Service Dominant Logic.

Is it simply repositioning Relationship Marketing?

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Abstract

Introduced by Vargo and Lusch (2004), Service Dominant Logic has attracted the attention of academics, with substantial dialogue and debate since (Vargo and Lusch, 2008; Ballantyne and Varey, 2008). However, over the years, an increased focus on Relationship Marketing, particularly in the business to business sector, has also been evident (Morgan and Hunt, 1994, Berry, 2002, Möller and Halinen, 2000). It is clear that there are many similarities in the literature focusing on Relationship Marketing and Service Dominant Logic, yet little comparison has been drawn in the literature. This paper discusses and compares both bodies of literature finding commonalities in the importance of value and relationships. It concludes with the identification of four common links between the two literature bodies: collaboration, customisation, value and relationship requirements.

Keywords: Relationship Marketing; Marketing; Service Quality; Marketing Strategy

Objective of the paper

Organisations seeking a competitive advantage should focus on “Service Dominant Logic” and “Relationship Marketing” principles. Proper implementation of both can provide organisations with an advantage through the use of interacting with customers, and providing value perceived by customers as superior than any other offering.

Since 2004, there has been an increased focus on the concept of “Service Dominant Logic” within the marketing literature. Introduced by Vargo and Lusch (2004), Service Dominant Logic has attracted the attention of academics, with substantial dialogue and debate (Vargo and Lusch, 2008; Ballantyne and Varey, 2008). Developed through theory on resources, value and alliances, it is clear there is some commonality between Service Dominant Logic and other theory bodies. With the discussion of alliances, it is evident that there is a commonality between Relationship Marketing theory and Service Dominant Logic. Though a link was loosely proposed in the literature (Ballantyne and Aitken, 2007), no authors actually compare the two. Therefore, this paper seeks to compare the two popular concepts. An overview of both will be provided first. The similarities and a brief overview of the differences will be provided, concluding with implications and categorising the similarities into key themes.
Overview of Relationship Marketing

Defining Relationship Marketing is quite problematic as there are over 50 published definitions (Dann and Dann, 2001); however, there are commonalities between definitions. Harker (1999) undertook a content analysis, evaluating 26 definitions of Relationship Marketing; the existing definition from the literature he judged to encompass all necessary key words is as follows:

Relationship Marketing includes tasks undertaken to “Identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involves are met; and this is done by mutual exchange the fulfillment of promises” (Grönroos, 1994: 9). This definition indicates the importance of interaction.

Relationship Marketing, by definition, has mutual benefit to both parties. The content analysis also indicated that there are seven conceptual categories of Relationship Marketing:

- **Creation**: attracting, establishing, getting
- **Development**: enhancing, strengthening, enhancing
- **Maintenance**: sustaining, stable, keeping
- **Interactive**: Exchange, mutually, co-operative
- **Long term**: Lasting, permanent, retaining
- **Emotional content**: commitment, trust, promises
- **Output**: Profitable, rewarding, efficiency

(Harker, 1999).

The mutual side of relationships is reinforced through these activities. Furthermore the long term, commitment focus is indicated. Relationships can develop into an alliance, rather than simply a supplier/customer type of relationship, as indicated by the list of these categories. Alliance success emerges when both parties obtain a competitive advantage through the alliance (Hunt, Lambe and Wittman, 2002). This raises important issues such as: Does the customer view the ‘relationship’ as simply a relationship, or as an alliance? Do they feel they have worked with the marketer rather than simply had a product or service delivered to them? These questions require discussion and consideration in any research focusing on Relationship Marketing. It is also important to understand the various categories of alliances, as this may impact on the nature of the competitive advantage.

There are four categories of business alliances:
- Resource based view – role of mobile resources/ bringing complementary resources to the relationship
- Competence based view – role of alliance-management capabilities
- Relational factors – characteristics of the alliance relationship eg. Cooperation/ trust/ commitment/ communication
- Competitive advantage: enables the firms to product market offerings with superior value than their competitors (Hunt, Lambe and Wittman, 2002).

These categories tie easily into the seven conceptual categories of relationships, reinforcing the link to the mutual advantage of relationships and alliances. It also links in strongly with some of the literature relating to Service Dominant Logic, where resources are very important (Vargo and Lusch, 2004) and where there seems to be a focus toward a Service Dominant Logic view of resources.

Relationship Marketing has strong ties with services marketing due to the direct contact between marketer and customers (Grönroos, 2004; Bitner, 1995) and the interactive nature of both services marketing and Relationship Marketing (Harker, 1999). In fact, services marketing was the discipline that first introduced Relationship Marketing in the 1970s after debates that the marketing mix was insufficient for services (Möller and Halinen, 2000).

