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The Yun-Niang as a process from core value to new experience-centric services: a case study of an experience-centric services firm in Taiwan

Abstract

Since the rise of the experience economy, services providing customer experiences as their core offerings – or “experience-centric services” (Prahalad and Ramaswamy, 2004) – have become an important research area. Although there has been ample research on the process of new product development (NPD), new experience and experience-centric service development have received little attention. Using a case study of a firm in Taiwan, this article proposes a process model, dubbed the Yun-Niang process, to describe how an organization gradually creates an experience-centric service, and discusses managerial implications for businesses and future research directions for scholars.

Keywords: experience-centric services, Yun-Niang process.

JEL Classification: O31.

Introduction

Much research in the literature has focused on service-related issues. In their book describing the development of theories of service, Pine and Gilmore (1999) recognize the emergence of the experience economy. Prahalad and Ramaswamy (2004) first proposed the term “experience-centric services” to refer to those services that provide a customer experience as their core offering. Although the commercial experience has attracted significant research attention in recent years, its development in terms of practices and theory remains limited.

Why is this so? It is useful to discuss one typical service experience – hospitality – to help answer this question. In their examination of the limited development of the hospitality industry, Jones (2004) and Hemmington (2007) questioned whether the hospitality industry could be considered a service industry, and suggested that, from a management perspective, the commercial experience industry may be different from other service industries. Hemmington (2007) further used the differences between services and the hospitality experience to define the hospitality industry. Based on Hemmington’s framework (2007), we suggest that there is an inherent difference between services and commercial experiences such as those provided by the hospitality industry.

According to Hemmington’s (2007) framework, one significant difference is that services are *delivered on demand* whereas a hospitality experience is provided with *lots of little surprises*. Pullman and

Gross (2004) also note that an experience results from an individual’s interaction with various contextual elements that have been envisioned by a creator. The creator of such an experience would arrange these contextual elements so that the subjects that interact with and explore the elements get “lots of little surprises,” thus generating a “holistic feeling.”

Several studies have suggested that increased innovation improves the performance of firms (Calantone, Cavusgil & Zhao, 2002). The creation of new experiences is also crucial to the development of the experience industry (Sundbo, 2009). Although some scholar has proposed a more dynamic model to experience service innovation (Fuglsang, Sundbo and Sorensen, 2010), the new experience development process (NED) is not well understood.

In this article, we use a case study to develop a model, dubbed the Yun-Niang process, to describe the formation process of a new experience. We discuss the development of such ideas in an organization and their implications for management decisions. In the next section, we present the relevant background theory. The second section details the case study used to examine this research question and provides the background of the research case. The findings of the study are presented in the third section. The final section reveals conclusions.

1. Research background

1.1. Experience. Before discussing the creation of a new experience-centric service, it is useful to define what is meant by an “experience.” Pullman and Gross (2004) offer the following explanation:

“An experience occurs when a customer has any sensation or knowledge acquisition resulting from some level of interaction with different elements of a

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context created by a service provider. Successful experiences are those that the customer finds unique, memorable and sustainable over time, would want to repeat and build upon, and enthusiastically promotes via word of mouth.”

This definition implies that firms providing experience-centric services can improve their business success by offering very elaborate, unique, memorable, and sustainable experiences. Just how to create such elaborate and memorable experiences is an important issue. Dell’Era (2010) suggests that a firm in the experience service industry could partner in the development of cultural project and build communities of external actors who share a similar vision and values. Zomerdijk and Voss (2010) also investigated the experience-centric service design and found that engaging the support of employees is important for designing an experience-centric service. Although several studies have focused on the issue of experience design, none have proposed a systematic process of new product development (NPD) or new service development (NSD).

1.2. Core value. An experience-centric service firm provides services that focus primarily on the customer experience (Prahalad and Ramaswamy, 2004). The creation of new experiences, therefore, leads to the expansion of the scope of the business – which can be considered a corporate development. The core value of a company provides a crucial guide for the direction of corporate development (Collins and Porras, 1996). Collins and Porras (1996) defined core values as those that reflect the essential and enduring tenets of an organization. They explained their concept of core values as follows:

“A small set of timeless guiding principles, core values require no external justification. They have intrinsic value and importance to those inside the organization.”

