Aalborg Universitet

Conceptualisation of Experience Economy as Competitive Advantage for Rural Food Industry and Rural Development

Arthur, Isaac Kwamena

Published in:
EUNIP 2008

Publication date:
2008

Document Version
Publisher's PDF, also known as Version of record

Citation for published version (APA):
Arthur, I. K. (2008). Conceptualisation of Experience Economy as Competitive Advantage for Rural Food Industry and Rural Development. In EUNIP 2008 Orkestra.

This paper is partly sponsored by the European Union through the European Social Fund
THE EUROPEAN UNION
The European Social Fund
Investing in your future

Conceptualisation of Experience Economy as Competitive Advantage for Rural Food Industry and Rural Development

Isaac Kwamena Arthur
Department of Development and Planning
Aalborg University
Fibigerstræde 13, 9220 Aalborg, Denmark
+45- 99 40 90 55
ikarthur@plan.aau.dk

DRAFT- NOT FOR QUOTATION

Abstract
This paper seeks to identify a conceptual framework to analyse how the rural food industry could achieve competitive advantage in an experience economy. Much importance has been attached to the experience economy concepts due to its implication to business profitability and community development. However, the paper identifies a lack of conceptual framework to analyse how firms could achieve competitive advantage from experiences. The five forces model; resource-base view; relational view were identified in this paper as strategy to achieve competitive advantage. These models have been proposed in this paper as conceptual framework for empirical analysis in the case of how experiences may lead to competitive advantage in the food industry of Thisted, Denmark.

Keywords: *experience economy; competitive advantage; rural food industry; rural development; five forces model; resource-base view; relational view*

1 Introduction
This paper seeks to identify a conceptual framework for analysing how the rural food industry[1] could achieve competitive advantage in an experience economy. Lessons drawn from this paper will serve as background for empirical analysis in an ongoing research concerning Thisted, a rural region in the north western part of Denmark. The research aims to understand how innovations from the perspective of experience economy in the food industry could be profitable and also contribute to community development.

Lately, the experience economy concept is increasingly becoming important as a result of its implications to business profitability and community development. Pine and Gilmore (1998; 1998) suggest the usefulness of experience to firms' profitability. Fiore, et al., (2007) specifically identify experience as means to add value to small rural businesses. Other authors have identified the usefulness of the concept in several economic sectors including tourism development (Richards, 2001; Hayes & Macleod, 2006; Oh, et al. 2007); development of small cites (Lorentzen, et al. 2007); urban development, sports and recreation (Howell, 2005). In all, these discussions suggest experience as tool for business profitability, value creation and also for economic development of communities; hence an indication of the concept's usefulness. The significance of experiences to businesses and communities can also be attributed to social change, i.e. consumer demand for

[1] The rural food industry is defined as collection of individual firms engaged in adding value to food products such as processing, manufacturing, packaging, etc.

experiences. Pine and Gilmore (1999) argues among other factors that the emergence of experience production is partly due to rising “competitive intensity, which drives the ongoing search for differentiation” (p.5). This implies experience economy has become a means to attain higher degree of “customer satisfaction and profitability” (Sims et al. 2007, p.12).

Pine & Gilmore (1999) also consider experiences as “competitive advantage of products” (Lorentzen, 2008, p.5). However, they do not provide a systematic framework or theory for understanding how a firm’s production of experience can lead to competitive advantage. Experience offerings like any other product can yield significant profits. Yet, it is important to understand a strategy through which firms can obtain competitive advantage from their operations. The food industry defines the economic geography of most rural regions. Hence, there is a need to maintain this economic geography to avoid possible socio-economic issues such as relocation of firms, unemployment, out-migration, low levels of living in rural areas, etc. Understanding a strategy that can help firms to achieve competitive advantage is therefore perceived useful in this paper to analyse experience offerings in the rural food industry. It is assumed in this paper that the profitability of experiences in the rural food industry will contribute to rural development. Such developments may be manifested in visitor attractions, expansion of local market, employment creation, retaining and attracting of skilled labour, knowledge creation and diffusions, and popularisation of rural areas through the food sector. In this regard, this paper will attempt to answer the following research question: what is experience economy and what strategic approaches exist for experience producers in the rural food industry to utilise in achieving competitive advantage? The paper will dwell on views of different authors associated with strategic management concepts, and also rely heavily on Pine & Gilmore (1998; 1999)’s typology of experience economy to address the research question.

This paper begins with a discussion of what constitute experience economy and its applications. That is to highlight on the nature of experience economy and how it may be useful for firms in the rural food industry. The second section defines competitive advantage and discusses its sources in the context of three strategic management concepts: five forces model; resource-base view; and relational view. This discussion is purposely to generate understanding of the sources of competitive advantage from a broader dimension and how they can be applied in the experience economy. The third section discusses and proposes a synthesis of the three models identified as conceptual framework for empirical analyses on how experience economy in the rural food industry may become profitable to Thisted, Denmark. This is followed by a conclusion of the paper.

2 What is experience economy?

The term *experience economy* is believed to have been “coined” by Joseph Pine II & James H. Gilmore in their 1999 publication[2] (Hjorth & Kostera, 2007:19). However, prior to Joseph Pine II & James H. Gilmore’s 1999 publication; the notion of experience had been discussed by authors such as (Toffler, 1970; Holbrook & Hirschman, 1982). For instance, Toffler (1970) identified a changing economy in society into experience consumption. In this regard, he predicted that the economy will be dominated by “experience industries” in the future (p.221). Pine & Gilmore (1999, p.2) acknowledge that the experience notion have long existed, but they argue it has been confined to the service sector and laced with “uneventful activities” by “consumers, businesses and economist”. This assertion indicates a new orientation of experience, which is central to creating

[2] The Experience Economy: Work is Theatre and Every Business a Stage

events around products. The central argument about the experience notion is that it is a "distinct economic offering" in which firms envelop "experiences around their traditional offerings to sell them better" (Pine & Gilmore, 1998: 97-98). This implies that in the food industry for instance, a traditional product like sausage or ham may have a staged or theme event (educational, entertainment) around it as distinct from others produced elsewhere in order to increase its value. The staged event becomes an experience being sold to the customer.