Because customer perceptions of quality are often drawn from their satisfaction with their relationship with the marketer (Berry and Parasuram, 1993; Möller and Halinen, 2000) it is imperative that marketers consider relationships between themselves and their customers. In services, customers are active participants in the service delivery process, increasing the importance of trust and commitment (Kelley and Davis, 1994), essential areas for Relationship Marketing (Morgan and Hunt, 1994). However, Service Dominant Logic is also a growing area of marketing literature and requires consideration due to the increasing focus of this in marketing literature. Are marketers simply repeating what has already been accepted in the literature, or is there something else, too?

Overview of Service Dominant Logic

The implementation of Service Dominant Logic allows organisations a competitive advantage due to having a superior understanding of their customers (Lusch, Vargo and Matler, 2006; Madhavaram and Hunt, 2008) and through utilising higher end resources (Madhavaram and Hunt, 2008) such as staff
expertise. Initially, marketing literature had a focus on economic principles, where value was embedded in a physical product, aimed at satisfying the customer (Vargo and Lusch, 2004). Subsequently, the focus has become value and working with a customer to ensure satisfaction of both parties. Dialogue based on trust, learning and adaption to the other party seeks to understand each party’s point of view (Lusch Vargo and Wessells, 2008) ultimately enhancing satisfaction.

First titled in 2004, Service Dominant Logic is not completely new. It has “both radical components and also familiar associations for business to business marketers” (Ballantyne and Aitken, 2007: 363) in its focus on co-creation and mutual value. Nevertheless, is does require a shift in the way marketing is thought of, owing to the focus upon services and the dominant logic ensuring goods and organizations hold less value compared to service delivery – they merely become intermediaries (Lusch and Vargo, 2006). Service Dominant Logic changes the focal point of marketing from being one which focuses upon goods, to one which instead focuses upon service delivery, even when the product offering is tangible. The concentration becomes upon the “intangible, dynamic, operant resources that are at the heart of competitive advantage and performance” (Madhavaram and Hunt, 2008:67).

Service Dominant Logic relies on the use of operant and operand resources to provide an offering to customers. Operant resources draw on a number of interpersonal factors: human (eg. employee skills), organisational (eg. processes) informational (eg. knowledge) and relational eg. (relationships with customers), while operand resources tend to be tangible (eg. raw materials) (Hunt, 2004). Service Dominant Logic makes use of operant resources, such as applying “specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself” ( Vargo and Lusch, 2004:26). Through this, Service Dominant Logic alters the marketing mix. Rather than a focus on product, Service Dominant Logic is about co-creation of service. Price becomes the co-creation of value propositions. Co-creating conversation and dialogue, rather than promotion, is key in an interactive, collaborative exchange. Finally, rather than “distributing”, organizations implementing Service Dominant Logic are co-creating value processes
and networks (Lusch and Vargo, 2006). Co-creation is the key component of all aspects of marketing when implementing Service Dominant Logic, however, it is also possible to see similarities between this and the mutual benefit of Relationship Marketing. Some authors have provided commentary on the similarities of Service Dominant Logic to other areas, such as business to business marketing (Ballantyne and Varey, 2008). For example:

“When ... Vargo and ... Lusch... first proposed their Service Dominant Logic, some marketers might have thought ‘here comes another re-statement of the blindingly obvious!’ The premise that customer value is co-created has a strong intuitive pull and has been said by others in various ways... (but) more central to the Vargo and Lusch thesis is the realization that customers appraise the value of goods they purchase in use and that exchange value determination is always provisional upon later experience. In other words, customers determine what they value in use and the marketer can only offer value propositions” (Ballantyne and Varey, 2008).

The quote above focuses on similarities between Service Dominant Logic and other aspects of value. It reinforces the message of value, and the relevance to Relationship Marketing is in the way customers determine value. It is not up to the marketer to believe they are delivering value – it is up to the customer to create value with the marketer’s assistance. This is particularly pertinent in a business to business context due the interactive nature of inter-firm relationships. Relationship Marketing is also important in an inter-firm context, and co-creation of value becomes important when implementing Relationship Marketing strategies.

The similarities between Relationship Marketing and Service Dominant Logic

With a common focus on value co-creation, it becomes clear that there are several similarities between Relationship Marketing and Service Dominant Logic. In the development of this paper, we reviewed 11 papers on Relationship Marketing and 13 papers on Service Dominant Logic to begin comparing the two bodies of work. This section of the paper reviews the similarities between the two literature bodies and divides them into four key areas: 1. Collaboration and co-creation; 2. Value; 3.
Resource focus and 4. Relationship requirements. This will be discussed now and is summarised in Table One, below.

