and sometimes less; there are only specific instances. Quality in the form of a bigger hotel room can be more expensive for obvious reasons. A smarter service system reduces the cost of breakdowns, complaints from dissatisfied customers and rework. By improving the technical quality a supplier may save money without lowering the price, which adds to profit.
- *Service productivity does not improve whereas goods productivity keeps improving at a rapid rate.* This is often presented as a shortcoming of the service sector. Productivity indicators have to be adapted to service in the new sense to be meaningful. Productivity is easiest to measure and control when something can be broken down in detail and linked together in one single best sequence. This works well in a factory but is not applicable to the same extent in the less controllable situations of service where the customer is a co-creator. Further, when a manual service like washing was packaged in a machine, the gains were not credited to the service sector.

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### Marketing mix versus a relational paradigm

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In the core of traditional marketing management is the marketing mix, mostly described as a combination of the 4P strategies: *product, price, promotion* and *place*. It was partly taken over by service research and 'product' was made to include services.

The marketing mix has been criticized for being incomplete and manipulative, not properly considering the needs of the customer. *The marketing concept* states that once you know your customers, you can design, price, promote and distribute a product that matches these needs and then become a success in the marketplace. The seller is the active party and the customer is persuaded to buy. The basis of the marketing mix is mass manufacturing and standardized consumer goods. It was never wholly embraced by service firms who found it difficult to apply in practice.

To overcome some of their limitations, the 4Ps were expanded into the 7Ps by adding *participants* (or *people*), *physical evidence* (later referred to as *servicescape*), and *processes*. Although adding Ps has a certain pedagogical appeal it should not form a strategy for theory development; other avenues have to be explored. Such alternatives are found within the relational paradigm which had a breakthrough in the 1990s. As an alternative to the marketing mix, the core of marketing can

now be perceived as *relationships*, *networks* and *interaction*. In the 2000s special attention is given to interaction in S-D logic and to networks in many-to-many marketing.

To some extent the service Ps incorporate relationships and interaction through 'participants' and 'processes' (customers participating in a service process). In addition, relationship marketing emphasizes a long-term interactive relationship between the service provider and the customer and long-term profitability. Relationships need not be restricted to the customer-supplier dyad. Many-to-many marketing adds the more realistic network aspect, recognizing that in today's complex economies we are embedded in networks of stakeholders. In these networks customers are exposed to a bundle of service systems, an issue that is at the core of service science.

The relational paradigm recognizes that both the customer and the seller are active parties. Furthermore, consumers and suppliers should be treated as equal partners, albeit with different objectives. Both should find a relationship rewarding; it should be a win-win relationship. In this spirit, the Ritz-Carlton hotel chain created the now classic but highly relevant catch-phrase: 'We are ladies and gentlemen serving ladies and gentlemen'.

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### Organizing for service marketing

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Mainstream services marketing never offered general guidelines for the services marketing organization nor prescribed in what way it should be different from a goods marketing organization. There is considerable practical knowledge about how to organize, for example, the marketing of hotels, cleaning services or professional services. The difficulty is that it is not possible to give general advice and that the difference is not between goods and services marketing but between other specific properties such as company size, target groups, market conditions and kind of value proposition.

An organization is traditionally built around functions but can also be built around service systems and be perceived as a set of networks. For example, major full service airlines ran into hard competition from small, no-frills airlines with limited service and low fares. Ryanair was one of the first companies to concentrate on their website for information and ticket sales, thus controlling the fares and being able to instantly adjust them according to supply and demand. They organized themselves around this marketing system and the core service of transportation. Big full-service airlines were organized to inform and sell through travel agencies and serve numerous destinations. Ryanair recently surpassed British Airways in number of passengers and long since in profitability; small and agile has become big in a short time.