Collins and Porras (1996) further described core values using the case of the Walt Disney Company. The corporate development of the Walt Disney Company was not the result of market requirements, but rather was driven by the vision of its founder. This is a powerful case to support the premise that the development of an experience-centric service firm is deeply influenced by its core values. Because core values are a set of principles, they affect all of the decisions of a corporation, including the experiences that are created and delivered. We therefore used core values as the starting point for our theoretical NED framework in an experience-centric service firm.

2. Method

In order to explore how the experience-centric services were developed, this study conducted a

single-case design to deeply understand the process of development. The reason of why we use the case to study is a critical issue when we use a single-case design. In other words, the presentative of the case we choose is critical. In this study, the authors choose a famous leisure firm in Taiwan as the case studied. The firm named Lavender Cottage provides such experience-centric services which were developed from specific concepts such as love, dream and courage, happiness, freedom and confidence, et al. The firm is a typical case of transforming the concepts (core value) into experience-centric services. The background of Lavender Cottage would be described in a specific section. These descriptions could show the presentative of the case for this study.

In order to explore the process of creating new experience-centric services, we designed several semi-open questions for interviewees. The advantage of semi-open questions is to be able to allow interviewees to provide more information about what the questions address because we did not impose too much boundaries on interviewees’ thinking. In this research, we did ask the interviewees questions such as “Did you join the process of creating or designing a new experience-centric service. If yes, please describe all the activities and the whole process you know.” “What kinds of people in your organization would be asked to join the process? What are their tasks in the team?” and “Is there any difficulties occurred when the team works. Please talk about that.” Sometimes, interviewees’ responses for these questions could lead us to go further by asking deeper questions. Through the interview process, we could collect a lot of data around the issue of experience-centric service creations to analyze to get insight.

2.1. Research design: an embedded case-study design. According to Yin (1994), case studies can be designed in four basic ways based on two dimensions: the number of cases and units of analysis. The number of cases has always been an issue in case studies. Yin (1994) believes that a single case can be very vivid and illuminating, especially if the case is very critical, extreme, or unique. Dyer and Wilkins (1991) also agree that a single case study has merit and can offer insight.

A holistic or embedded case study can be based on a single case study according to the requirements of the research. A holistic study involves only one unit of analysis, whereas in an embedded case study, a single case involves more than one unit of analysis. This research examines how an organization creates a new experience-centric service based on its core values, and therefore the unit of analysis is the

organization. Because we have studied the creation processes of several experience-centric service businesses within the case company, we adopted an embedded, single-case design (Yin, 1994), which should generate more reliable findings.

2.2. Data analysis method and process model. In this research, we wanted to use a process model to describe the case company's new experience creation process. Van de Ven (1992) described a process as (1) a logic used to explain a causal relationship in a variance theory; (2) a category of concepts that refers to activities of individuals or organizations; and (3) a sequence of events that describes how things change over time. As noted by Sztompka (1991), the process model not only identifies what exists, but describes what is occurring. Of course, this assumes that the social reality is not static (Pettigrew, 1997), the development of a process model is appropriate for capturing a dynamic social reality.

One component of a process model is a category of concepts referred to as activities. Process data are required to generate these categories. How are these categories generated from the data that build the foundation of the process model? Langley (1999) induced seven analysis strategies: (1) narrative strategy, (2) quantification strategy, (3) alternate templates strategy, (4) grounded theory strategy, (5) visual mapping strategy, (6) temporal bracketing strategy, and (7) synthetic strategy. Of these strategies, only the grounded theory can generate categories in a systematic approach. Grounded theory is, therefore, an approach for analyzing qualitative data. To meet the requirements of this research, we applied grounded theory as a method for data analysis, and used a grounded theory coding process (open, axial, and select coding) to generate a process theory.

