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## From goods-service logic to a memory-dominant logic: Business logic evolution and application in hospitality

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## ABSTRACT

Earlier theories of business logics represent a shift in the value creation mindset. This study proposes a framework related to the applicability within the context of hospitality and advocates advancing the existing logic beyond value-in-use or experience to value-in-memory as a firm strategy described as memory-dominant logic (MDL). The proposed framework indicates that the range of business logic constructs represent complementary and contrasting aspects and that their applicability are likely to be dependent on the institutional context, market environment and target market characteristics. The framework uses an adapted model of experiential learning and support from the tourism, hospitality, psychology, marketing and service literatures. The MDL proposition reaffirms the evolution of value creation and underscores the potential value for the firm as well as challenges. Future research, a model of the proposed mediating and moderating relationships and practical illustrations are provided.

### 1. Introduction

Much has been written on the transition from a goods-dominant logic (GDL) to a service-dominant logic (SDL) with the underlying propositions of changes in the value received by consumers (Vargo and Lusch, 2004). A further derivation tied to co-creation are customer-centric concepts that can be described as a customer-dominant logic (CDL) with value created based on experience (Heinonen et al., 2013; Shah et al., 2006). These value shifts emerged from the logic that services are oriented towards the creation of personalized encounters rather than satisfaction produced from mere consumption. The germinal experience economy concept elucidated by Schmitt (1999) and Pine and Gilmore (1999) described the nature of such transactions and resulting interactions leading to consumer experiential value. Weaknesses of the early experience economy literature are a supply-side view of the experience ‘stager’ (Boswijk et al., 2007) and the assumption that “no matter how it’s viewed, any dimension of enjoyment usually translates into the experience being more memorable” (Pine and Gilmore, 2011: xxi).

While the emergence of SDL (Vargo and Lusch, 2004), co-creation (Prahalad and Ramaswamy, 2004), and iterations of the experience

(Boswijk et al., 2012; Pine and Gilmore, 2011) have broadened our understanding of value creation through producer-customer interactions, little research provides guidance on how this experiential journey is viable (Lemon and Verhoef, 2016), how various business logics might be useful or limiting in hospitality, and how experiences facilitate memories. Our goal in this article is to provide a research agenda and elucidate the role of memories in order to delve into how they connect with experiences. A critical question is whether or how these resultant experiences translate into memories that impact the perception of value.

A challenge with any business logic is that industry sectors vary in the provision of a product, service, or experience and the resultant transformation of experience to memory. Therefore, how memorable experiences are contextually based in relation to the hospitality sector needs further elaboration. Accordingly, this manuscript draws from several research strands to describe an integrative framework to facilitate a memory-dominant logic (MDL). The proposed model was drawn from several approaches to extend theory from a co-produced vs. co-created experience argument – to a continuum of logics with the goal of converting experiences to memories. The underpinning propositions are drawn from studies that indicate individuals’ experiences may or may

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not translate into memories (Ballantyne et al., 2011; Kahneman and Riis, 2005). Answers to questions such as ‘how was your stay?’ or ‘how was your meal?’ may not be based on the actual experience but instead on relatively stable memories and reminiscing to create a longer impact for the experiencing consumer (Kahneman and Riis, 2005). This reminiscing process is likely to be impacted by the consumer hedonic state, operators influence on the affective response (Dasu and Chase, 2013), individuals’ cognitive evaluations (Kim et al., 2012) and other factors such as past experiences, familiarity and engagement (Hwang and Seo, 2016). The framework incorporates facilitating factors, attribute types, and higher-order outcomes such as memories, well-being, quality of life, and happiness.

This process extends the literature by providing a basis for the extension of business logic from GDL, SDL and CDL to MDL. It proposes that they represent a continuum driven by market and firm heterogeneity rather than traditional views of mutually exclusive strategy types (i.e. Porter, 1996). The discussion integrates this framework at multiple levels of analysis for future research and application.

## 2. Background

A key challenge with existing studies proposing the variety of business logics is the artificial separation of supply-side and demand-side perspectives. For instance, the various generations of the experience economy (i.e. Boswijk et al., 2012; Pine and Gilmore, 2011) applied to hospitality are predominantly based on a supply-side perspective. While supply-side logic is focused on internal experience staging, the incorporation of demand-side logic assists in determining how and when firms are able to provide enduring value creation. This supply-side focus is also prevalent in traditional strategy literature such as the resource-based view where strategic thought is limited to a two-firm, one-market model (Priem et al., 2012). By incorporating both demand-side and supply-side thinking, a broader understanding of the value of various business logics (GDL, SDL, CDL and MDL) is possible. This thought process balances the need for hospitality firms to develop internal capabilities based on market and consumer heterogeneity (demand-side perspective) as well as supply-side concepts (firm heterogeneity or differentiation needs) creating a higher potential for competitive advantage.