An organization is a complex network of relationships, systems, processes and functions that gradually transcend into the market and society. The boundary between a company and its environment is diffuse. Three organizational strategies which have developed over a number of years are applicable to the new service marketing and in line with many-to-many marketing:

- *Decentralization and multiplication of a global business concept to local markets.* Large companies are decentralized because of the need for local presence, for example, a retail chain or a firm of accountants. For them growth is a matter of multiplying a well defined business concept to more sites. Franchising, like 7-Eleven and The Body Shop, has proved to be a viable concept as it unites the marketing muscle of a large-scale operation with the agility of small scale and closeness to customers. Direct selling through door-to-door and home parties is a smaller but expanding way of multiplying a business concept with special significance in new economies where entrepreneurship and small business must be encouraged with little financial investment. Even if IT is partially independent of physical presence, it will never make the need for physical proximity between suppliers and customers redundant.
- *Part-time marketers (PTMs) and full-time marketers (FTMs).* The marketing and sales departments, which are populated by FTMs, are unable to handle more than a limited portion of the marketing. They cannot always be in the right place at the right time with the right customer contact. As a consequence of the embeddedness of marketing in the network organization everyone else becomes a PTM, one who is not hired specifically for marketing and sales tasks but in the co-creative processes with customers interacts with them and thus influences their buying behaviour. Although the PTMs were hired for other tasks they have to be aware of their part-time role and be recruited, trained and motivated accordingly, whatever their main job is.
- *Internal marketing.* Services marketing came up with the idea of applying marketing techniques to internal markets, the employees. If a company has 50,000 employees spread in 50 countries it has a huge problem to communicate with the organization. Internal marketing can be used to empower and enable employees. They should understand the company mission, the organization, the service that can be provided, the value it has to customers, and finally, how to interact with customers. They should behave in a way that creates positive rapport with customers and a long-term relationship.

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### Three drivers of the new service marketing

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As was outlined initially, three contributions in particular are the drivers of the reinvention of service and marketing.

*S-D logic* was first proposed in a 2004 article by Steve Vargo and Bob Lusch in the *Journal of Marketing*. It took the authors five years to get the article accepted for publication but it had an overnight impact on the readers. S-D logic has quickly gained acceptance among marketing scholars and is being continually developed (see Vargo and Lusch, 2008a, 2008b).

While S-D logic emanates from the scholarly world, *Service Science, Management, and Engineering (SSME)*, usually just referred to as *service science*, emanates from a practitioner, IBM. For decades IBM was the world's largest manufacturer of computer hardware. After a crisis it turned to software and consultancy and with

its 380,000 employees it is now a global leader in service systems. The service science programme works globally to engage academic researchers and educators in universities and technical institutes to add service to the research agenda and curriculum. The goal is to design, innovate and implement better service systems (see Maglio and Spohrer, 2008).

*Many-to-many marketing* applies network theory to marketing. Network thinking has long been used in B2B marketing, albeit in a limited way. Now the application of networks embraces all marketing and the new service marketing. It is a further development of relationship marketing, going from the two-party relationship of a single supplier and a single buyer, one-to-one, to the multi-party realism of today's marketing, many-to-many. It's a head-on approach to the complexity, context, systems, relationships and interactions of business and consumption.

These developments have been brewing for decades but the time has not been ripe for them to assume a lead role – until now. They are supportive of each other but emphasize different fundamental facets of service and marketing. They have already been mentioned in the comparison between mainstream services marketing and the new service marketing but will now be further explained and analysed.

### Service-dominant (S-D) logic

S-D logic defines itself through 10 foundational premises (Table 19.1). These are the basis for a new philosophy and theory of service and marketing.

According to the first foundational premise (FP1), service is in the core of exchange, not goods as in the hitherto goods-dominant (G-D) logic. Note that it is 'service' and not 'services versus goods'; goods are merely distribution mechanisms for service (FP3). For example, a car is a distribution mechanism for transportation and a carrot for nutrients. Exchange between parties, which once was direct and local, is masked by the complexity of a network of production and distributions processes (FP2). The logistics and the number of parties involved have increased through specialization, outsourcing, globalization, and owner and alliances combinations. It is not just a customer meeting a supplier.

Table 19.1 Foundational premises (FP) of S-D logic.