2.3. The description of the case company. *2.3.1. Background of Lavender Cottage.* Lavender Cottage was established in 2001 by Grace Zhan and Tiffany Lin. Zhan was very interested in lavender and envisioned a field full of lavender in a remote mountain area. Lin, however, dreamed of operating a coffee house. The two ideas were merged with the help of Ed Wang and his wife, landowners in the area. Together, they formed the concept of Lavender Cottage. Lavender Cottage is a restaurant that sells simple meals, snacks, and coffee; it is set on a large tract of land, belonging to the Wangs, in a remote mountain area. The business model is very successful and is well known in Taiwan's leisure industry.

In 2001, the first business was established at Xinshe, Taichung County. To promote the business, which lacked marketing resources, Zhan wrote an e-mail to a friend, complete with a photo of the restaurant. Her friend forwarded this e-mail to others, who also

forwarded it, resulting in many people learning about Lavender Cottage and its founders, and an increase in business. Today, Lavender Cottage also has a product line that includes sweet grass, essential oils, and soaps. The company continually creates new subsidiary businesses that fit with the corporation's core value.

2.3.2. From core value to creation of experience-centric service business. The core value of Lavender Cottage can be summarized as "We are happy, and we want you be happy too!" The staffs of these establishments always treat customers as their friends. The company also believes that it is meaningful to provide "positive influences to the world," such as happiness, romance, and courage, as part of the hospitality businesses, and, based on these tenets, has established five successful experience-centric service businesses with their own specific brands.

To complement the original Lavender Cottage, a second restaurant, Hakka Lifestyle, opened in 2006. Hakka Lifestyle focuses on the renaissance of the Hakka people, the second largest ethnic group in Taiwan, by providing traditional Hakka cultural services and delicacies. Herb House, a herb store that began as part of Lavender Cottage and is now an independent business, sells sweet grass and related products. The fourth brand, Adagio, is leisure-oriented bed and breakfast establishment that is now also operating in other locations in Taiwan, including Chiayi, Taipei, and Miaoli. Adagio opened an international branch in Hokkaido, Japan, in June 2009. Lavender Cottage also extended its scope to provide wedding services, through an all-inclusive wedding service, called Mon Coeur. In keeping with Lavender College's focus on providing positive experiences, its services are centered on the concepts of love and blessedness.

Table 1 summarizes different business ventures, including their starting date and their present status.

Table 1. Lavender Cottage subsidiary business ventures.

No.	Business	Start date	Current status
1	Lavender Cottage (Xinshe)	11-2001	Operating
2	Lavender Cottage (Jianshi)	04-2004	Operating
3	Hakka Lifestyle	03-2006	Operating
4	Adagio (Chiayi)	11-2006	Operating
5	Herb House (Cingjing)	05-2008	Operating
6	Herb House (Nanjuang)	2008	Operating
7	Lavender Cottage (Mingte)	10-2008	Operating
8	Herb House (Jiufen)	2009	Operating
9	Adagio (Taipei)	04-2009	Operating
10	Mon Coeur	End of 2009	Operating
11	Adagio (Hokkaido)	06-2010	Operating
12	Adagio (Miaoli)	2010	Planned

To the best of our knowledge, these businesses are based on abstract concepts derived from Lavender Cottage’s core value, which has guided the creation of experience-centric services for customers. Table 2 lists these experience-centric businesses and the abstract concepts behind each business.

Table 2. List of concepts for each business

No.	Experience-centric service business	Starting date	Concepts behind each business
1	Lavender Cottage	11-2001	Dream and courage
2	Hakka Lifestyle	03-2006	The beauty of the Hakka spirit
3	Herb House	11-2001	Made by happiness
4	Adagio	11-2006	Freedom and confidence
5	Mon Coeur	End of 2009	Love and happiness

In summary, the business scope of Lavender Cottage covers theme restaurants, herb products, themed bed-and-breakfast establishments, and an all-inclusive wedding service. The design of these businesses is derived from Lavender Cottage’s core value of “positive influences to the world.”

