

**MALFUNCTIONS WHILE CO-CREATING VALUE IN BRANDED SERVICES:  
A SERVICE-DOMINANT LOGIC APPROACH OF CUSTOMER EXPERIENCES**

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**ABSTRACT**

- This research investigates selective demarketing practices.
- Whereas past research has focused on traditional marketing mix variables, the authors draw a service-dominant logic approach of experiences
- Based on extensive fieldwork, they investigate the co-creation vs co-destruction of value in by customers in branded servicescapes.
- Findings display how brands select consumers and what are the consumers' responses. We show several limitations to the benefits of demarketing strategies. New ways to create value with unprofitable consumers are exposed.
- By detailing the process of co-creation and co-destruction of value, we contribute to extend knowledge on customer experiences in branded servicescapes. We highlight alternatives strategies to demarketing brands might follow to manage customer portfolios.
- We outline theoretical and managerial implications for managing the co-creation of value and the process of its integration in branded servicescapes.

**Keywords:** luxury, service dominant logic, demarketing, customer experience, value

## INTRODUCTION

Customers may report bad experiences while shopping or using branded services. Many feel uncomfortable, unwelcome and rejected. Shoppers do not just imagine that they are being ignored or excluded; managers in the luxury industry acknowledge that rejection is a common practice (Dion and Borraz 2017; Ward and Dahl 2014). Managers we interviewed even talked about how to manage intimidation to prevent undesirable shoppers coming into their stores. This is a particularly challenging task because firms cannot refuse to serve customers outright for legal reasons and for fear of bad publicity (Kim and Lee 2007); neither do they have any data on which to base their evaluation when potential customers enter a shop. This is a key issue as brands take important reputation risks and demarketing strategies may backfire and impact negatively the brand equity. So how do managers identify and exclude undesirable shoppers? And how be sure that exclusion practices won't backfire? Do alternative solutions exist?

This practice resonates with broader concerns about customers profitability (Venkatesan and Kumar 2004) and “selective demarketing,” that is marketing practices used to discourage demand from certain classes of customer (Kotler and Levy 1971). These literature streams take the point of view of the producers and how they might apply macro strategies for identifying and selecting the right customers and researches into selective demarketing aim at investigating the benefits of such marketing strategies. however, these bodies of research have little to say about the ways in which brands set up and manage demarketing practices during customer experiences, if demarketing practices are always a strategic choice for managers, and what the risks and costs of such practices are, and how do consumers respond to them. The current research is an attempt to improve understanding of how firms manage selective demarketing. Whereas most firms rely on sophisticated customer relationship management (CRM) systems to prioritize and select customers (Haenlein, Kaplan, and Schoder 2006; Suh, Rho, and Greene 2012), firms also prioritize their customers through retail practices and experiences. In this study, we draw on service-dominant logic and resources theories to investigate the effects of demarketing practices on customer experiences. Our aim is to extend the current theory on demarketing by studying how firms evaluate consumers' potential to create or destruct value during their experience in branded servicescapes. We want to investigate the dynamic of this process of value integration by identifying the resources that

may be activated to transform undesirable visitors into recognized contributor of the brand's value. We study how consumers and firms co-construct "value" during experiences and how the impossibility of value integration leads to applying demarketing practices. The goal is to identify firms' and consumers' operant resources that are at stake during the interactions.

We highlight the range of demarketing practices that are set up by brands in the servicescapes, as demarketing might be ostensible, intentional and selective, or unintentional. We describe how consumers answer to selection and exclusion, whether they are positively recognized as the "right customers" or the excluded ones. Counter-intuitively, we show excluded consumers may answer positively while selected consumers may answer negatively. By doing so, we identify economic costs, ethical and legal risks that limit the benefits of demarketing strategies in servicescapes. We underscore that demarketing practices may be symptomatic of a dysfunctional management of sales forces. We show brands may follow alternative strategies and co-create value even with "loose consumers" once the potential of accurate resources is identified. We finally provide a model for value creation in services. We contribute insights in three domains: S-D Logic literature, demarketing, and the servicescape. Our research theoretically contributes to SD-L literature and the process of destructing or creating value in services interactions. Following an emergent stream that studies value destruction in the dynamics of services (Farquhar and Robson 2016) and answering Arnould (2008) call for enriching S-D logic studies with sociological models of resources theory, we theoretically reframe resources as social and cultural capital and show that the destruction process may be reverted in creating value. We showcase here new dimensions of the operant value and extend resources' model of Lusch et al. (2007). Experiences. In a S-D logic approach, consumers are unprofitable or undesirable because they don't cocreate value (SDL approach). — but this approach of « customers » in servicescapes doesn't consider the wide array of experiences consumers may actually live in other branded settings. The process of destruction of value- because of misfit in operant resources but consumers may destroy value in certain contexts and create value in other contexts.