FP1	Service is the fundamental basis of exchange.
FP2	Indirect exchange masks the fundamental basis of exchange.
FP3	Goods are a distribution mechanism for service provision.
FP4	Operant resources are the fundamental source of competitive advantage.
FP5	All economies are service economies.
FP6	The customer is always a co-creator of value.
FP7	The enterprise cannot deliver value, but only offer value propositions.
FP8	A service-centred view is inherently customer oriented and relational.
FP9	All social and economic actors are resource integrators.
FP10	Value is uniquely and phenomenologically determined by the beneficiary.

Source: Adapted from Vargo and Lusch, 2008a.

*Operant resources* (FP4) are those which do something to something or somebody. Businesses and customers are operant resources meaning that they both act, using their knowledge and skills. This is contrary to the mainstream marketing idea that suppliers do things to customers who just react as *operand resources*. All economies are *service economies* as their mission is to provide service to someone (FP5). In line with this, the customer is always a *co-creator of value* (FP6). The customers create value themselves and in partial interaction with suppliers as the service encounter indicates. Within this spirit a supplier can only offer *value propositions* on the market (FP7); the value is actualized by users.

As the customer is actively involved in creating and using service in search of value, service has moved from being production centric to become customer centric (FP8). Service is only partially created in the supplier value chain; it is ultimately created in the customer's value network. It follows from the new role allocated to customers that they are social and economic resource integrators in order to evoke the value of service (FP9). The network aspect is implicit through the statement that all social and economic actors are resource integrators – suppliers, customers, intermediaries, governments, the media and others – implying that value creation takes place through interaction in complex networks. Finally, value is defined by those who need the service. Therefore service is individual and contextual (FP10).

The premises may require additional background to be better understood. S-D logic is based on international findings during the heyday of services marketing, the 1980s and the 1990s, and even from before that. The fact that goods and services appear together had disturbed many over the years but it was not until conceptualized in the S-D logic that the many scattered thoughts and observations fell into place. For example, efforts had been made to get *product* accepted as a joint term for goods and services and to use *offering, package or solution* as all inclusive concepts for what the customer buys. It did not work because there was no framework for goods and services in which to co-exist.

The B2B acronym does not disclose if the first B represents the supplier or the customer. In line with the S-D logic premise of co-creation of value, I would like the acronym for business-to-consumer, B2C, to be expanded to B2C/C2B. Just saying B2C underscores the traditional marketing notion of the seller being the active (operant) resource and the buyer the passive (operand) resource. With co-creation of value in focus, either party can switch from the driver's seat to being a passenger and back again.

In the section about quality it was mentioned that several words are commonly used to define phenomena associated with satisfaction and value. We feel the presence of these phenomena; they are all over but it seems impossible to pinpoint exactly what they *really* are. This may simply be so because they are not exact; they are fuzzy and overlapping by nature. Through S-D logic, the concepts of service and value in particular have caught the attention of marketers. We have already discussed what service is in the new marketing. It now feels urgent to add some more comments about value.

Value means different things to suppliers and customers depending on their different goals and environment; this has already been labelled value-in-context. Value in the terms of the traditional value chain as defined by Michel Porter is

the same as cost. When cost is added it is euphemistically called value-added. In similar vein many nations collect sales tax based on cost and it is called value added tax, VAT. For companies there can also be other values than money, such as enjoying a great reputation, being the pride of the owners, being popular among job applicants, and so on. A conflicting force is the trend to allocate all the attention to short-term profit and shareholder value. At the same time owners become increasingly anonymous and therefore owner pride and responsibility are vanishing concepts. An exception is the value of the brand, brand equity, which is gradually entering accounting, and the balanced scorecard is trying to establish the future financial value of customers, employees, and innovation, among other things.

