

Relationship marketing and the ‘new’ Service-Dominant logic of marketing: Are they rival logics?

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Abstract

The purpose of this paper is to seek a deeper understanding of the Service-Dominant (S-D) logic of marketing (Vargo and Lusch (2004 a, b) and make comparisons between this S-D logic and dominant perspectives from Relationship Marketing. To do this we will examine three value creating activities, explicit or implicit in both marketing approaches: relating, communicating and knowing. First, we argue that marketing relationships give structural support for the creation and application of valuable knowledge resources (relating); second, communicative interaction develops and sustains these relationships (communicating); and third, it is knowledge creation and application by suppliers (with or for customers) that transforms the nature of the customer's 'service' experience, especially when such knowledge is *co-created* through dialogue and learning together (knowing). We conclude that S-D logic is compatible with relationship marketing logic; indeed it has potential to extend it further into as yet uncharted waters. An example is the concept of *reciprocal value propositions* for generating value and sustainable relationships.

Key words: *Communicative interaction, exchange, dialogue, knowledge, relationship development, reciprocal value propositions.*

Introduction

The current pattern of marketing management for services has evolved since the late 1970s based on the claim that service (and services) marketing is different to goods marketing. This claim is based on the four differentiating service characteristics of intangibility, inseparability, heterogeneity, and perishability (Fisk, Brown and Bitner, 1993). Recently, Vargo and Lusch (2004b) challenged the usefulness of this service sub-set criteria, and introduced their own service-dominant (S-D) marketing logic for debate and evaluation (Vargo and Lusch, 2004a). This logic supports many of the insights of earlier relationship marketing scholars, and contains reworked perspectives on the importance of knowledge resources, communicative interaction and the much overlooked concept of *value-in-use*. Nevertheless, while there are connections made with various sub fields of marketing and management, the S-D logic with its pervasive service orientation proposes a significant update in marketing orthodoxy, and offers a challenge to marketing in practice.

The service logic of Vargo and Lusch (2004a) is "service dominant" because they seek to show that service is the undeniable core of every marketing interaction. This is not the conventional way of thinking but it has been emphasised by others, for example, in services marketing by Grönroos (1990), in relationship marketing by Christopher, et al (1991), and it may surprise some, in an early text by Kotler (1976). However, Vargo and Lusch

(2004a) extend their service orientation much further. They say that goods become valuable to customers as *service appliances*, as distribution mechanisms for service, so that service value is determined at time of use, as *value-in-use*. Put another way to reveal the controversial aspect of this agenda, the *time logic* of marketing exchange becomes open ended, from pre-sale service interaction to post-sale value-in-use, with the prospect of continuing further, as relationships evolve.

Also of particular note is that Vargo and Lusch posit the central activity of marketing as being interaction *with* customers, which generates a primary form of service experience. This is in contrast to the conventional view of firms marketing *to* customers. As mentioned, there can also be interaction with goods as appliances, which generate a secondary form of service experience. It follows that the customer is the arbiter of whatever value is derived from their particular experience of *both* kinds of service interaction. The S-D logic also emphasises the potential for co-creation and sharing of *knowledge resources* between customers, suppliers and other market actors. Again, value is derived from the service experience of the particular actors in interaction.

We believe that there is a need to extend and elaborate the Vargo and Lusch (2004a) logic by locating the term *exchange* as a macro-marketing concept but as one played out in various forms of *interaction*. By so doing, links in logic between relationship marketing and the S-D logic can be seen more clearly. For example, S-D logic does not exactly ignore interaction, nevertheless, interaction as *relationship development* does seem to be treated rather as a given. Also pivotal aspects of the value creation process associated with *marketing communication* are not, in our view, given adequate prominence within the S-D thesis. Both these aspects are well covered in the relationship marketing literature.

The purpose of this paper therefore is to seek deeper understanding of S-D logic and make comparisons between this and dominant perspectives from relationship marketing. To do this we will examine and compare three value creating activities that are explicit or implicit in the S-D logic: relating, communicating and knowing. First, we will argue that relationships give structural support for the creation and application of knowledge resources (relating). Second, communicative interaction develops and sustains these relationships (communicating). Third, knowledge creation and application by suppliers with or for customers transforms the nature of the customer service experience, especially when such knowledge is co-created through dialogue and learning together (knowing). We conclude that Service-Dominant logic is compatible with relationship marketing logic, indeed it extends it further into as yet uncharted waters.