2.4. Data collection. In a single-case study, the interview is a mean for collecting data. The objective of interviews is to collect data with depth for analysis. In order to deeply understand the case, we conducted a total of 20 interviews of 12 members of the Lavender Cottage management team, all of whom had been involved in the creation and design of Lavender Cottage’s experience-centric services. The interviewees included the founders, the Chief Executive Officer (CEO), the Chief Brand Officer (CBO), the Chief Operations Officer (COO), the Chief Art Officer (CAO), and other middle-level managers. We interviewed more than half of Lavender Cottage’s management team.

Our interviews were conducted using a semi-structured in-depth interview, which is very appropriate for a case study. Semi-structured in-depth interviews are more flexible and more dynamic than other types of interviews, making it easier to understand the human experience (Minichiello et al., 1995). The interviews each lasted from 1 to 2.5 h. In addition to the interviews, we also collected a substantial amount of information about Lavender Cottage published during 2001-2009 in the public domain, including in magazines, newspapers, books, and on the Internet. We collected a total of 600 pages of data.

3. Findings

3.1. Definition of Yun-Niang. In this case study, we defined an important concept of Lavender Cottage, dubbed “Yun-Niang.” Yun-Niang allows an organization to leverage its core values to create

new experience-centric services, which then foster the growth of the firm. Yun-Niang is an organizational behavior pattern that tightly links all parts of an organization to create new experience-centric services from a sequence of routine activities that are based on core values. In this section, we present a process model which was generated from data obtained through an analysis of existing theory (Strauss and Corbin, 1998).

3.2. A Yun-Niang process model. Mullins and Sutherland (1998) noted the uncertainty in the process by which new products are developed. The same situation occurs with Lavender Cottage. We found that the Lavender Cottage uses the Yun-Niang process to deal with such uncertainty. Five activities are included in the Yun-Niang process: (1) the storage of ideas, (2) managing the collection and allocation of resources, (3) revising and enriching the business model, (4) confirmation of market conditions, and (5) development of an operation system and the education of operators. These five activities can be combined in a model constructed by two dimensions: organizational levels and the NED. Using the Lavender Cottage organizational structure, we divided the members of the organization into three categories: top-level managers, middle-level managers, and operation-level managers. We have divided the NED into three phases: keeping, developing, and implementing ideas. We have combined these two dimensions to describe where and when the activities happened. Figure 1 illustrates how we combined these five activities to produce the framework of the process model.

3.3. The storage of ideas. Bartel and Garud (2009) posited that one strategy for sustaining innovation in an organization is the recombination of ideas to generate novelty. It is a difficult task. Few of the many ideas that are generated are translated into a business. Through Yun-Niang, ideas can be retained within an organization until the timing is optimal for implementing them to sustain the innovation of an organization. In discussing the origination of Mon Coeur, the Lavender Cottage CEO said:

“We were interested in this business for a few years. This idea was incubated for a period of five or six years. It needs a lot of time to “Yun-Niang.””

As this statement suggests, deciding to enter into a business venture does not necessarily mean that the business must be started immediately. Managers can put such ideas on a backburner, and then eventually develop those ideas that best reflect the core value. The same situation also appears on others business, for example, Adagio and Herb House.