Although the traditional value chain stops when the customer enters we can tie in with a customer value chain (or rather network). B2B buyers buy in order to produce or distribute value for themselves and for consumers and citizens. For consumers and citizens value should match their needs and wants. The financial side – the price and the costs associated with using some products – becomes a substantial part of the consumer's sacrifice in using and enjoying a value proposition and the service it renders. For example, buying a car is officially classified as the outcome of goods marketing, renting a car as the outcome of services marketing. But for each individual, customer value is created in his or her interaction with the car. It is driving the car to a desired destination; driving the car well or badly; taking good care of it or neglecting its maintenance; praising its convenience, or cursing traffic jams, absence of parking space, and rising petrol prices; enjoying music and the privacy of the enclosed space, or getting bored by long, lonely hours on straight highways... The car remains a value proposition whether it is driver owned, owned by your employer, bought with borrowed money, leased, rented or borrowed from your parents.

The next two topics, service science and many-to-many marketing are very much in alignment with S-D logic. To show the compatibility between the three drivers a concluding section deals with them in a joint context.

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## Service science

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Service science and its approach to service systems is best described by IBM's service research programme director Jim Spohrer and his colleague Paul Maglio:

**Service systems are value-co-creation configurations of people, technology, value propositions connecting internal and external service systems, and shared information (e.g. language, laws, measures, and methods). Service science is the study of service systems, aiming to create a basis for systematic service innovation. Service science combines organization and human understanding with business and technological understanding to categorize and explain the many types of service systems that exist as well as how service systems interact and evolve to co-create value. The goal is to apply scientific understanding to advance our ability to design, improve, and scale service systems. (Maglio and Spohrer, 2008: 18)**

Service science offers a global development programme. It is a call for academia, industry and governments to become more systematic about service performance and innovation. It is a proposed academic discipline and research area that would complement – rather than replace – the many disciplines that contribute to knowledge about service. Service science has adopted S-D logic as its philosophy.

By engaging more than 250 universities and institutes of technology in service science, IBM is using the network strategy of adding resources at very low cost and with little financial commitment. IBM is co-creating value with the academic world.

Service science is needed to master seamless and reliable service systems at a time when systems are becoming increasingly complex and global, making us increasingly vulnerable to systems sluggishness and failure. Service science puts particular emphasis on the dual roles of the traditional supplier and customer; both assume both these roles. Every service system then is a provider *and* a client of service connected by value propositions in value chains, value networks, or value-creating systems.

Service science is a godsend for implementing S-D logic and many-to-many marketing. The road is long though; marketing theory and education have for too long been insensitive to the signals from society and business practice.

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### Many-to-many marketing

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Relationship marketing and CRM focus on the two-party relationship between a customer and a supplier. Many-to-many marketing broadens the context to multi-party relationships. It is defined in the following way: 'Many-to-many marketing describes, analyses and utilizes the network properties of marketing'. (Gummesson, 2008)

For example, in a B2B relationship two companies in a selling and buying negotiating stage are backed by many people and influences. They each represent their own many-headed organization, membership of alliances, commitment to other suppliers and intermediaries, and so on. It is not just one-to-one; it is many meeting many. Shopping consumers, B2C/C2B, can represent a family, buy for their children and dog, and are influenced by advice from friends and the lifestyle groups to which they belong. A consumer network co-creates value with a retailer network.

As marketing and value-creation through service systems is complex, complexity should be an overriding issue for the new service marketing. To handle real world complexity and scientific requirements *case study research* and *network theory* could be used. Many universities accept the use of case study research in marketing while others consider statistical techniques, such as surveys, to be more scientific. The weakness with the statistical techniques is that they cannot handle the complexity of service systems and the new service marketing.

Network theory offers a way of thinking in relationships and interaction but also techniques for addressing complexity, context and change. It can be used with different degrees of sophistication: a verbal treatise (discussion or text), graphics



(from sketches of nodes and links to computer generated diagrams) and mathematical processing. In marketing, network theory has mainly been applied to B2B but has equal potential for B2C/C2B and consequently to marketing in general. Marketing is part of or a perspective on management and to become efficient marketing should be seen in a management context; it's marketing-oriented management rather than marketing management. Combining case study research with network theory can resolve much of this conflict. In practical marketing complexity has to be handled whether it fits our preconceived ideas or not. It is about survival.