Value creating activities

Relating

In the relationship marketing literature, it is well understood that marketing phenomena comprises interactions within networks of relationships

(Gummesson, 1999). At the macro level, these activities impact one on another with the consequences felt across time and place. At the micro level, this means marketing *exchange* is no longer transaction bound, indeed it never really was. At macro or micro levels, marketing exchange can be viewed as an open-ended process where interactions with customers occur across time and place, as enactments of the exchange process (Ballantyne, 2004).

In the services marketing literature, the *servicescape* or service setting is the place or space in which various time-based interactions involving customers are located. This setting for service is critical to how a seller's offering is valued (Bitner, 1992). Across time and place, and through various interaction episodes, sales take place in hopefully a virtuous cycle of recurrent service and sales. In addition, all such interactions can be understood as part of the customer relationship development process, a process in which the customer ultimately determines what is of value (Christopher, Payne and Ballantyne, 2002; Varey, 2002a).

Relationships are always present wherever there is interaction between two or more parties. However, the quality of relationships is emergent, derived from the experience of interacting together over time. It is the quality of the relationship that can be 'managed', not the relationship as such, and this is a common misconception. How to manage relationship quality is a consequence of learning together over time. This is an important issue because relationships that are beneficial to all parties provide structural support that is useful for the creation and application of knowledge resources on an ongoing basis, and sustaining mutual value.

These relational perspectives are not new in the relationship marketing, B2B marketing, services marketing or strategy literatures. However, consumer product dominant marketing texts tend to footnote it, possibly because a seller cannot manage relationship development as a one-way affair, especially through traditional unidirectional communication systems.

Communicating

Marketing communication is the underlying process through which marketing activity and resources are converted into economic outcomes. However, if we constantly emphasize outcomes over processes, we miss the point that marketing communication is grounded in purposeful social interaction (Varey, 2002b). Of course, many managers tend to strive to control their own destiny and that of their firm, rather than anticipate and respond to service needs (including the provision of service-able goods). A range of ethical issues can then disappear within the assumed ethical appropriateness of self-interested profit maximization.

Several related observations on marketing communication are appropriate here. First, the dominant forms of marketing communication today operate as one-way *message making* systems. In this context, commonplace thinking has come to accept as normal the decoupling of interaction and communication. Managers and firms may gain short-run advantage from this,

but it is unclear how societies or indeed any of a firm's constituent stakeholders benefit in the long run. This hegemonic communication logic remains dominant in marketing texts, and in use, notwithstanding the emergence of more interactive perspectives represented by Integrated Marketing Communication (for example, see Duncan and Moriarty, 1998; Grönroos and Lindberg-Repo, 1998). Even these newer perspectives give limited cover to the rich variety of ways to reconnect communication with interaction, generate and circulate information, co-create meaning, acquire knowledge, achieve flashes of inspired understanding, and to make value together.

S-D logic currently lacks the variety of communicative interaction that relationship marketing would propose (see for example, Varey and Ballantyne, 2005). We see communicative interaction in three ways. First as informational, second, as communicational, and third, as dialogical (see Table 1). This classification comprises pure (ideal) constructs and some category overlap is likely in practice. No distinction is made between communication using voice, text, image or gesture.

The *informational mode* includes all message-making which has the useful intention to inform. The more manipulative practices of 'transactional marketing' and much of what currently passes as Customer Relationship Management (CRM) represent extreme versions of this. Next, much of integrated marketing communication's (IMC) aspirations are grounded in the *communicational mode*, where listening and informing are both key aspects of interaction. Finally, we see *dialogue* as an advanced form of marketing communication because it supports *co-creation of value* and sustainable competitive advantage. It also makes a strong counterpoint to mainstream (i.e. goods-oriented) marketing's *monological* assumptions and the constraints on innovation that flow directly from that. This is not given any depth of treatment in the original S-D logic thesis although there are some supportive references made (Vargo and Lusch, 2004a: 13-14).

