



## Experience economy in the hospitality and tourism context

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### ABSTRACT

Experienced utility is an instantly perceived hedonic quality. Rooted in the idea of experienced utility, experience economy assumes that increased consumer experienced utility raises industry revenue. Previous studies have not explored the financial values identified with experiences as the main point of experience economy. The aim of this study was to explore the financial values of experience and service that hospitality and tourism customers perceive. A total of 182 hospitality and tourism customer responses were analyzed using content analysis, cross-tabulations, *t*-test, and ANOVA. The results revealed that the perceptual schema of product economy is clearer than that of experience economy; the monetary value of experience is lower than that of service; and there is no significant difference in financial values among experience types. Future research should examine the financial gain and loss values of specific experiential and service products perceived by customers from diverse backgrounds.

### 1. Introduction

The concepts of experienced utility (Kahneman & Thaler, 1991, 2006; Kahneman, Wakker, & Sarin, 1997) and experience economy (Pine & Gilmore, 1999) are considered important in postmodern society. Decision utility, which dominates traditional economic theories, assumes that the choices consumers make are rational and made to maximize utility on the basis of a balance between capital losses and gains, whereas experienced utility focuses on the hedonic quality individuals currently enjoy (Kahneman & Thaler, 2006). As people increasingly pursue experiential values beyond goods and services, it is assumed that people are more likely to spend according to the extent to which they enjoy (Pine & Gilmore, 1999). Several researchers have endeavored to develop dimensions and scales to manifest experience in a measurable form (Kim, Ritchie, & McCormick, 2012; Loureiro, 2014; Oh, Fiore, & Jeong, 2007). Little progress has been made in experience economy research, although this issue is fundamentally important in the tourism context (Ritchie, Tung, & Ritchie, 2011). Therefore, this study delves more deeply into experience economy, rooted in the notion of experienced utility. More specifically, this study explores how consumers perceptually discriminate between service and experience as well as among experience types, and further how much they are willing to pay on service and experience types.

### 2. Literature review

Kahneman (2000) is the psychologist and behavioral economist who

introduced and formulated experienced utility. In his research, experienced utility is distinguished from the decision utility used by traditional economic theories (Kahneman, 2000; Kahneman & Thaler, 1991; Kahneman & Tversky, 1979). The weight of the outcome of a decision is considered important for decision utility, whereas experienced utility focuses on hedonic quality. Experienced utility increases proportionally with an instantly perceived hedonic quality. Pine and Gilmore (2011) endeavored to develop the idea of experienced utility for industrial application. Therefore, it seems to be very important to begin with an in-depth understanding of the underlying psychological and economic factors in experienced utility and experience economy before applying these concepts.

#### 2.1. Experienced utility and experience economy

Approaches to the nature and measurement of utility have been much debated. The theory of experienced utility (Kahneman, 2000; Kahneman & Thaler, 1991; Kahneman & Tversky, 1979) assumes that emotion precedes rationality and thus that future prediction and decision making are based on an assessment of hedonic quality. To illustrate, Kahneman (2011) uses the example of a ticket holder. A fan of Team A at a sports event refuses to sell a ticket to another fan who is willing to purchase it at a very high price, demonstrating that symbolic goods held for use (e.g., wine, tickets, unique mugs) are to be enjoyed instead of being traded. Kahneman (2011) provides an adequate account of the underlying mechanism in terms of a combination of a heuristic system and loss aversion. People tend to use a heuristic system

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to reduce cognitive complexity because such a system uses a shortcut to information stored in memory and retrieves more salient information. In addition, people's attitudes to loss and gain differ because they enjoy gaining and dislike losing. This is shown clearly in Kahneman's example whereby individuals are inclined to choose A when A offers \$100 at a 100% certainty and B provides \$200 at a 50% probability in order to gain despite the similarity between the likely results. In another example, one person receives extra vacation days and another receives extra salary as gifts of equal value. Later, they are allowed to exchange gifts, but they insist on keeping what they have, even though, objectively, there would be no loss because both were gifts. They wanted to retain their gifts because they had their own status quo-based reference points, and the subjectively perceived values were not equal. Psychologically, the negative sides of a potential loss loom larger than the advantages of a corresponding gain; this is why individuals tend to automatically avoid a loss psychologically perceived as larger regardless of the objectively evaluated financial values. Traditional economic theories do not account for why individuals would pay different amounts of money to gain the same amount of experienced utility. From an economic point of view, Kahneman and Thaler (1991) suggested monetary values consistent with experienced utility.