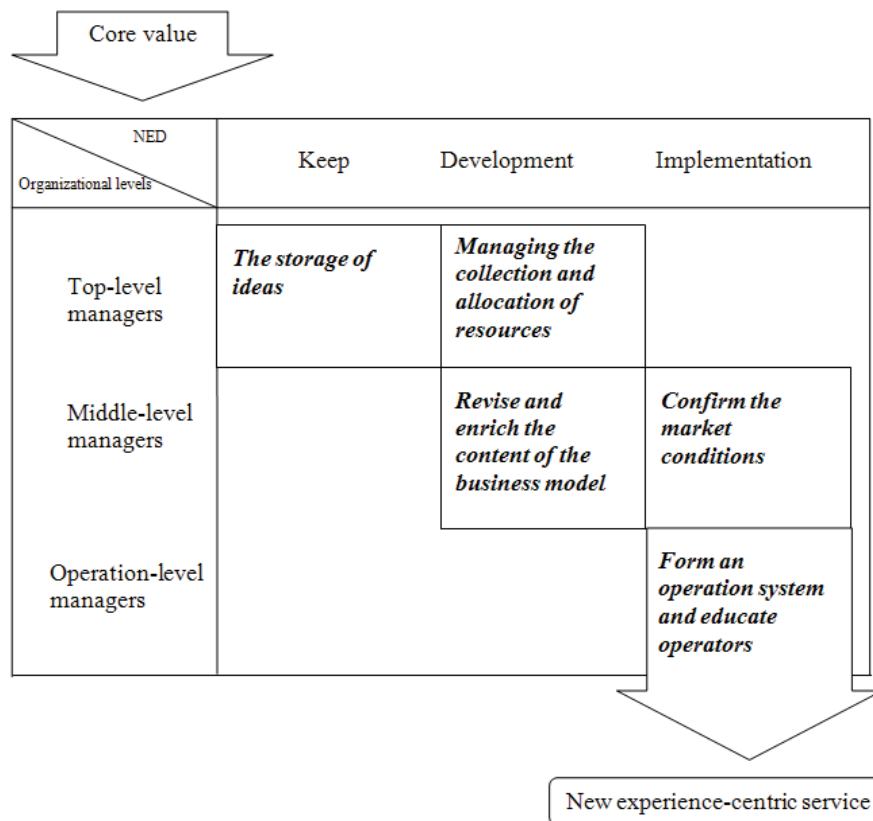


Fig. 1. A Yun-Niang process model

3.4. Managing the collection and allocation of resources. Starting with Penrose (1959), many scholars have viewed a firm as a bundle of resources, and researchers have explained the growth of firms from a resource-based view. In the case of Lavender Cottage, Yun-Niang guides the collection of resources needed for a new experience-centric service business. The CEO discussed the Yun-Niang process with respect to the development of the Adagio bed-and-breakfast business:

“The preparations for Adagio were started two years ago in 2004. Lavender Cottage was started in 2003. In 2003, we decided to run a bed and breakfast place. So the business idea was formed early. At that time we were still a small business, and the organization was not very well developed yet.”

When the Lavender Cottage management team first conceived of venturing into the bed and breakfast market, the organization was only able to support the business activities of Lavender Cottage. Over time, the company organized a cooking department, a human resource department, and a customer service department to recruit new staff. The quest for an appropriate building site for Adagio in Hokkaido is an example of the search for resources. According to the CAO:

“We spent a lot of time going abroad to search for an appropriate building site for Adagio. At the same time, the idea continues to incubate in our minds.

When we see land that fits our imagination, we will decide to invest and open a new one.”

The generation of new ideas not only guides the search for resources but also affects learning behavior. In Lavender Cottage, a learning behavior may serve to refine an original idea or improve an existing business. According to the CBO:

“Sometimes we mention some specific experiences. We never forgot that particular feeling, it made us feel good. When we are talking about the specific experience, we know that is our desire which we have expected it for a long time. But something is not appearing immediately even if you consider that is good, it should consider “other things”.”

“Other things” may have a variety of meanings, but in general suggests that the present moment is not right for a particular project, because of the resources required. Managers’ perceived needs for “other things” would initiate the search for resources, driven by learning behavior. Organizational learning is a result of the collective learning behavior of the agents in an organization (Deng and Tsacle, 2006). For example, Lavender Cottage managers visited weddings in Japan in preparation for the development of Mon Coeur. The Mon Coeur developers combined the concepts of forest and a carousel to create a romantic atmosphere. This idea came from a visit to Kiyosato, Japan. The CBO reminisced:

“An example of learning in Yun-Niang is that we constructed a carousel in Xinshe Lavender Cottage this year. This came about because we visited Kiyosato, Japan. We think it provides a good feeling, but it took three or four years!”

According to Andrews and Delahaye (2000), two activities are important to knowledge processes: knowledge importing and knowledge sharing. These activities, which are always underway at Lavender Cottage – in the form of the company’s annual meeting, for example, or through travel – help the business accumulate knowledge to increase the feasibility of an experience-centric service.