In everyday use the term *dialogue* is unreflectively taken to mean an extended conversation among two or more people. By way of contrast, our notion of dialogue embodies a pre-industrial learning perspective on human interaction in which dialogue operates as an interactive process of *learning together* (Ballantyne, 2004). The ethical underpinnings for dialogue are built on trust (Varey and Ballantyne, 2005). Without receiving the trust of another, and being trustworthy, dialogue comes to an end. Dialogical interaction fits well with the notion of relationship development and knowledge generation in marketing, even in an epoch of e-commerce (Varey, 2002a). We also see dialogue as an essential basis for the authentic pursuit of innovation and creativity in markets, within firms and between firms. The test for dialogical authenticity is whether interaction brings opportunities for learning together. Such a test might focus on creating common 'rules of engagement' including acceptable processes for disrupting strongly held but unexamined assumptions.

Table 1
A classification of forms of interaction

Mode of social association	Underlying decision practices	Source of value	Form of 'market' system governance
Informational: Persuasive message making	Controlling and coercing	Promised by <i>selling</i> the benefits	Power inequivalence (perceived as domination)
Communicational: Informing and being informed	Ethical communication with stakeholders	Co-produced by making and keeping <i>promises</i>	Relational norms (perceived as equitable exchanges)
Dialogical: A bias to learning	Finding a voice in co-determination	Emergent in <i>learning</i> together : co-created and integrated	Networked (perceived as spontaneity)

Source: Revised from Varey and Ballantyne (2005)

Mainstream goods-based marketing has locked itself into seeing persuasive message making as the dominant communication mode. Some forms of relationship marketing are similarly fixated. By way of contrast, dialogue holds the promise of revealing something new, and implies a developmental shift in the relationship between the parties involved. It follows that dialogue cannot be reduced to one person's activity alone, or reduced to one person's perspective alone – it is inherently relational. Engaging in dialogical interaction is not unidirectional, self-serving or accomplishment by control. On the contrary, the purpose is open ended, discovery oriented and value creating.

Knowing

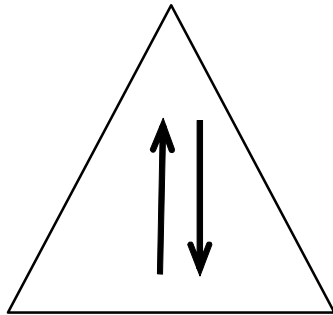
Vargo and Lusch have recognized the fundamental importance of human skills, competencies and the accumulated work experiences of employees (Vargo and Lusch, 2004a: 6-7). However, following Nonaka and Takeuchi, (1995), knowledge takes two forms – tacit and explicit. *Tacit knowledge* is employee know-how or competencies gained through observation, imitation and mutual experience. It operates more or less at an unconscious level of application, which means it tends to be under-recognised as a firm-based (collective) resource. This second form of knowledge, *explicit knowledge*, is media-based and can be digitized, duplicated and circulated.

Both forms of knowledge are valued as resources, but are different. The first is applied directly in creating value. The second is a store of knowledge that can be accessed for creating value. The first is an operant resource and the second is an operand resource, in the way that Vargo and Lusch (2004a: 2-3) use these terms. Many firms have over-invested in building up explicit forms of knowledge, using expensive data-warehousing or customer relationship management (CRM) systems (Kelly, 2005). At the same time they have ignored the active (operant) resource within, which is the employees' tacit knowledge. Tacit knowledge is derived especially from learning together as employees work across functional borders to achieve cost efficiencies, or working with customers or suppliers to improve customer value.

Vargo and Lusch (2004: 9) have argued that "knowledge is the fundamental source of competitive advantage". However, in the relationship marketing literature, as Storbacka and Lehtinen (2001) have noted, a firm's tacit knowledge (know-how) tends to "expire" at a faster rate than explicit (recorded) knowledge within the firm. This is especially apparent when the external business environment is changing rapidly. So we would want to amend Vargo and Lusch's proposition to affirm that it is *knowledge renewal* (the generation and application of knowledge) that is more aptly designated as a fundamental source of competitive advantage.