Further, limited research exists that articulates the connection among service stage elements and guest-provider co-creation to aspects that facilitate positive memories and lead to perceptions of well-being and happiness. The following sections outline key definitions used in this manuscript and provides an overview of related research streams.

### 2.1. Definitions and boundary conditions

In this section, we provide key definitions and boundary conditions of the business logic framework. The hospitality context is the focus of this study. The hospitality definition can be difficult; following descriptions by Ottenbacher et al. (2009), hospitality can be defined to include the business sectors of lodging, foodservice, leisure, travel, conventions, and attractions. The rationale for focusing on this context is that such services are likely to utilize a value-in-experience mindset with the potential for direct benefits from a value-in-memory concept.

Synthesizing earlier work, we define demand-side strategy as a capability to manage internal resources and the external marketplace with the propensity to sense needs and make timely, market-oriented decisions (Barreto, 2010; Priem et al., 2012). The notion of internal and external aspects are articulated in the customer journey and experience literature (Lemon and Verhoef, 2016). Following these concepts, the continuum of business logics applies to the dynamic nature of consumer needs heterogeneity (external influences) and internal resource heterogeneity (service-experience design) for the creation of barriers to imitation. A key assumption is that business logics are not mutually

exclusive but are complementary; the success of a particular type is assumed to be dependent on service-experience type, market context, and consumer preferences

GDL is defined as a process that uses a co-production approach, and customer value is primarily transactional or value-in-exchange. SDL is defined as a process that attempts to co-create with the customer and a primary value of value-in-use (Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004). The definition of CDL reflects an experience-based mindset where services are co-created; value is based on experience elements that are likely to incorporate sensory, affective, cognitive, physical and social identity aspects (Schmitt, 2011; Heinonen et al., 2013). Finally, MDL is defined as service experience delivery with the desire to create value through the conversion to memorable experiences. This logic combines the concepts of co-creation and experience with emotional arousal and reflective observations to facilitate memories (Dasu and Chase, 2013; McGaugh, 2015).

For memories to become ‘memorable’, the incumbent should have positive experiences. The MDL focus is on memorability and the duration of time co-created memory occupies the customer’s mind. This focuses on connecting the interactions that produce experiences either singularly (by one of the parties involved) or jointly (two or more of the parties involved). Such interactions focus not on co-creating a positive outcome alone but the essence of MDL lies in how exchanges lead to the creation of memories, a recall factor and leading to reminiscence. Reminiscing is related to memorable experiences resulting from exchanges with positive outcomes. Thus, the current study assumes memorable experiences are associated with positive reminiscing.

### 2.2. Overview of research streams

The concepts of GDL, SDL and CDL have emerged out of literature related to co-creation and from three main fields (Roberts and Darler, 2017). In the marketing literature, co-creation has produced considerable work associated with the ideas of SDL taking a perspective of shared responsibilities by both customers and service providers (Prahalad and Ramaswamy, 2004; Vargo and Lusch, 2004). This logic contributed to revising the customer experience concept to include a co-created experience (Boswijk et al., 2012; Lemon and Verhoef, 2016). Following this mindset, co-creation in the innovation literature considers it to allow firms to develop relationships and interact to gain new knowledge (Roberts and Darler, 2017); this overlaps into the customer engagement literature (i.e. Brodie et al., 2011; Chathoth et al., 2016).

The studies on value-in-use (SDL) and value-in-experience (CDL) builds on co-creation and how value is formulated; this outcome is believed to be a co-created process among the customer, the firm and other actors. Co-creation discussions have varied distinctions across concepts of value-in-exchange, value-in-use, value-in-context, and value-in-experience (Hansen, 2017). This diversity in value has facilitated the development of an emerging literature in the context of hospitality and tourism (Chathoth et al., 2016; Prebensen and Foss, 2011; Shaw et al., 2011). Hospitality studies attempt to broaden into experience-based notions of value based on situational and personal factors (e.g., Lashley, 2017). This proposition more closely aligns with value-in-context and value-in-experience logics, which have progressed from the initial works in SDL (Vargo and Lusch, 2004) and CDL (Grönroos and Voima, 2013; Heinonen et al., 2013).

While Schmitt et al. (2015) indicate that all service encounters lead to an experience for the consumer, this holistic notion supports the incorporation of consumer “cognitive, emotional, sensory, social and spiritual responses to all interactions” with resulting outcomes beyond satisfaction or loyalty (Lemon and Verhoef, 2016: 70). Following transformational service research, service consumption influences customer well-being (Ostrom et al., 2010); one type is hedonic well-being which is grounded in the ideas of happiness, pleasure attainment and pain avoidance (Ryan and Deci, 2001: 141). Hedonic well-being can apply at individual and collective levels (Anderson et al., 2013) and

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