Service systems quickly become complex. Even the simple micro service system of buying a ticket consists of many parts that must work smoothly together. Service delivered through machines is often very simple and can be performed by unskilled labour. All the same it took 50 or more years to design the service system that makes up a washing machine. It required herds of engineers, high-tech and low-tech, electro-mechanics and IT, to eventually assemble this household appliance into a reliable and efficient service provider. But the service is co-created with the consumer who has to feed and instruct the machine and then has to continue the service process after the washing and perhaps drying; the machine cannot handle the whole process.

There are also supportive macro service systems – infrastructure – making it possible for people and companies to function. The national and global financial systems are part of an infrastructure which is beridden with problems, the major one being that it is complex, dynamic through transactions every split second 24/7, and that it is non-transparent and can be tampered with by insiders. In 2008 the world economic system started to break down and the fragility of the financial infrastructure became visible to everyone. More stability is found in the almost 200-year-old railway infrastructure that is constantly being upgraded to fit new customer demands of comfort, speed and environmental considerations. The European Union, EU, is an economic and political infrastructure. Through the implementation of its 'four freedoms' – free movement of goods, services, people and money across the national borders of member states – gradually new opportunities open up for marketers.

New infrastructures do not emerge often but they have a major impact on society, business and marketing. The newest is of course IT. Its interactive C2C part, the social media, is currently growing rapidly. As stated in a newsletter from the service science programme (SSME, May 15, 2009):

**Social media refers to a conversational, distributed mode of content generation, dissemination, and communication among communities. Recent years have witnessed tremendous growth of social media through platforms and applications enabled by the Web and mobile technologies (for example, weblogs, microblogs, online forums, wiki, podcasts, livestreams, social bookmarks, Web communities, social networking, and avatar-based virtual reality). Social media is a tremendous asset for understanding various social phenomena and has found applications in a wide spectrum of problem domains, including business computing, entertainment, politics and public policy, and homeland security.**

It offers a new social and market order.

Social sciences, including marketing, management and economics, dodge complexity by straightening out the road they travel. Research and practice in marketing can be compared to driving a wreck on a dirt road but social sciences behave as if they were driving a new Lexus hybrid on a straight and empty highway under perfect weather conditions. This means that curves, loose gravel, holes in the road, wet or icy spots, crossing animals, imperfections of the car, and not least other cars, are largely disregarded. Practitioners have to take the consequences while marketing theorists don't; book-smarts aren't enough. Driving the wreck requires street-smarts to handle unforeseen situations by using experience, common sense, intuition, hunches, gut feelings, reflexes, wisdom, insight and sound judgement. Book-smarts and street-smarts should not be too far apart, and better book-smarts could help avoid the pitfalls of spur of the moment street-smarts.

Network thinking and many-to-many marketing has ramifications for organizing marketing. In American terminology a company is led by a Chief Executive Officer, CEO, and the former Marketing Director is now called Chief Marketing Officer, CMO. It does not fit the view of the new service marketing. My suggestion is instead that they are renamed *Network Executive Officer, NEO*, and *Network Marketing Officer, NMO*, thus establishing that interacting in networks of complex relationships is their main task. That's what they do in practice anyway.

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### Connecting the drivers

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S-D logic, service science and many-to-many marketing are viable syntheses and additions on the way to marketing theory on a higher level of generalization and abstraction – grand theory. The new developments draw on lessons from G-D marketing management, services marketing and relationship marketing. The three drivers are interdependent and they should be treated in an integrative spirit. S-D logic dissolves the divides between goods/services and supplier/customer into co-created service and value. It offers a philosophy for service science and its application in education, research and practice in its effort to create hassle-free, innovative service systems. Network theory is a systemic way of thinking, a methodology to go beyond fragmented research in management and marketing, and to address complexity and context for application on service systems.

The following case study offers a flavour of how the three contributions may appear in a real-life situation (based on Gummesson, 2010).