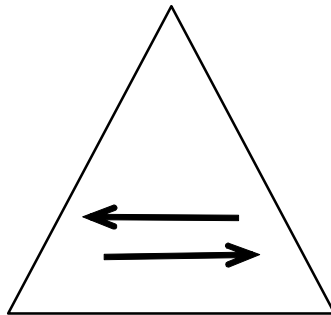
A critical input to the knowledge renewal process is the willingness of people (whether customers, suppliers or employees) to participate and pass on what amounts to their *know-how*, that is, their tacit knowledge. To do this, they need to *trust* the motives of those seeking their involvement. That said, knowledge sharing of any kind is by no means a simple matter. By way of example, Figure 1 describes three core knowledge exchange patterns within firms. In looking at the three patterns shown, the nature of the structural constraints working against knowledge renewal becomes clear. Pattern 1 (hierarchical exchange) is so pervasive in many firms that the other two more fluid knowledge exchange modes become blocked off or ignored.

The point is this: many managers do not understand that the quality of the relationships between employees is based on trust which in turn has a strong impact on the rate of knowledge renewal within the firm. To activate knowledge renewal within the firm, a relationship oriented *internal marketing* process can be used (Ballantyne, 2003; Varey and Lewis, 2000). Also, if we conceive of firms as *networks* of relationships, and if trusting relationships can be developed within firms and extended selectively between co-operating firms, we can begin to talk of knowledge renewal within *knowledge networks*, or *value constellations* (Normann and Ramirez, 1993).



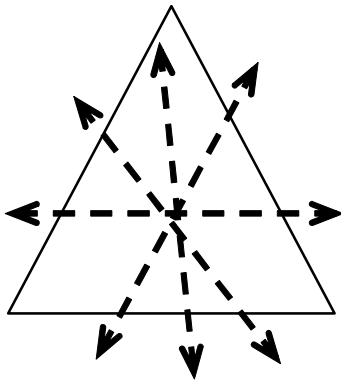
Pattern 1: Hierarchical exchanges

Expert knowledge is exchanged and legitimised through formal hierarchical channels. The dominant distribution path is from the top of the organisation to the bottom. Upward moving knowledge claims also occur, subject to explicit rules or implicit constraints.



Pattern 2: Inter-functional exchanges

Knowledge is exchanged between internal suppliers and internal customers along 'value chains, end to end. Knowledge claims are legitimised by reference to external customers' needs. The utility of these internal exchanges is often constrained by a lack of *customer consciousness*, producing self-serving links in the value-chain.



Pattern 3: Network exchanges

Knowledge is generated and circulated by exchanges within spontaneous, internal communities. Common social or economic interest drives these voluntary, employee networks. They may seek to legitimise their knowledge claims through the hierarchical organisation in which they are embedded.

Source: Ballantyne (2003)

Figure 1
Knowledge Exchange Patterns within Organizations

Knowledge sharing and application is also a 'hidden' source of competitive advantage according to Vargo and Lusch (2004a: 9). They mean that it is embedded in all goods and all interactive service experiences. While we agree, we argue the case for recognizing the especially 'hidden' nature of *tacit knowledge*. One additional point here is that an effective knowledge renewal strategy demands open interaction and dialogue within the firm, and between supplier firms and their customers, with the scope of involvement extending

potentially to even more broadly based networks of relationships between firms. In this way, managers and employees can constantly re-examine what they take for granted. There is no argument on this point with relationship marketing.

A triangulated view of value creating activities

So far we have reflected on three exchange-based activities for creating value between customers, suppliers and other market actors. We have emphasised the relationship marketing derived perspective that says that relationships provide structural support for knowledge renewal and sustaining other value creating activities. Also, we have elaborated our own concept of dialogical communication and set it within an integrated schema of communicative interaction, which we see as appropriate for relationship marketing (Varey and Ballantyne, 2005) and also as a means of extending and elaborating S-D logic. And we have extended the Vargo and Lusch (2004a) concept of knowledge sharing and application by coupling it with the idea of knowledge *generation* to make a more self-sustaining *knowledge renewal* system.