Following a broader approach of what experiences in services are (Akaka and Vargo 2015), we call to study experiences not only in servicescapes but in the broader set of various branded settings where customer may live experiences (stores, event places, social media). We contribute to demarketing literature by investigating empirically the process of integration

of resources in servicescapes. Inverting the general perspective with a customer micro focus, we discuss how firms should limit their risks of adopting demarketing practices. We look further the strategic decisions of the firm and discuss consumers responses to demarketing practices. By considering the importance of front line employees, we underscore the specific role of employees in value co-creation but also value co-destruction. Our research also offers new perspective on the understanding of the servicescape and should help managers deal with their models of managing unprofitable customers or undesired visitors in the servicescapes. We call for marketing managers to design branded servicescapes to efficiently adapt operant resources to consumers' needs.

## **THEORETICAL BACKGROUND**

### ***Demarketing***

Demarketing is the aspect of marketing that deals with discouraging customers in general or a certain class of customers in particular on either a temporary or a permanent basis" (Kotler and Levy 1971, p. 75). Demarketing firms still use the four Ps that make up the marketing mix but in a reverse way (Kotler 2011) such as choosing inconvenient locations, omitting useful product features, offering limited services, understocking inventory, reducing advertising intensity, and launching a product during the off-season (Miklos-Thal and Zhang 2013). To investigate demarketing practices and risks associated therewith, we draw on service-dominant logic and notions associated with the co-creation of value. We draw specifically on recent contributions to demarketing seen as a way to deter consumers who fail to create value during their interactions with the firms (Farquhar 2014; Farquhar and Robson 2016). We examine how firms provide resources to consumers and how these resources may be successfully integrated or not during the customer experiences in branded servicescapes. We elaborate on resources theory through a service-dominant logic scope we elaborate in the following section.

### ***Co-creating value during experience***

Vargo and Lusch (2004) re-examined the concept of services and relationships between firms and customers in a new perspective on value creation rather than a category of marketing offering, namely a Service-Dominant logic (S-D logic). This approach is shifting from marketing based on the offering of goods (or G-D logic) and dyadic notions of production and

consumption, connected with transactional value delivery. S-D logic describes relationships as a process of “co-creation of value through complex, interactive, resource-integrating networks” (Vargo and Lusch 2010). In this view, « value » can only be phenomenologically or experientially evaluated by the customer (Vargo and Lusch 2008) and firms participate by evaluating and facilitating how value can be fulfilled (Vargo and Lusch 2016). Therefore, the process of creation of value involve firms, customers and two categories of resources (operand and operant). Operand Resources provided by the firm are the material resources that are “acted upon” by operant resources to produce effects and create value (Vargo and Lusch 2004). Operand resources are money, goods but also front line employees (Santos-Vijande, López-Sánchez, and Rudd 2016). Madhavaram and Hunt (2008) display a hierarchy of the firms’ operant resources from basic skills and knowledge according how they are interconnected. Customers provide operant resources such as skills, knowledge, competencies, values and ideologies. Bridging with sociological theory and recent consumer research, especially that produced by the Consumer Culture Theory (CCT), Arnould (2008; Arnould, Price, and Malshe 2006) show that CCT and S-D logic are “natural allies” (Arnould, 2007) for studying value co-creation, based on complementary views on resources (Arnould et al., 2006) and value (Penaloza and Mish, 2011). In this dual theoretical approach, individuals’ and firms’ resources may be conceptualized as symbolic, cultural and social capital. Emphasizing especially cultural operant resources, Arnould (2008) displays how *“The type, quantity and the quality of consumer operant resources brought to an exchange process impacts the value consumers seek from exchange and the roles they expect themselves and firms to play in exchange”*.

If consumers are co-creators of value, Plé and Chumpitaz (2010) suggested the theoretical possibility of value destruction because of misuse of resources between stakeholders (accidental or intentional misuse). The cumulative process of value creation may include destructive phases (Grönroos and Gummerus 2014) with value co-destruction summarized as the collaborative destruction, or diminishment of value by providers and customers (Echeverri and Skålén 2011). Farquhar and Robson (2016) then suggested to reconceptualize demarketing as “a managerial process, in which operant resources are used to identify and disengage with existing value-destroying customers and to discourage potential value-destroying customers for the benefit of the firm and its systems.” Farquhar suggested value is destroyed because the process of integration of resources may be inefficient, with both operant and operand resources being poorly integrated or manipulated. While Farquhar (2014)

suggested the opportunity here for an alternative strategy that is to provide consumers needed resources, so they would gain value-in-use and effectively reshape the consumers. In this view, Hibbert et al. (2012) underscore the importance of customer learning resource integration, when consumers are able to co-create value with firms when they are given an accurate learning environment. They display contextual and psychological factors that influences consumers' willingness to involve in education process (personal, orientation, goals) and call for research that would investigate further the learning contexts and consumers learning goals and orientations. Still, Hibbert et al. (2012) don't provide any example of contexts in which in which appropriation of learning supports that would allow value creation may occur. We answer to this call by investigating service practices that aim at transmit appropriate knowledge to consumers.

