



## Pricing of experience products under consumer heterogeneity

Atanu Adhikari<sup>a,\*</sup>, Amiya Basu<sup>b</sup>, S.P. Raj<sup>b</sup>

<sup>a</sup> Indian Institute of Management, Kozhikode, Kunnammangalam, Kozhikode 673570, Kerala, India

<sup>b</sup> Whitman School of Management, Syracuse University, 721 University Avenue, Syracuse, NY 13244-2450, United States

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### ABSTRACT

An experience is designed to engage the customer and leave a lasting memory. While experience is relevant to a broad array of marketing situations including retailing, leisure, entertainment, and hospitality industries, no prior studies could be located that have assessed the values of experience components to customers, and the pricing implications of such assessments.

This study illustrates how an experience offering can be designed and priced using the context of the upscale dining experience. Choice-based conjoint analysis and a hierarchical Bayes methodology are used. A cluster analysis of the part-worth scores reveals three very distinct benefit segments. This study shows how a marketer can: (1) Design and price experience products to match the needs of the different benefit segments. This study also shows how to find optimum price for maximization of revenue and profit. (2) Examine how a product would perform against known competitors, and the potential impact of new competitive entries. (3) Determine own and cross-price elasticities of demand to assess resiliency in the face of price competition.

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### 1. Introduction

Experience is defined as a bundle of sensory memorabilia that engages the customer and delivers a sensory feeling and a lasting memory (Joy and Sherry, 2003; Pine and Gilmore, 1998). A customer buys an experience to associate himself or herself with a series of memorable events that an experience provider stages (Tsai and Lu, 2012; Joy and Sherry, 2003; O'Sullivan and Spangler, 1998). For example, a theme park may offer a ride with "pirates," and a restaurant may be designed like a rainforest to provide the ambience the customer desires. The marketer succeeds when customers remember the experience for a prolonged duration (Pine and Gilmore, 1999). Experience is relevant to a broad array of marketing situations including retailing, leisure, entertainment and hospitality industries. While experience is certainly relevant to developed economies like the USA, it is, perhaps, even more so to rising economies like India with an emerging affluent middle class. In spite of its importance, no study could be found that has assessed the value of experience components to customers, and the pricing implications of such assessments.

Experience differs from service, primarily because experience motivates the consumers more at an emotional level rather than restricting itself to a merely cognitive level. As Wirthlin notes in

Wirthlin and Hall (2004), reason persuades, emotion motivates. Lee and Ariely (2006) described experience products as luxury goods that are multisensory and provide experiential consumption, fun, pleasure and memorable events. It was noted that whereas the consumption behavior of experience consumers showed large inter-consumer variability in the context of a specific experience attribute, the standard service attributes, like empathy and reliability, would not show such extreme variability as process improvements and standardization of operations are implemented. In the case of traditional commodities, products or services, there is no component that engages one or more of the consumer's senses in the consumption process through an experience. The traditionally oriented buying decision models differ from experiential models in four distinctive ways: mental constructs, product classes, product usage and individual difference (Holbrook and Hirschman, 1982). Moon et al. (2008) found that product attribute personalization increases intention to buy and consumers are willing to pay a higher price for a personalized product (i.e., one customized to an individual's preferences) than a standardized product. In several buying situations, where the product is high in experiential attributes (e.g., memorabilia in a Hard Rock Cafe), the desire to experience such memorabilia generates an additional utility for the product. It creates different kinds of emotive arousal within the consumer, as a result of which he tends to buy an experience as an independent component or complete product (Wall and Berry, 2007).

Experience products may vary from a customized one like a personalized party to a standardized one like a ride at a theme park (Holbrook and Hirschman, 1982; Kerin et al., 1992;

\* Corresponding author. Tel.: +91 495 2809 241; fax: +91 495 2803 010.

E-mail addresses: [atanu.adhikari@iimk.ac.in](mailto:atanu.adhikari@iimk.ac.in) (A. Adhikari), [abasu@syr.edu](mailto:abasu@syr.edu) (A. Basu), [spraj@syr.edu](mailto:spraj@syr.edu) (S.P. Raj).

Jones et al., 2006). Sometimes the experience is marketed by itself, such as in the context of sports events, music concerts, personalized parties, holiday cruises, and tourism (Baum and Mudambi, 1995). In other cases experience enhances the consumption of a product or a service. For example, live music and attractive décor enhance the dining experience at a restaurant (service). Themed stores enhance the purchase experience for clothes and apparel (Ladhari et al., 2008; Bowen and Sparks, 1998).

Experience is involved whenever a product or service is co-created by a customer. For instance, a customer may work with the chef to create his own food in a restaurant, sing along with a professional artist in Disneyland, engage in the drama at a dinner theater, or design and build a stuffed toy. While co-creation has the potential to make the experience more memorable to the customer, not all experiences are co-created. For example, a listener can passively experience the performance at a symphony (Pantelidis, 2010; Pine and Gilmore, 1998).