At this point we have a disagreement with Vargo and Lusch on two counts. They have said that the application of specialised skills and knowledge is *the* fundamental *unit* of exchange (2004a: 6). First, we propose that the term 'enabler of exchange' would be a better descriptor as the phenomena under reference is a process and not an object, and so cannot be an irreducible fundamental unit. More importantly, we argue that there are three (not one) enablers of exchange, that is, three strands of value creating activities that we believe make up a logical conceptual unity in a service-dominant theory of exchange.

Once a firm grasps the potential scope of interactive activities that are of value to customers and other stakeholders, they can choose to modify the nature of their interactions, or introduce improvements, fix weaknesses and eliminate unwanted steps in various upstream firm-based processes, thus improving customer service and reducing costs. They can do this at 'arms-length' from customers or in many cases, by working with customers to achieve better results.

Bringing these three exchange enablers together, we offer an elaboration and extension of the S-D logic (see Figure 2). This schema includes *knowing* through knowledge renewal (knowledge generation and application), *relating* through relationship development, and *communicating* through dialogue and other forms of communicative interaction. These strands of value-creating activities are not located uniquely with the supplier firm or even exclusively within the customer domain, but *between* customer and supplier – as productive exchange connections. These exchange concepts in various forms have currency in the relationship marketing literature as well.