**INSERT TABLE ONE ABOUT HERE**

1. **Collaboration and co-creation**

A literature review of both Service Dominant Logic and Relationship Marketing indicate the important of collaboration in marketing and customer relationship. Both bodies of literature discuss the importance of relationships, and lead into a discussion of alliances. This co-creation of value seems to result in a continual working together to create mutual benefit. As Ballantyne and Varey (2008:13) express it: "If S-D logic [Service Dominant Logic] is accepted... then markets seem less useful as contexts for defining customer value. The role of the marketer becomes more focused on managing communicative interactions across a variety of modalities and in facilitating key relationships". This indicates that the facilitation of key relationships, or collaboration, is a priority area of Service Dominant Logic. However, as the name suggests, this is also the main area of Relationship Marketing. Furthermore, customer value is generally created through interaction and experiences, requiring interaction between marketeer and customer (Aitken, Ballantyne, Osbourne, Williams, 2006). As alliances develop, this interactive nature only increases in importance. Co-creation is a distinct form of collaboration, resulting in unique value starting with dialogical interaction (Ballantyne and Varey, 2006; Varey and Ballantyne, 2005; Ballantyne and Varey, 2008).

To maintain and enhance customer and shareholder value, collaboration is necessary (Vargo and Lusch, 2006, Ballantyne and Varey, 2008). Separation of buyers and sellers deprives them of interdependency, resulting in a more sales-orientated approach, rather than a relationship approach. Consequently, two-party centricity is necessary as it focuses on suppliers and customers (Gummesson, 2008) meaning that an interactive process with mutual benefit is required to best establish a competitive advantage. Supplier involvement is increased through Service Dominant Logic, impacting on the relationship with customer and, ultimately, repurchase decisions (Ballantyne and Varey, 2008). Close communication, joint problem solving and coordinating activities is
necessary (Day, 1994) in order to effectively collaborate. However, this focus on relationships is where the commonality between Service Dominant Logic and Relationship Marketing emerges. As we investigate value further, it is clear that value in relationship perceptions and value through service delivery can be combined.

2. Value

The term “value” is discussed in Service Dominant Logic papers, but what does it actually mean? Value is defined by the individual customer in terms of what they perceive as valuable to them (Kolb, 2003). Perception is a key word here, as there is no evidence to suggest what “value” could be for one customer over another. Marketers must, therefore, have a strong understanding of their customers, and collaborate with them to determine and provide this value. As Grönroos explains, value is created through relationship interactions:

“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 ... simply distributing ready-made value to customers.” (2000: 24-25). This is an important aspect of both Service Dominant Logic and Relationship Marketing.

Service Dominant Logic links to the concept of value by stating that value is co-created by the marketer and customer (Vargo and Lusch, 2006), ultimately leading to a mutual benefit. In Relationship Marketing, the emphasis on “value” is in terms of creating life-time value and mutually beneficial exchanges (Grönroos, 2004). Value is quite an important aspect in managing relationships, and it is through interaction that value is created and relationships are enhanced (Vargo and Lusch, 2006). Relationships are facilitated by the marketer, but the customer works closely with the marketer to ensure a benefit for both parties. Collaborating with and learning from customers is essential, because value becomes defined by and co-created with the customer (Vargo and Lusch, 2004). This takes the focus from tangible goods to more intangible, interpersonal relationships (Vargo and Lusch,
2004). This is the very premise of both Relationship Marketing and Service Dominant Logic, and the co-collaboration (discussed in point one, above) and value creation, means that relationships are mutually beneficial.

3. **Resource focus**

In addition to the co-collaboration and creation of value, Vargo and Lusch (2004, 2006, 2008) also highlight the importance of resources. The focus on resources is an important area in Service Dominant Logic, yet there are also links between resources and Relationship Marketing. Generally Customer Relationship Management (CRM) utilizes resources in order to effectively communicate to the market. In doing this, organizational resources are utilised to enhance relationships (Madhavaram and Hunt, 2008: 78). This focus on the use of resources for enhancing the service offering links Service Dominant Logic and Relationship Marketing more closely. Organisations must draw upon their resources and overcome potential problems in order to best collaborate with customers and partners (Lusch and Vargo, 2006), ultimately providing a competitive advantage, an important requirement in both Relationship Marketing and Service Dominant Logic.

