Abstract
Purpose – The purpose of the paper is to discuss critically the implications of an unlimited broadening of the understanding of service.

Design/methodology/approach – The position of a service-centered marketing paradigm is described. This position essentially removes the differentiation between goods and services, so that basically all “goods” are declared to be “services”. On the basis of this description, six propositions are developed that examine the possible problematic consequences of this claim of victory of “service thinking” in management.

Findings – The critical analysis shows that the equalization of “goods” and “services” carries the risk of losing valuable service-specific knowledge. In particular, broadening the understanding of co-production to include the use of physical goods leads to an abstract equating of matters that are manifestly different, and to an abandonment of important service-specific insights.

Research limitations/implications – The paper presents a specific and neglected viewpoint in a relevant discussion, but is not based on empirical data.

Practical implications – The paper is an inspiring source for all in academia who are interested in fundamental questions of services marketing and management.

Originality/value – This paper provides a valuable contribution because it supplements the discussion of the understanding of services by considering the problematic implications of an unlimited broadening of the service concept.

Keywords Services, Services marketing, Perception

Paper type Viewpoint

Introduction
An ongoing burning issue in the scientific services literature is the question of how to differentiate services from goods. This is a question that has been brought up again and again for decades, and debates on the question have been conducted with great intensity many times – but these debates have always borne little fruit in the end.

The intensity of this perennial debate now appears to be moving, yet again, towards one of its many peaks since Vargo and Lusch (2004a, b) suggested, in their contributions on what they called the “new logic” of marketing, the removal of any essential differentiation between goods and services. In doing so, they basically declared all “goods” to be “services”. One consequence of this position is that there can no longer be a difference between marketing in general and services marketing in particular. Similarly, as a matter of logic, all other service-related differentiations disappear. Thus, talking about “services management” or “quality management in service” would no longer be necessary – because, according to this new logic, any
management is, in all respects, services management. According to this view, “services thinking” would have conquered the whole field of management, and it becomes an option to declare victory and abandon the notion of a separate field (Lovelock and Gummesson, 2004, p. 33).

The question arises, however, as to whether anything is really achieved by doing this, and whether there is actually any reason for celebration. Indeed, there are many indications that the opposite might be the case. The science of services management could suffer the same fate as that of Pyrrhus (c. 318-272BC), Molossian king of Epirus. He strove to make his empire a major power and, at first, went from victory to victory. However, each of these victories was dearly bought, with substantial losses being incurred. Indeed, Pyrrhus is famously reported to have declared: “One more such victory and I am lost” (Columbia 2004). In the end, Pyrrhus lost everything, and Epirus was brought to ruin.

The service perspective as the new dominant paradigm of marketing
In their articles, Vargo and Lusch (2004a, b) have described what they consider to be a fundamental shift in perspectives on marketing – a shift from a goods-centered view to a services-centered perspective. According to this view, marketing has moved from a concentration on discrete transactions of tangible, industrially-produced goods to a concentration on the exchange of intangible goods – specifically, the exchange of specialized skills and knowledge within a service-oriented view of relationships. The authors have based what might be called a new paradigm on premises that can be summarized as follows.

In economic transactions, it is not physical resources that are exchanged for money; rather, specialized skills and knowledge are exchanged. Humans thus exchange services for services – even if this is not always readily apparent in reality in the complex modern world. Goods constitute tangible materializations of knowledge and activities, and thus are nothing more than distributional mechanisms for services. The relevance of goods results from the services they generate.

Therefore, goods do not have an immanent value. Value is created and perceived by the customer. The function of marketing is to develop offers in co-production with customers – whereby customers are presented with attractive value propositions and are supported in the creation of value.

Adopting these positions leads to an understanding that the customer is always involved in the process of value creation. This also applies to physical goods – because the customer continues the process of value creation by using or maintaining the products, or by adapting them to his or her specific use.