Rooted in the idea of experienced utility, the experience economy was proposed by Pine and Gilmore (1999, 2011). Its core idea is the development of experienced utility-based industry strategies; Pine and Gilmore believed that an increase in industry revenue is accompanied by an increase in consumer-experienced utility. Pine and Gilmore emphasized the sale of experience to be enjoyed rather than the sale of goods and services to be traded, and stressed the importance of developing pricing strategies for consumer hedonic quality. This point is supported by Addis and Holbrook's (2001) view that this phenomenon reflects the importance of subjectivity in postmodern society, as it shifts from utilitarian consumption to hedonic consumption associated with the pursuit of stimulation through multisensory experience, fantasy, feelings, and fun. Pizam (2010) also supports this point through an example in which consumers pay \$365 at Tokyo's Aragawa steakhouse but \$40 at an outback restaurant, not necessarily to enjoy tangible products but for the experience. Pine and Gilmore (2011) start from the position that the experience economy is distinguished from industrial and service economies in terms of function, characteristics, attributes, sellers, buyers, and components. Industrial and service economies function to make goods and deliver service, whereas an experience economy stages experience. Goods, services, and experience are tangible, intangible and memorable, respectively, and their attributes have been described as standardized, customized, and personal. Buyers in a service economy look for benefits as clients, whereas buyers in an experience economy pursue sensations as guests.

To illustrate the maximization of hedonic values embedded in different experience types in an experience economy, Pine and Gilmore (2011) elaborated their description of experience types into a theorized classification map expressing the level of guest participation (i.e., active–passive) on the horizontal axis and the level of connecting guests to events (i.e., absorption–immersion) on the vertical axis. Passive participation is described as the role of an observer or listener, whereas active participation influences the performance that produces the experience, such as for skiers. On the vertical line, absorption is a state in which a person's attention is fully occupied with the experience, and immersion is depicted as a state in which the person is physically or virtually a part of what is being experienced. Entertainment occurs in the absorption–passive domain, educational experience in the absorption–active domain, escapist in the immersion–active domain, and esthetic experience in the immersion–passive domain. Pine and Gilmore illustrate by observing that entertainment relates to customers' desire “to enjoy” but is not about entertaining them; rather, it is about engaging them. Educational experience is that which maximizes the experience associated with customers' desire “to learn,” but it is important to make them active learners. The escapist experience relates to

customers' desire “to go and do” something, including an online experience. Esthetic experience is associated with “wanting to be” in a certain place.

This classification shows that a simple method of distinguishing experience from service is to determine whether consumers engage in the event. However, it is questionable whether consumers are able to clearly distinguish service from experience and decide to pay more for experiential values based on that distinction. Although Pine and Gilmore (1999) assume that an increase in consumer experienced utility results in an increase in industry revenue, it is difficult to accurately reflect the core idea of experienced utility because pricing is determined according to the industry. From this perspective, customers are still reactive rather than proactive consumers who actively evaluate and determine monetary values based on their instant hedonic feelings. An experience economy depends on whether customers accept a given price set by the industry as a reference point. Though the experience economy has been theorized, there is little evidence about how consumers are aware of the difference between service and experience or distinguish among types of experience, motivating them to pay the amount of money associated with that experience.

## 2.2. Experience economy in hospitality and tourism

The experience economy research is in a very early stage. Ritchie et al. (2011) assessed major tourism journals, finding that, even at a broad level, experience-related research had not significantly progressed quantitatively or qualitatively. Although much of the tourist experience research has explored psychological aspects, very little research on experiential values has been conducted in the experience economy context. From the consumer perspective, the experience economy does not yet seem to be a substantial entity. Ankor (2012) pointed out that experience is too complex to be part of industry-determined strategies. Tan, Kung, and Luh (2013) argued that outer interactions such as environment, people, and product/service/experience and inner responses such as consciousness, needs, and creativity are complexly interrelated in tourist experiences.

Several hospitality and tourism studies have explored the psychological domains of experience prior to the experience economy. Oh et al. (2007) investigated the experiential components perceived by bed and breakfast (B&B) guests. They developed a scale based on Pine and Gilmore's four types of experience (i.e., entertainment, education, escapism, and esthetics) along with arousal (i.e., the intensity of the physiological response to stimulus), memory (i.e., as enhanced by sensorial experiences), overall perceived quality, and customer satisfaction, all considered important for business success. These domains were tested on a sample of 419 guests. The findings showed that the first-order constructs of the variables were more useful for managing B & B properties. Later, this scale was adopted by Loureiro (2014), who examined if the experiential components influenced place attachment and behavioral intention through pleasant arousal and memory using a sample of 222 guests staying at six lodging units in a rural tourism area in Portugal. The results revealed that guests who felt more experiential values were more likely to feel an emotional attachment to and an intention to revisit the rural place as well as to recommend and spread positive word-of-mouth about it; this effect was mediated by pleasant arousal and memorability.

In contrast to Oh et al.'s (2007) scale, Kim et al.'s (2012) scale focuses on the memorable tourism experience (MTE). They reviewed the needs- and affective attributes-related literature in marketing and tourism (e.g., Bloch & Richins, 1983; Dunman & Mattila, 2005; Otto & Ritchie, 1996; Ryan, 1993) and presented 16 potential experiential components, such as hedonism, relaxation, stimulation, refreshment, adverse feelings, social interaction, challenge, and novelty, along with assessments of value and service and the meanings and definitions of the components. The MTE scale resulted in 24 items and seven factors: hedonism, novelty, local culture, refreshment, meaningfulness,

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