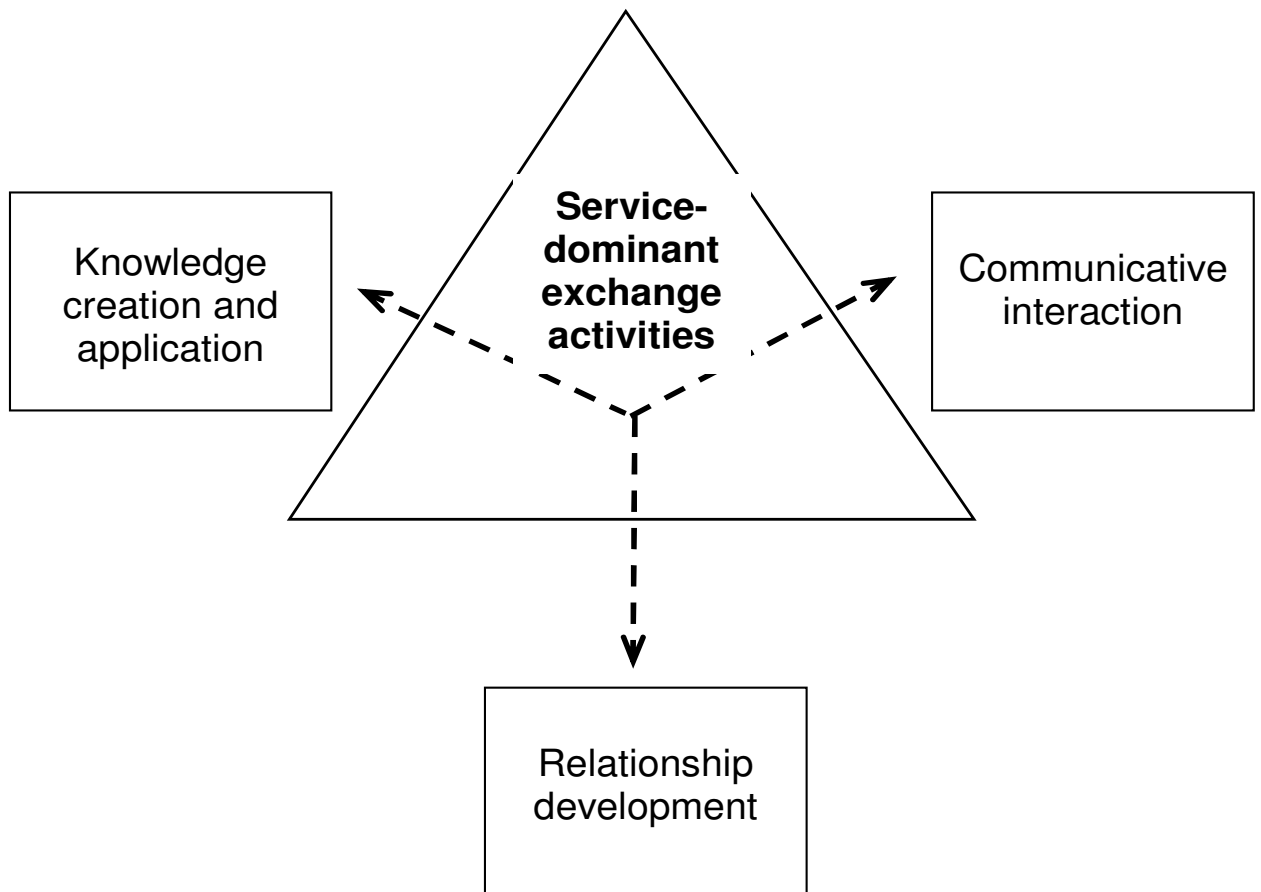


Figure 2
Exchange logic based on three value creating activities

When one talks of what is “new” in marketing a suitable cause for reflection is realising that Alderson, writing at the time of the then emerging *managerial* perspective of marketing located exchange as the *shared activity* that identified marketing (Alderson, 1957). In his words:

Marketing is the exchange which takes place between consuming groups and supplying groups.

It is also worth pondering the views of Philip Kotler in the 1976 edition of his *Marketing Management* (Kotler, 1976, p. 5), when he stated unequivocally that:

It is important not to limit our concept of product to physical objects. The key thing about a product is the service it renders. A physical good is simply a means of packaging a service.

Yet, just one year later, Shostack was calling for a “breaking free from product marketing (Shostack, 1977), a venture that gained sufficient support and momentum over time to achieve for *services* a recognised sub-disciplinary status of product marketing. This does not seem to be quite what Shostack had in mind at all. While *service* generally means giving support to

customers, *services* have achieved *product* status of their own today but within a more generalised field of product marketing. The earlier and distinctive *service-like* characteristic of goods has been lost to a whole new generation of mainstream marketers. And so mainstream marketing is a life lived for profit at a vastly restricted value. It is the re-emphasis on the service-ability of goods *in use* that is for us the most valuable retro-contribution from Vargo and Lusch (2004, a, b).

Implications of a triangulated S-D exchange logic

From the point of view of the firm, innovative exchange offerings are likely to develop from a better knowledge of *customers'* value creation processes, which involves asking questions like “what are my customers trying to do with our goods in use?” and “what are my customers’ goals and ambitions and how can we contribute?” This may seem like a restatement of the conventional first principles of assessing customer needs and wants, however, these probing questions are intervention points in the dynamics of both relationship marketing and the S-D logic.

Taking a triangulated view of a firm’s value creating activities, as has been discussed, legitimizes marketing communication in a variety of modalities to develop relationships and to support mutual learning and knowledge renewal. In the mainstream *goods-dominant* logic, marketing focus is on the exchange of material outputs and discrete associated activities. In the *service-dominant* logic, marketing focus is on managing the market-sensing processes and the continuous service flows that come from that (Vargo and Lusch, 2004a: 13).

The service-dominant logic also encourages the sharing of new ideas and new knowledge within the firm, and with key customers and suppliers. Looked at in this way, marketing innovation is a consequence of ‘breaking free’ from the goods-dominant mental models that no longer serve the continuous renewal of strategies and competencies. For example, the idea of *co-creation* seems to us to have radical implications for relationship marketing, in making business promises and delivering on them, especially in the form of reciprocal value propositions, and sustainable value.

These issues are discussed below.

Co-created value

Along with Prahalad (2004) and others, we take the view that it is time to recognise the limitations of the firm-centric perspective on how to engage with customers, and to see what opportunities there are as *co-producers* of value. We see the co-production of value occurring as a consequence of extending the range and depth of communicative interaction prior to sale as well as post-sale, quite apart from any value-in-use provided by the goods component within any value assessment. A related point is that *relationship-specific* knowledge generated in communicative interaction over time means that all parties involved avoid having to start as strangers in each and every new transaction cycle (Ballantyne, 2004).