## 2. Meaning of experience and motivation for this study

### 2.1. Example of experience product

A marketer may provide the same core product or service with progressively greater experience components. Suppose a customer has decided to watch a movie. He may rent the movie from Netflix and watch at home, at a fairly low cost. When the customer watches the same movie in a multiplex, he will pay a considerably greater amount. His expenditure would be still higher if he watched the movie at an IMAX theater. While Netflix provides just the movie, the multiplex theater and the IMAX progressively enhance the sensory experience through service components such as screen size, sound quality and effects, and seating comfort, making the experience more memorable. Similarly, one may have a cup of coffee at home, have it at a fast food outlet, or sit and enjoy the coffee at a premium coffee shop such as Starbucks.

### 2.2. Unique characteristics of experience products

From the perspective of the marketer, experience must be staged carefully by the appropriate design of the tangible environment of the experience. The attributes of that environment may include features such as the seating comfort at a movie theater, the ambient music at a restaurant, the offering of memorabilia such as tee shirts and coffee mugs, and also the price of the experience. Note that while these attributes are external to the customer, the experience is in the mind of the customer and is thus inherently idiosyncratic (Pine and Gilmore, 1998). As customers are likely to exhibit considerable variation in their response to the same configuration of attributes, the marketer must take such heterogeneity into account as she makes a trade-off between the cost and value added by the experience involved. A similar challenge is encountered by service providers in general (Grewal et al., 2009; Parasuraman et al., 1985).

### 2.3. Motivation for present study

Prior literature has conceptualized experience in three related but distinct contexts. In the first context, experience is confined to the assessment of service attributes, such as a customer's experience with a hotel employee leading to the assessment of courtesy and reliability (Rivera and Upchurch, 2008; Grewal et al., 2009; Monty and Skidmore, 2003). In the second context, experience is less tangible, but it is still relevant in conjunction with a product or service. For example, the lighting, fragrance, and design of a store, and the background music are all meant to enhance the shopping experience (Puccinelli et al., 2009). Finally, an experience may be

an object of consumption by itself, and the product and service are mere props for the experience (Pine and Gilmore, 1998). It may be noted that as consumers progress through the contexts, experience assumes greater prominence. The increase in prominence and the idiosyncratic nature of experience have major marketing implications:

- Experiences often have many dimensions, and the marketer can offer many variations of the experience by adding or changing these dimensions. For example, a marketer of customized parties may allow the customer to choose from three types of background music (classical, rock and roll, urban), three themes (Harry Potter, Lord of the Rings, Star War), three types of food (American, Oriental, Mediterranean), and three locations, thereby creating 81 variations to choose from.
- Customers are likely to exhibit considerable variation in how they evaluate the different components of an experience. For example, customers may have very different preferences in music, décor, and themes. Thus, the ideal combination of experience dimensions would also vary greatly among customers.
- Each experience dimension represents both a cost and an opportunity to the marketer, and appropriate decision making requires the knowledge of how the customer evaluates each experience dimension.
- Emerging markets such as India are now at a stage where it is profitable to offer experience products; until recently the focus was primarily on traditional goods and services and a study such as this could provide validation for this emerging trend.

### 2.4. Objective of the study

The objective of this study is to examine how to price an experience. To our knowledge, the marketing literature has not addressed this issue in an integrated manner. While there is a research literature on the pricing of experience products in tourism and lodging (Monty and Skidmore, 2003; Jiang et al., 2002; Keifer and Kelly, 1995), in economics (Bergemann and Välimäki, 2006; Shapiro, 1983), that literature focuses on tangible products, and “experience” refers to customer learning of the value of a product through consumption. In contrast, this study focuses on the design of the experience itself and how different customers may respond differently to the same combination of experience dimensions.

Specifically, the objective of this paper is to:

1. Describe a method to design and price a product which has experience components.
2. Identify market segments which may differ in their perceptions of the utilities offered by the experience components.
3. Understand customer reactions to changes in attribute levels of experience products and show how to assess customer price sensitivity to experience components.

This research uses conjoint analysis to determine how a customer values different levels of an experience dimension. This task is difficult as experiences typically involve many dimensions, and the assessment of the dimensions varies widely among customers. To address these challenges, choice-based conjoint analysis is used and a hierarchical Bayes methodology to identify customer segments. In the context of experience, use of choice based conjoint analysis is an appropriate approach. This is because: (i) conjoint methodology has the advantage over an experimental design approach, especially when it is used to capture price premium for a product which is a bundle of several distinct attributes that the consumers experience as a part of the product, creation process or consumption (Baek et al., 2006; Iyengar et al., 2008; Koo et al., 1999). Ding et al. (2005) found greater validity and

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