3.5. Revising and enriching the business model.

The third Yun-Niang activity at Lavender Cottage is revising and enriching the content of the business model of an experience-centric service. Because a business venture idea is an original idea, it needs time and effort to become fully developed. In this stage, the middle-level manager assists the top manager to revise the idea. The Deputy Manager of Product Department said:

“When the CEO has a new business idea, he will propose it first in our managerial meeting and roughly explain to us how it works. Then we give our opinions on his idea. And we check how we do this? He often proposes weird ideas.”

Obviously, the job of top-level managers is to generate and store ideas. However, these managers often do not consider how to implement a given idea. It therefore becomes the responsibility of middle-level managers to consider – in greater detail than a top-level manager might – questions such as: “Can we do that?” or “How do we implement this?” Referring to the bed-and-breakfast business venture (Adagio), the CBO said:

“The bed-and-breakfast in leisure style sounds very interesting. We are in the leisure business, but we are focused on operating restaurants and stores. We have never tried this. I think that it is similar to store service, but our business model differs from the usual bed-and-breakfast business. In other words, we have no reference point. We had to create many factors for this business model.”

In Lavender Cottage, middle-level managers are responsible for the enrichment of the business model, as evidenced by the bed-and-breakfast business. According to Zott and Amit (2004), a business model could be combined with product market strategies which emphasize differentiation, cost leadership, and early market entry to result in higher performance, producing a so-called novelty-centered business model. Middle-level managers in Lavender Cottage switch between business model

design and market consideration to create this type of novelty-centered business.

3.6. Confirming the market conditions. Lavender Cottage creates new experience-centric service businesses to fill specific niche markets; in other words, they create markets. Because the creation of new markets is fraught with uncertainty, managers must first consider whether a proposed market is even feasible. The Deputy Manager of Product Department described this activity in Yun-Niang as follows.

“I think Yun-Niang is somehow like looking for a way in a fog. You seem to find a way and you become very excited, but you are not sure that it is the correct way. So you have to make sure and double-check everything.”

This type of evaluation of market conditions is influenced by the managers’ confidence in their business venture. After evaluating the market conditions, managers may decide to keep observing the market condition to find an appropriate time to enter the market. They will evaluate the level of confidence they have in a particular project, and if it is not high enough, will wait, observe, and learn.

3.7. Development of an operation system and the education of operators.

Forming an operating system can facilitate the delivery of service value. Service delivery has been important issue in service management. Dean (2004) empirically studied organizational and customer variables in service delivery and found that organizational variables, the management culture, or organizational support influence employee attitudes and service quality, which, in turn, affect customer loyalty and satisfaction and the financial success of a venture. Carbone and Haeckel (1994) argue that an experience is composed of a series of performance-based or context-based clues that leave an impression on the consumer. In Lavender Cottage, employees are an important source of such information, so the company endeavors to ensure that employees provide the appropriate clues.

In Lavender Cottage, we found that the formation of an operation system and the education of operators in the process of Yun-Niang was accomplished using two sub-dimensions, with the goal of creating a customer “journey” and touch-points that facilitate experience service delivery (Zomerdijk & Voss, 2010). The first requires the formation of a consensus among managers and the second influences employees to accurately deliver service value. This is an important part of Yun-Niang. Discussing Yun-Niang, the COO remarked:

“For example, we introduced the ‘touch a heart service’ which is an idea that was initiated by the

CEO. The introduction of the 'touch a heart service' should cover all employees from the managers to the first-line employee that interact with the customer."

Conclusion

Although the term "experience-centric service" has been used for several years, the actual process by which experience-centric services are created is not well understood. Using a case study of the Lavender Cottage, we have obtained a deeper understanding of the process of creation of experience-centric services named Yun-Niang process. The process described how the whole organization coordinates each management levels to generate new experience-centric services business matching the market demands. Our study of the Yun-Niang framework produces some implications for the experience-centric service management.