The application of knowledge can be explicit or tacit, co-produced or co-created. Here we want to make a distinction between co-production of knowledge through communicational interaction (an exchange) and co-creation through dialogical interaction (something unique and new). In contrast to Vargo and Lusch (2004a), we prefer to reserve the terms *co-creation of value* and *co-creation of knowledge* for more spontaneous, collaborative and dialogical interactions, where putting things together that others do not think go together achieves something new and unique in the process, leading to competitive advantage. If both parties go further and trust each other in dialogue, the co-creation of knowledge might for example generate cost efficiencies as well, which is another kind of value.

Extending and elaborating Vargo and Lusch (2004a), value becomes for us something judged in two time-place forms – first, *exchange value* is one kind of judgment of desirability and preference; and second, because a ‘product’ is a store of potential value, judging *value-in-use* is its confirmation. One interesting question that arises is where to delimit marketing activity, given that the customer’s value determination under S-D logic extends beyond point of sale beyond and into the domain of the value-in-use of goods. To rephrase Regis McKenna’s famous assertion, marketing may well be everything but not everything is marketing (McKenna, 1991).

Reciprocal value propositions

We agree with Vargo and Lusch (2004a: 11) about the provisional or promise-bound state of value propositions. We see value-in-use as the enactment of the value propositions that buyers and sellers express. The firm can only make value propositions (offerings), since it is the customer who determines value and co-produces it (Vargo and Lusch, 2004a). This means that exchange value as determined by a customer includes an estimated value-in-use of goods that are part of what is exchanged.

On the other hand, there can be no satisfactory ongoing relationship development unless suppliers also determine their own sense of value, which means that, realistically, value propositions are always *reciprocal* promises of value, operating between suppliers and customers, both seeking an equitable exchange. Thus value propositions are two-way, a *quid pro quo*. Otherwise, there is no sale (Ballantyne, 2003). Of course a firm may set up value propositions in advance, which may or may not be acceptable to the other party. They may be informal, or take the form of a negotiated *co-created* agreement, which may in turn be the outcome of prior dialogical interaction (Payne, Ballantyne and Christopher, 2005: 864).

In adopting a theory of subjective value making as we believe we must, *things* (objects or the conditions produced by actions) cannot have an embedded value. Things have value only insofar as they serve needs. Of course, the judgment of the value of things will change according to the needs of the particular evaluator. Thus in any marketing exchange, there will be at least two evaluators and their value perspectives become linked together as a

reciprocal value proposition. This point is so obvious that it can be overlooked, hence our emphasis on the *reciprocity* of value propositions.

Conclusions

We have argued that a variety of communication modes is needed to augment the S-D marketing logic. We have also emphasised that firm-initiated dialogical interaction with customers and suppliers is the fast-track route to learning together and hence to knowledge renewal. This is important because external and internal resources of knowledge available to the firm are subject to attrition over time. We have also emphasized that co-production of value requires that marketers view service interactions relationally. Relationships are emergent by nature, a consequence of learning together over time. This applies to firms, customers and all other exchange parties. Clearly, both relationship marketing and S-D logic can only function if marketing's involvement is collaborative and seen to be so.

The point is this: Instead of thinking about relationships, communication and knowledge renewal as a consequence of managerial *action*, as is common in hierarchical organisations, the appropriate management model becomes one of supplier-customer *interaction*. To put it simply, customers derive value from service interaction, or in interaction with goods-in-use. Our view of relationship marketing logic and S-D logic is that the customer always determines what is of value. We would elaborate and extend Vargo and Lusch (2004a) on this point only by saying that this *value* is the customer's preferential judgment of the *meaning* of the service experience [1].

Overall, our assessment is that S-D logic is indeed compatible with core relationship marketing logic, but that it redirects it and extends it into as yet uncharted waters, especially relating to relationship development, communicative interaction and knowledge renewal. We see S-D logic as a new marketing perspective built on the old exchange principle, but one that emphasises social interactions with economic consequence in an extended cycle of service. This is entirely compatible with some contemporary relationship marketing practice. However, one issue arising is whether the last 10 years of routinizing of relationship marketing principles into supplier-dominant technology-driven CRM straitjackets has been a useful experience for the relationship marketing discipline, or an aberration.

Endnote

[1] We understand *value* as meaning a 'preferential judgment' following Holbrook (1994), while 'values' are the criteria, or guiding principles, by which such judgments are made.

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