In such a services-dominated paradigm, relevant concepts from services thinking – such as “customer integration”, “co-production”, and “relationships” – thus become of central importance. The spotlight is on the customers themselves, interaction with these customers, and the integration of customers in the production process. In this paradigm, any contact with customers is seen as being relational. This also holds true for discrete, short-term transactions of goods – for at least two reasons. The first is that the customer interacts with the product in using it, and thus participates in creating value. The second is that transactions of goods normally imply social and legal relationships in the form of contracts – such as guarantees or brand promises – that stretch out into the future.
Because the fundamental economic exchange is based on the application of mental and physical abilities, it is argued in the “new logic” that every exchange is fundamentally a form of service provision. Moreover, because industrially produced goods represent only a question of distribution for what is essentially a service provision, it is argued that every single economic action is service production.

This point of view is internally consistent, and it does provide some interesting new perspectives. However, this approach also has some worrying implications. In the following paragraphs, six propositions are put forward which summarize some of the more questionable implications of the paradigm described above. These propositions deal with the following matters of enduring importance in services management:

- service as the value of goods;
- the definition of service;
- the co-production of the customer;
- the nature of relationships;
- the alleged image of “service”; and
- service-specific knowledge.

Each of these is discussed below in examining the implications of a “services-only” paradigm.

The implications of a “services-only” paradigm

*Service as the value of goods*

The crux of Vargo and Lusch’s (2004a, b) proposed “new logic of marketing” is the authors’ perception of a fundamental change in the understanding of how goods function as units of exchange. It is argued that traditional marketing has focused on the exchange of goods. This is contrasted with a new perspective that postulates that people seek to benefit from specialized skills and knowledge through such exchange processes. In making this contrast, an impression is conveyed that traditional marketing has previously assumed that people seek to possess goods as property, independent of the benefits of such goods.

However, on closer examination, this view of traditional marketing is not entirely accurate; in fact, the apparently “new” perspective has never been entirely absent. For example, Kotler (1988, pp. 4, 5) introduced his celebrated book, *Marketing Management*, in these terms:

And we normally use the expression products and services to distinguish between physical objects and intangible ones. But in thinking about physical products, their importance lies not so much in owning them as in using them to satisfy our wants ... A physical object is a means of packaging a service.

In view of Kotler’s (1988) unequivocal statement to the contrary, the asserted contrast between the “old” paradigm of marketing and the “new” paradigm of marketing becomes less clearcut.

In reaching their conclusion, Vargo and Lusch (2004a, b) appear to have made a questionable step in logic. The authors referred to Gummesson’s (1995, p. 250) dictum that: “activities render services, things render services”. This dictum accurately reflects the customer’s perspective that all goods have a certain value attached to them.
(assuming that the terms “value” and “service” are used synonymously). However, the fact that different types of products can each bring about “value” does not inevitably lead to the conclusion that there are no longer any differences whatsoever between different types of value-creating products (like “activities” or “things”). Abstract statements about the similarities in benefits that can be derived from the consumption of various products does not negate the reality that various products can be produced in very different ways.

The characterization of all goods as services on the basis of “customer value” fails to take account of the real differences that exist in the production of physical goods and the production of services. In practical terms, these differences are of the greatest managerial significance, and a clear-headed understanding of these differences is crucial to successful management. We cannot afford to lose this understanding. As Pyrrhus might have remarked in this scenario: “One more such victory and I am lost” (Columbia, 2004).

The above discussion thus leads to the following proposition:

P1. The fact that physical goods and services both bring about value does not necessarily imply that both are also produced in the same way.

The definition of service

Vargo and Lusch (2004b, p. 2) defined services as:

... the application of specialized competences (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself.

Such an all-embracing definition conveys the impression that all unsatisfactory elements in earlier attempts at definition have been removed, and that previous (fruitless) efforts to differentiate clearly between goods and services have been superseded. This is indeed the case within the terms of the chosen formulation; however, little seems to have been achieved by it.

For scientific purposes, definitions need to be precise. In particular, such definitions need to specify, precisely, the issue or group of issues to which the definition refers. A definition that is phrased in universal terms can certainly subsume all issues under it. However, such an all-embracing definition runs the risk of securing the end of the terminological discussion at an unacceptable price – the price of lost significance. In the definition quoted above, virtually every human activity that is performed for the benefit of other things, persons, or institutions is deemed to be a “service”. Whether it be a mother preparing soup for her child, or a steel mill producing tubes, everything is deemed a service.