Focusing on the service as providing at first customer experiences, (Akaka and Vargo 2015; Akaka, Vargo, and Schau 2015) cross CCT and S-D Logic views to bring attention to experiences more than on products. Similarly, Akaka et al. (2015) draw on SDL and CCT to bring forward the extension of the context of experience. Providing the example of a fine dining, they show that consumers create and react to experiences in the same time, and the importance of the context of social norms and collective meanings (Penaloza and Mish, 2011). This displays also the multiple-level nature (micro, meso and macro) of interactions (Chandler and Vargo, 2011), "which all influence the determination of value or evaluation of experience" (Akaka et al. 2015). Paying attention to the brand, Schau et al. (2009) show the process of creation of value within brand communities and the importance of how-to, know-how, and literacy in this process. Payne et al. (2009) examine the concept of brand relationship experience in the context of co-creation and service-dominant logic and outline a conceptual model for designing and managing the customer experience. Still, they show that in the area of service-dominant logic and co-creation, little work deals with brands and brand experiences. Payne et al. (2009) show the importance of knowledge and learning during customers' experiences. They emphasize three types of customer learning that are remembering, internalization and proportioning. Arnould (2008) call for studying understanding of consumers' operant resources, and how they mix their own and firms resources (in deficit vs offered) since these dynamics determine what consumers seek from the service interaction with the firm and therefore the final outcome of this interaction. While S-D logic approach elaborates a conceptual and macro view of services (institutional logics, service ecosystems) that allows integration of every types of exchanges between firms and

consumers, we want to investigate the process of integration of resources by adopting a dual theoretical approach of CCT/S-D logic and a micro focus approach on servicescapes. We like to investigate the micro phenomenological view on value while paying attention to the social structures and context value is grounded on.

Our goal is to understand how consumers co-create value during their experience in branded servicescapes. We want to identify the brand's and consumer's resources that are stake during this process. We argue that when consumers are identified as destructors of value, brands may set up demarketing practices. We examine how consumers answer to such practices and we identify several limitations to their benefits. We want to show that brands may alternatively see consumers as transformable and make them work to find a way back for co-creating value. In the next section we describe the method we used to bring theory and data together.

## **METHODOLOGY**

Drawing from extensive fieldwork, we describe the process of excluding consumers in the servicescapes and how consumers respond. We choose to investigate luxury and premium service ecosystems as an extreme case for observing demarketing practices. We want to study in-store demarketing in the luxury goods industry because luxury provides an ideal empirical context, given that the management of customer prioritization is key.” The luxury market has been on an upward trajectory for many years. Bain estimates that the luxury goods market is worth € 223 billion, growing 5% in the year 2013–14 (Bain & Company 2014). We will adopt an inductive approach in the analysis of luxury stores. This approach yields interpretations based on an emergent and interactive research process rooted in ongoing engagement with the field of retail action (Glaser and Strauss 1967; Hudson and Ozanne 1988). Our analysis is built on continual comparisons between the data collected through field observations and interviews with experts, inductive analysis of data, and the scrutiny of these data through a number of conceptual lenses (Glaser and Strauss 1967). We collected four data sets: 1) 15 interviews with clients of luxury products; 2) In order to gain a marketer's perspective on in-store luxury experiences, we interviewed 10 experts, i.e. general managers, marketing managers, consultants, store managers and sales staff; 3) Simultaneously, we monitored websites, forums and blogs where customers and brand representatives recounted their experiences in luxury stores (Kozinets, 2002; Borghini et al. 2009). We hoped that this wide



collection of websites would increase our chances of collecting a diversity of experiences from luxury insiders (managers and regular clients) and outsiders (occasional and non-clients). We collected 1450 posts; 4) We conducted 10 observations in luxury stores in Paris. We visited a wide variety of stores in terms of brand and store characteristics. In three cases, we visited multiple sites for the same brand to highlight convergences and divergences between outlets within the same brand.

### **PRELIMINARY FINDINGS**

Preliminary findings show 1) that customer experiences may be seen as the integration of resource during consumers' experience; 2) that the outcomes of consumers' experience are value co-creation or value co-destruction in the exchange where stakeholders have something to offer; 3) how brands answer to the threats of destruction of value (which strategies, which risks). We finally demonstrate that co-creation of value is accomplished successfully by regarding consumers as "transformable" in services.

### **PRELIMINARY DISCUSSION AND CONCLUSION**

Consistently with previous scholars who aimed at establishing bridges between SDL and CCT, we show that understanding of resources (skills and knowledge) might be extended to social and cultural literacy by addressing the various contexts which frame the lived experiences. Similarly, we showed the importance of the signs and meanings system that pre-exist to any consumers' experiences. In this sense, it is difficult to admit that the quality and outcome of the lived experience might be independent of individual backgrounds or habitus. Finally, we show the importance of the experience as an embodied "here and now" situation because skills and knowledges have "no value" if not activated. Therefore it is necessary not only to provide appropriate resource but also provide opportunities to demonstrate them.

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