The service-orientated view of marketing sees marketing as a continuous series of processes, largely focused on operant resources, leading to customer satisfaction (Vargo and Lusch, 2004). Continual feedback from the market alerts the organisation as to whether they are doing well compared with competitors (Vargo and Lusch, 2004). Similarly, in Relationship Marketing interaction is necessary (Grönroos, 2004) and feedback enables changes in the offering, allowing the firm to have a competitive advantage (Berry, 1995).

4. **Relationship Requirements**

To collaborate, provide value and utilize resources for a competitive advantage, marketers need to consider some relationship requirements. Implications for marketers become necessary “relationship requirements” when implementing both Service Dominant Logic and Relationship Marketing. Some of these have been discussed above – such as no separation of buyers and sellers and the use of
appropriate resources. But other considerations are necessary, such as the appropriate use of IT and customized offerings.

Firstly, it is important to note that both Service Dominant Logic and Relationship Marketing require Services Marketing principles, but neither are to be used exclusively in a service setting. In fact, both discuss the role of services in facilitating the exchange of goods. Nevertheless, both bodies of literature are equally applicable in a service setting.

Ultimately, to achieve a competitive advantage, firms must implement a good strategy for managing relationships. This includes effective use of IT (Madhavaram and Hunt, 2008) Linking with operant resources is important here, and research needs to focus on developed operant resources (Madhavaram and Hunt, 2008) because of their higher priority compared with operand resources. Despite this, questions such as: How can firms develop operant resources effectively and what makes some firms better at this than others? (Madhavaram and Hunt, 2008) remain unanswered in the literature. Utilising their resources, organisations providing an entire range of services will develop the best relationships with customers (Rifkin, 2000). When this occurs, the marketer becomes a buying agent (Vargo and Lusch, 2004) through customising offerings for the consumer, collaborating and providing value to customers.

Through this discussion, it is evident that there are four key commonalities between Relationship Marketing and Service Dominant Logic. Co-creation, collaboration and value creation are activities organizations must strive for in their operations in order to enhance relationships and ultimately have a competitive advantage. This can be done through the use of resources, and through other relationship requirements, such as the use of IT and becoming a “buying agent”. However, there are some differences. Relationship Marketing has roots in Business-to-Business Marketing and Services Marketing, whilst Service Dominant Logic seems best positioned in a Business to Consumer context, and when value adding for tangible goods. Furthermore, “Relationship Marketing” is considered a “theory” while Service Dominant Logic has been proposed as a “framework” or “pre-theory” and has
not properly been tested. These differences appear minor, and therefore we believe it is essential to examine the two concepts together.

Summary

This paper has provided an overview of both Service Dominant Logic and Relationship Marketing. The two bodies of literature are increasingly important in marketing, and yet there are clearly many similarities between the two. The focus on collaboration to provide value clearly links Service Dominant Logic to the more traditional theory of Relationship Marketing, yet no attention has been paid to this link previously in the literature.

Service Dominant Logic is nothing new, yet it has established excitement in the field about value co-creation and the importance of this should not be minimized. Perhaps the re-positioning of Relationship Marketing in the form of Service Dominant Logic could simply reintroduce the importance of marketers and customers working together to create value, something that may easily be forgotten in this age of self-service technologies and internet communication. As mentioned above, there are some differences between the two, but the differences are small enough that it becomes important to examine the two together. From here, the authors plan a large-scale empirical study investigating both literature bodies.
Reference list


Dann, S., and Dann, S. (2001) Strategic Internet Marketing, Milton, John Wiley and Sons


### TABLE ONE

<table>
<thead>
<tr>
<th>Co-creation and collaboration</th>
<th>Value</th>
<th>Resource focus</th>
<th>Relationship Requirements</th>
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</table>
| - Use of resources to co-create value  
- Implementation provides a competitive advantage  
- Collaboration/ co-creation provides feedback to the marketer  
- The marketer may become a buying agent. This could develop into an alliance  
- Two party interaction is needed  
- Close communication, joint problem solving and co-ordinating activities is required | - Perception of value enhanced through interactions  
- Properly managing relationships and interaction  
- The marketer facilitates relationships  
- Value through intangible relationships rather than tangible goods. - A service centred view of exchange  
- Customise offerings to enhance value to customers | - Focus on operant resources  
- Use of staff to facilitate exchange  
- Utilise resources to improve the collaboration with customers | - No separation of buyers and sellers  
- The appropriate use of IT (eg. CRM)  
- Focus on processes is necessary  
- Services must be customer centric  
- Customers must be considered both producers and consumers  
- Organisations providing a range of services develop the best relationships with customers |