Such a universal approach raises the question of whether any additional insights are likely to be gained from such generalized abstraction. Indeed, it is likely that a net loss of knowledge could result. If, in the most general sense, virtually everything is deemed to be a “service”, it follows that only the most general statements about service production and service consumption can be meaningfully made. Such generalized and abstracted statements are of limited scientific value, and are of even less managerial value. Pyrrhus might again be moved to remark: “One more such victory and I am lost” (Columbia, 2004).

The above discussion thus leads to the following proposition:

P2. A general definition of service that includes virtually everything defines virtually nothing.
The co-production of the customer
The new logic of marketing is called “service-centered” by Vargo and Lusch (2004a, p. 7). This characterization is justified as it encompasses central principles of the service marketing concept (such as interaction, integration of the customer, and individualization). However, it should be remembered that these principles particularly refer to the prototype of people-processing services which are produced in an interaction between the customer and the service provider’s employee, and can be customized to the customer’s individual needs.

If these principles are blithely adapted to the production of goods, there is a danger of using the same term to describe entirely different issues – thus creating more problems than are solved. This can be exemplified by considering the customer’s vital role as a co-producer.

In traditional services marketing, the fact that customers are involved in the production of services process represents a central research issue. This is because such involvement implies several consequences of significance to providers. These include, among many others, that:

- customers have an influence on the quality of the service outcome – depending on the nature of their involvement;
- production without customers and without inventory is impossible – which has specific implications with regard to balancing supply and demand in services;
- service production often takes place in direct interactions with the company’s staff members – which makes customer-contact personnel a vital target group for (internal) marketing of services;
- in many cases, the customer has to come to the site of service production – which raises questions about the choice of location, the design of the physical environment, and the processes that have to be gone through by customers; and
- customer integration demands an investment of time by the customer – with the result that objective expenditure of time, perception of time, and the possibilities of influencing perceived time (objectively and subjectively) become topics of importance in services.

The “new paradigm” asserts that customers are always “integrated” – because they sometimes provide information for market research, and/or because they can be said to be co-producers of value by using goods. However, such a general understanding of customer integration does obscure some significant real differences. It should be noted that when a customer uses a physical good (for example, by playing an electronic organ at home), this does not cause the company any problems with regard to interaction, integration, or capacity. It also causes the company no problems with regard to the other consequences of customers’ involvement in the production process (such as those listed above).

The fact remains that, in the services sector, it is often impossible to make any real differentiation between the production and the consumption of a service – whereas such differentiation can manifestly be made in the goods-manufacturing sector. The “new logic” fails to recognize the manifest division between production and consumption with respect to goods; moreover, the specific problems of customers’ integration in the service-production process pass from view. This means that the victory of the services concept brings about a substantial loss.
The above discussion thus leads to the following proposition:

**P3.** Broadening the understanding of co-production to include the use of physical goods leads to an abstract equating of matters that are manifestly different, and to an abandonment of important service-specific insights.

### The nature of relationships

The new paradigm of marketing shows a particular affinity with the concept of “relationship marketing”. Most of the characteristic features of the new paradigm are taken from relationship marketing – for example:

- the adoption of the maxim of customer orientation;
- the adoption of an interactional perspective rather than an instrumental perspective; the abandoning of a perspective that is solely oriented towards single transactions in favor of a perspective oriented on relationships; and
- the transition from a dualistic view to a network-oriented view.

Furthermore, because relationship marketing has its roots in scientific services management (Berry, 1983; Grönroos, 1990, 1997; Gummesson, 1999), the adoption of these characteristics in the new paradigm lends some support, at least on face value, to the idea that the “new logic” is “services-centered”.

However, the use of the terms “relationship” and “relation” in the new paradigm presents the same sort of terminological problems as was noted (above) when the consequences of blithely expanding the terms “service” and “co-production” were explored – namely, a loss of significance through a broadening of meaning.

One of the lasting merits of relationship marketing is that it has provided new insights into the evaluation of relationships from the customer’s perspective. In particular, it takes account of the relevant differences among customers in assessing their propensity to enter a relationship with companies. The important discussion about the differences between “transactional customers” and “relational customers” (Grönroos, 2000) is a good example of the benefits of relationship marketing in understanding the nature of relationships. However, if the term “relationship” is now blithely used to refer to discrete transactions with goods, the important differentiation between the “transactional” and the “relational” becomes utterly irrelevant, and the wealth of experience and knowledge that has been gained from this important differentiation could well be lost – a “Pyrrhic victory” indeed.