The first is about the most important resource, core value, of experience-centric service firm. It would generate from the cross-section of management level of top-level managers and keeping stage of NED stage. The core value is a foundation of a successful experience-centric service firm venturing. The function of core value is to generate the business ideas matching the firm's value that may be developed as real business in the future. Urde (2003) also talks about the importance of core value, it could facilitate the brand building. Urde's (2003) argument extends our findings further. The business ideas that are generated from a core value would have some similarities. Such similarities among new business could help the firm achieving synergy in marketing efforts and improve its brand images to gain its competitive advantage. On the other side, because the new business venturing process continually works, the process of creating such new businesses would become more and more efficient. Although each new business provides a different service experience, this process helps the parent experience-centric service firm to accumulate information about what makes a business venture successful. It implied that the processes of creating experience-centric service could be developed as a kind of firm capability helping the firm to achieve competitive advantages.

Second, the process of creating an experience-centric service requires the coordination of the organization as a whole to a greater degree than is required in an organization that offers tangible products. Furthermore, the creation of a new experience-centric service involves multiple managerial levels. The top-level managers are responsible to keep core value of the firm to generate ideas of business venture. The

operation-level managers were assigned to form an operation system and educate operators to precisely deliver the experiences they would like to create for their customers. Middle-level managers would take a very important task in the process of creating experience-centric services. It would connect top-level managers to operation-level managers. The middle-level managers manage the resources the firm owns and use the resources to enrich the business model of experience-centric service, and then confirm that the market condition is ready to promote the new business.

There are also some remarks of this study for practitioners. The first, communications between management levels is critical. Lacking communications would make the organization fragmented and business ventures deviated to the core value of the firm. The broken linkage between top-level and middle-level managers would result in poor business models in terms of the direction of that the organization pursues. However, the broken linkage between middle-level and operation-level managers would lead to that customers could not feel the excellence experiences as the firm plan to create. The second, keeping the outside connections of the external resources make organization always ready to develop new business ventures. We suggested that the firm of experience-centric service firm should posit itself as a hub of resources linkages looked like a network form. The network connects more actors with proper connections, more opportunities to realize effective business ventures. The third, core value is a managerial core of an experience-centric service firm to protect. Actually, managers of an experience-centric service firm probably face a problem of making a decision to pursuit most profitable opportunities or insist on their core value. According to our proposed process model, we suggest that managers should insist on the firm's core value because of its importance to experience-centric service firm's competitive advantage. And, the issue of profitability should be considered at middle- and operation-level of an organization. That echoes to the viewpoint of general management which identified three layers, corporate, business and function level, to plan their activities which help organization to achieve its goal. In such organization framework, a middle-level manager was projected as the business level to be responsible for profitability.

This study of the Yun-Niang process also suggests future research directions. The confirmation of market conditions is still not well understood. According to our data, whether or not market conditions are considered "mature" – and thus

amenable to a new business venture – appears to depend upon the confidence of the subject. The subject is referring to the company considering the new business. This method of determining market conditions is not scientific, although it has a very high success rate in the case of Lavender Cottage. Understanding how an experience-centric service organization evaluates market conditions and makes the decision to enter that market could help to elucidate the broader issue of the creation of experience-centric services.

The service quality is also an important issue for experience-centric services. According to Parasuraman, Zeithaml & Berry (1988), service quality was defined by the gap between what customers perceived and what customers expected. The service quality is low when the gap exists. Ideally, an

experience-centric service firm could know and deliver what a customer perceived to its experience-centric service, however, to know what the experience-centric service a customer expects is difficult. Although Parasuraman & Zeithaml & Berry (1985) have proposed that word of mouth to a service, personal need and past experience would influence customers' expectation to services. However, people's need for an experience-centric service is very ambiguous. Such needs cannot clearly state as we state our needs for food, clothes or friendships. Because we cannot precisely understand what the personal need for an experience-centric service is, it results in that how an experience-centric service firm satisfies a new customer which is still a problem. Solving the problem is worthy for researchers to devote to in the future.

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