#### Case Study

### Case study 19.1

Eighty-two-year old Anna has 23 age-related disorders including fatigue, pain, memory loss, and reduced eyesight and hearing. She has been through 11 different therapies encompassing 41 components. During one year she was exposed to 7 types of therapies performed by 55 specialists. From 5 doctors she has been prescribed 9 types of

medication to be consumed daily, and 2 to be used on demand. She regularly goes to massage and physical exercise, and twice a week a social assistant comes to her home to help. Assistants stay for only short periods on the job and new ones appear constantly. Anna is also dependent on social insurance people – who also come and go. Apart from all these contacts with people, Anna is exposed to an endless amount of capital goods (huge hospital buildings, x-ray equipment, operating theatres) and disposable products (pills, food, syringes). During a year she is perhaps in contact with 100 different healthcare representatives. To get 23 disorders, 11 therapies, 9 + 2 pills and other products, and 100 people together to co-create value and service requires advanced systems and network management.

Anna is a customer of the healthcare sector, a subcategory of what is conventionally called the service sector. But healthcare is not about sectors; it is about thousands of health-related value propositions of excessively diverse kinds. She is exposed to value propositions from a large number of people, and these are only loosely and haphazardly coordinated into a service system. Each may be an efficient system within the supplier value chain, but they do not concur with Anna's value network; they are not customer-centric. In healthcare, the necessity of co-creation is obvious. The patient must do her part and be active within her ability: communicate with the therapists, take her pills, eat well, rest, exercise and so on. Each therapy and other activity is a system in itself and somebody has to manage the network of systems. Would you hire Anna as network manager? No, you would say – but that's what you have already done.

Figure 19.1 shows the network of people, therapies, products, and systems in which Anna is supposed to co-create value and get service. Although the figure is simplified a little fantasy and empathy will enable you to visualize the complex context and the many-to-many relationships within which Anna lives. If there is one thing that Anna needs in her situation it is certainly not complexity. She needs simplicity. Each therapeutic system by itself may have the good intention to provide just that, but first, each system is too provider-centric, and second, it is operating within the logic of its speciality, career system, organization, budget, locations, and so on, with sparse co-creation between the systems.

Where does marketing enter this network? Anna's service is a combination of government service (which can be a free citizen's right paid through taxes), private insurance, and service and value propositions from enterprises. Healthcare offers opportunities to sell to government organizations like hospitals and laboratories, and to private doctors and other therapists. Anna herself may be in the market for health food, vitamins, minerals, medication, eyeglasses and so on. She may listen to family and friends, television and radio programmes and read, all of this forming an information network affecting her behaviour as a consumer. Among the providers to hospitals are pharmaceutical companies, suppliers of equipment and disposable goods, computer and software consultants, building and construction firms, catering firms and cleaning firms. So the healthcare systems for the elderly are replete with marketing opportunities. It is a many-to-many marketing situation where networks meet networks and where the simple supplier–customer relationship is too limited to explain what happens.