The above discussion thus leads to the following proposition:

**P4.** Broadening the understanding of relationships to include discrete transactions implies the abandoning of differentiated, relationship-oriented insights.

### The alleged image of “service”

The fundamental principles that have been transferred from services marketing to the new paradigm relate primarily to a specific type of service. The principles of interaction, customer integration, and individualization – all of which figure prominently in the new paradigm – are typical of the “people-processing” services that are created within a direct cooperation between the service provider’s employees and the customers. The broadening of the understanding of “service” is thus oriented on
this particular type of services – “people-processing” services – and this is problematic for at least two reasons.

First, the transfer of this service image to all buyer-seller relationships would appear to be unrealistic. Despite all the progress in information and communication technology in recent times, and despite some advances in “mass customization”, it remains extremely difficult (if not impossible) to aim for maximal interaction and integration of diverse customers in the production process of many goods. The sheer number of customers involved, and the physical distances entailed, raise real issues of efficiency and costs – and effectively inhibit meaningful attempts to “integrate” customers in the production process of many goods.

Second, this image (of “people-processing” services) is not universally valid for all service industries themselves. Indeed, it stands in contrast to several important trends in the service economy. The modern service economy no longer exclusively orients itself on “people-processing” services that are produced in dualistic interaction – as, for example, in the classic prototype of hairdressing services. Rather, many service organizations are actually transferring certain mechanisms from industrial production to the services sector. Examples of this trend include recent interest in: the application of technology to services; the so-called “industrialization” of services (with the emerging concepts of services “engineering”, services “standardization”, services “modularization” and “service platform strategies”); and so on (Meuter et al., 2000; Bullinger et al., 2003; Colby and Parasuraman, 2003; Karmarkar, 2004). It is apparent from these developments that it cannot be supposed that the economy as a whole is undergoing an inexorable process of “servicization”; indeed, there is an equally important trend in the reverse direction – towards the application of a production-oriented logic from manufacturing industries to service industries (Lovelock and Gummesson, 2004).

Taken together, the emphasis on the “people-processing” principles of services is simply inappropriate for many goods-manufacturing industries, and such an emphasis fails to acknowledge significant recent advances in services management. The second of these – the neglect of recent advances in services economy and research – is especially problematic. It threatens a Pyrrhic-style victory, which entails the loss of recent important gains.

The above discussion thus leads to the following proposition:

P5. The exclusive reference to the characteristics of a “people-processing” direct production of services (interaction, individualization, integration) leads to the neglect of significant recent developments in services economy and research.

Services-specific knowledge

Services marketing and services management were able to develop as independent sub-disciplines only because there is such a thing as “services-specific” knowledge. Services marketing and services management became necessary (and possible) because it was recognized that products with certain service-specific characteristics – such as intangibility or customer integration – pose distinctive problems for customers and companies, and that these problems were not being addressed by traditional marketing and management. It had become apparent that these problems could not be tackled adequately by application of traditional ways of thinking and traditional methodological instruments (such as the classic “4Ps”). The academic
discipline of services marketing thus emerged, and in doing so it provided an abundance of innovative impulses to the established discourse on marketing and management (Fisk et al., 1993; Brown et al., 1994).

This “services-specific knowledge” can be exemplified by drawing attention to the innovative use of service-specific aspects of marketing instruments – which has complemented established general marketing instruments, and which has led to what might be called the “services 4Ps” – physical evidence, processes, people, and participating customers (similarly, Zeithaml and Bitner, 2003).

Physical evidence. If the service is produced at the provider’s location, the perceived tangible elements strongly influence the customer’s behavior. At the same time, the physical environment has significant effects on the efficiency of employees and the success of the interaction between customer and staff member.

It is thus incumbent on management to design the physical surroundings such that they communicate the desired impression of quality and enable customers and employees to carry out their respective tasks optimally (Bitner, 1992; Zeithaml and Bitner, 2003). This is “services-specific” knowledge.

Processes. Service consumption is a process in which the “quality experience” of customers occurs at different contact points during the process. It is therefore of crucial importance that the service provider understands the customer process, and that the provider analyzes and optimizes the process from a customer perspective (Shostack, 1977, 1987; Kingman-Brundage, 1991). This is, again, services-specific knowledge.

People. Much service production takes places in personal interaction between employees and customers. Employee behavior is therefore critical to the customer’s perception of quality.

Internal marketing must therefore be personnel-oriented, and it is important to recruit, keep, and develop employees who are service-oriented, as well as being technically and socially competent (Berry, 1981; Grönroos, 1981; Varey and Lewis, 2000). This is, again, services-specific knowledge.

Participating customers. An efficient service-production process also makes demands on participating customers. They have to bring in information, use equipment, and fulfill certain role expectations. Customers can therefore be regarded as a resource, and they have to be systematically enabled (by measures of customer development) to fulfill these requirements as a valuable resource (Gouthier and Schmid, 2003). This is services-specific knowledge.

This brief exploration demonstrates how service-specific knowledge is distinctive and valuable. Many of the matters touched on above are entirely (or mostly) irrelevant to the production of goods. It follows that if services are now to be defined (under the new paradigm) in terms of the general usefulness of goods, or in terms of the value of these goods for the customer, there is a danger that the most relevant contributions of services management and services marketing will fade from the spotlight. This would be another instance of a Pyrrhic loss in the midst of apparent “victory”.

The above discussion thus leads to the following proposition:

P6. A non-specific understanding of services carries the risk of losing valuable services-specific knowledge.

Conclusion and outlook
The ongoing discussion about how the concept of a “service” should be understood and how the concept of a “service” should be differentiated from the concept of a “good” has
been given a new direction and a new dynamic by the articles of Vargo and Lusch (2004a, b). These authors have advocated the replacement of a goods-centered and instrumental view of marketing with a perspective that they refer to as “service-centered”. In so doing, they have definitely provided fresh insights into the significance of the use of various products, and their work will certainly provide an impetus for more creative thought in this field. However, their broadening of the term “service”, with its implicit equating of the production and consumption of goods, is more problematic and requires further consideration. There are dangers in this approach. In particular, important differences between goods and services can become blurred, and the consequences for customers and companies of blurring these differences might include the loss of significant services-specific knowledge and the abandoning of relevant lines of enquiry.

It is apparent that the proposed value-related, generalized definition of “services” does not provide a final solution to the problem of how to differentiate between goods and services. As Lovelock and Gummesson (2004, p. 33) observed: “Declaring victory and abandoning the notion of a separate field of research is not an adequate option”.

What counts in the goods-related considerations is to identify relevant differences, i.e. distinctions that cause customers and companies to act differently. If there are goods that are characterized by a high degree of intangibility and customer integration in the production process and if these characteristics have distinct behavioral effects, it makes sense to deal with them thoroughly and in a focused way. We can come to terms to call this kind of goods “service”. However, whether we do it or not is not very important. Relevant is the identification and investigation of significant distinctions as we know them from typologies of physical goods and services. Additionally, new relevant differentiations can be taken into deeper consideration, like for instance the differences between goods that are exchanged by means of a transfer of ownership as opposed to those where the exchange takes the form of rentals or access fees. Lovelock and Gummesson (2004) propose this criterion of “non-ownership” as the new “rental/access paradigm” for the understanding of services. Persuasively they show the potential that lies in this perspective, if it is scientifically deepened. Of course, also in this case it is possible to discuss whether the terminological problem of differentiation is satisfactorily solved. But this is not of crucial importance. Finding a supposedly indisputable differentiation between goods and services is as unlikely to be found, as the Holy Grail.

Scientific progress is obtained by a sharpening of differentiation, not by abolishing it. An unlimited broadening of the concept of “services” could entail the loss of valuable services-specific knowledge and the neglect of vital lines of services-specific enquiry. The new paradigm that has been proposed for marketing might appear to be a victory for “services”, but it could well be a Pyrrhic victory. The established disciplines of services management and services marketing might well be moved to echo Pyrrhus: “One more such victory and I am lost” (Columbia, 2004).

References