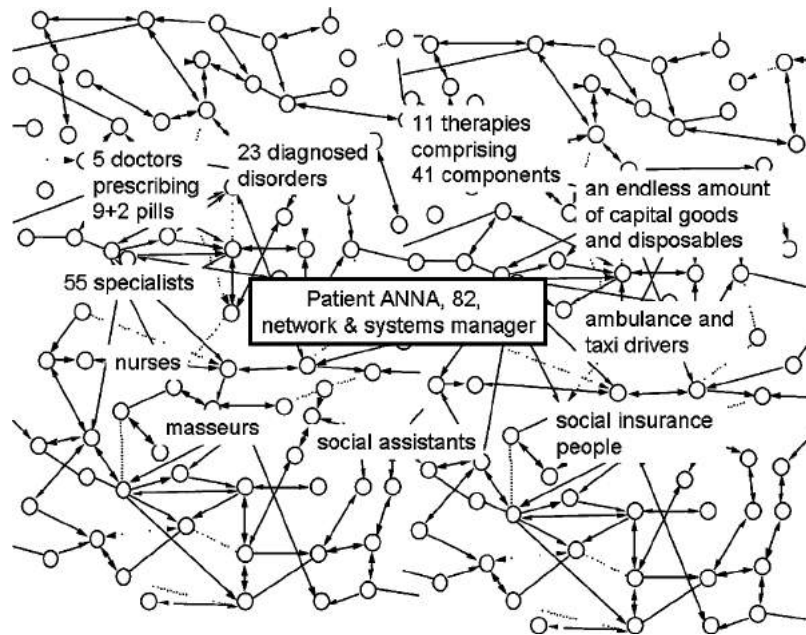


Figure 19.1 A sketch of Anna's healthcare network (© E. Gummesson, 2010)

In conclusion, S-D logic, service science and many-to-many marketing have broadened the service encounter to all aspects of co-creation of value and all aspects of value propositions. It is important to note that co-creation is not just interaction in a service encounter. In designing value propositions the following questions therefore must be answered:

- Who are the customers and who are the suppliers?
- What do suppliers do best?
- What do customers do best?
- What do third parties do best?
- What should be one-party (individual) action?
- What should be two-party (dyadic) interaction?
- What should be multi-party (network) interaction?
- What should be C2C interaction?
- What should be face-to-face interaction, ear-to-ear interaction, e-mail interaction, internet interaction, text messaging, and interaction with automatic machines?
- What do human beings do best?
- What does technology do best?
- Is there a no-man's land where service is neglected?

In the new service marketing the customer and supplier roles have merged, although they perform different tasks. The following categories of suppliers are found in the market:

- business enterprises
- governments on a national, regional and local level and increasingly on a mega, supra-national level, such as the EU
- NGOs which arise where the first two have failed, or act as supplementary to them.

In B2B, suppliers are also customers. In B2C/C2B we find:

- consumers
- citizens.

These are traditionally referred to as end-users. In many-to-many marketing the roles have broadened from a single individual consumer to social networks of family, friends, neighbours, and others. Being a citizen goes beyond the commercial consumer role; a citizen has certain rights and should primarily be served by the government sector. In the new service marketing with co-creation as a foundational premise, consumers are also suppliers of value. Therefore, consumers and citizens assume both the role of customer and supplier.

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## The future

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In the 1990s I wrote that all organizations produce and sell both goods and services but in varying proportions; that the customer is buying utility and need satisfaction, not goods and services as such; that we know no more about services today than people knew about iron in the Iron Age and that we now have to understand the atoms and molecules and genes to create a generic theory of value-creating offerings (Gummesson, 1991, 1994). This is what has happened during the past few years. That it would materialize in 2004 as S-D logic and service science was not expected by me. My own line of thinking, complex networks actualized in many-to-many marketing, was of course known to me and my first book on the topic was published in 2004 (see further Gummesson, 2008).

Instead of making predictions that will probably prove wrong anyway, I will stick to expressing preferences. We should continue to work along the lines expressed by the new service logic and the new service marketing. It will take us places that we did not know existed. Some of the contributions will be viable and others will be less so, and may even lead us astray. There is no certainty in basic research and new discoveries. There will be discontinuities when something new and unexpected takes the lead and changes the world forever. Just think of a recent discontinuity, the internet. Columbus thought he was eastbound to India but instead went west and discovered America. This is called serendipity; you search for one thing and discover another which turns out to be useful.

Not so long ago I stated that ‘... marketing theory must reinvent itself and be refined, redefined, generated, and regenerated – or it will degenerate’ (Gummesson, 2005: 317). There is now a call for basic research and theory on a higher level of abstraction – grand marketing theory. We need to take further steps up the marketing ladder. Marketing of services over the past decades offered middle-range theory. The new service marketing is taking us to the next rung of the marketing ladder, but I don’t know how many rungs there are before we reach the top.

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### Recommended further reading

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Readers are advised not to consult earlier editions than those referred to below.

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