Although the notion of experience economy has been discussed by several authors, it is difficult to identify a common definition for the notion. Lorentzen (2008) defines experience as "a particular way to compete on the global market" (p.5). Although this definition is understood as a competitive approach in business, it could be seen literally as contextually narrow since it overlooks competition in the local market. The attempt to define experience in this paper is drawn from Pine & Gilmore's notion that: experience economy is a business approach in which "memorable experiences" are "staged" or attached to economic offerings "that engage the consumer in a personal way" (Pine & Gilmore, 1999, p.2). This offers a broader understanding of the notion and can be related into any market be it local or global.

Experience is viewed as "product" because it has to be "produced or staged" in order to be obtainable. It is also linked with the "consumption of good and services" such as events or staying in attractive places. In this sense experience products vary and their consumption can take divers forms (Lorentzen, 2008, p.5). The creation of memorable experiences is considered as intentional constructs of firms because they use "services as the stage and goods as prop" to occupy individual consumers). This occurs when a person is occupied at "an emotional, physical, intellectual, or even spiritual level" (Pine & Gilmore, 1999, p.11). Experience is basically individualistic and exists solely in the psyche of a person. Hence, it is impossible for two persons to have equal experience, since every experience is obtained from the relations between the "staged event and the individual's prior state of the mind and being" (ibid. p.12). However, Lorentzen, et al. (2007, p.4) argues that though experience is personal, many people may have comparable experiences.

The notion of experience is perceived as an economic evolution, which is traced from historic economic process where economies developed from agrarian to industrial, advanced into service provision and the current era of experience economy (Pine & Gilmore, 1998:97)[3]. This process is described as the "progression of economic value" (Pine & Gilmore 1998: 97; Gentile, et al. 2007, p.396). This progression is substantiated by Pine & Gilmore in the following argument that:

> "in the emerging experience economy, consumers seek unique experiences beyond merely consuming products and services because the consistent, high level of product and service quality can no longer be used to differentiate choices for consumers. This new demand for unique and memorable experiences requires firms to develop a distinct value-added provision for products and services that have already achieved a consistent, high level of functional quality" (Oh, et al. 2007, p.119)

What does the above mean to the rural food industry? How do firms in the rural food industry differentiate themselves from their competitors through the production of memorable experiences? There is an implication from the above that a correlation exist between experience and economic

[3] Sundbo (2007:2) makes a similar assertion in reference to (Bell 1973¸ and Toffler 1970)

value. Therefore distinct value-added to products is a way to attain high levels of consumer contentment and profits (Sims *et al.* 2007, p.12). This suggests that experiences can be high value products created by firms in the rural food industry as strategic means to generate high profits on the market.

As much as experiences are created on the market, consumers are also identified to demand experiences to make life more thrilling and significant to suggest their social status. Hence consumers are prepared to pay more money for experience products (Sundbo, 2007, p.9). This resonate a view that experience is a notion in economic development which is inspired by "people's search for identity and involvement in an increasingly rich society" (Lorentzen, et al. 2007, p.2). Richards (2001) also argues that the growth of experiences can be correlated to the growing "experience hungry consumer" (p.56). This may cement Pine & Gilmore (1999)'s argument that experience consumption has contributed to "some of the growing sectors of the global economy" (Richards, 2001: 57; Oh, et al. 2007:119). The demand for experiences implies a social change, which is characterised by what Toffler (1970) refers to as the "provision of psychic gratification" (p. 220).

Sundbo (2007, p.5) argues that demand for experiences in society could be explained in reference to Maslow (1970) as a "hierarchy of psychological needs" (ibid.). This is essential to understand "consumer behaviour" (Addis & Holbrook 2001, as in Carù & Cova, 2003, p. 268). In this sense, understanding consumer behaviour can be useful for firms to tailor experience products to meet consumers' needs.

So far, the experience economy is understood as double-edged activity involving firms' on the supply side (creating) and consumers on the demand side. Understanding of experience in sociological context is about social change. Hence, it is a manifestation of new economic development in society that dwells on unique and value oriented products that potentially generate consumers' attachment to the products they consume. Lorentzen (2008, p.5) emphasise that the achievement of a product today is dependant on experiences which the product generates for the consumer. This implies products that generate good or "positive" (Neilson, 2004, p.10) experiences have the tendency to compete positively on the market and may lead to firm's competitive advantage.

2.1 Application of experience economy in the rural food industry

Application of experiences in the food industry takes a point of departure from what Pine & Gilmore refers to as the "experience realms" (entertainment, education, escapist, and esthetic). These realms are conceptualised as strategies through which firms in the rural food industry can utilise to create unique experiences *vise a vise* their rivals. Experience realms are grouped in two forms. On one hand, a customer's involvement in experience is "passive" or "active", on the other it is "immersion or absorption" The former is about the level of individual participation and the latter is the sort of bond that merge consumers with the experience (Pine & Gilmore, 1999, pp. 30-31).

The entertainment realm is when a consumer passively absorbs an activity such as watching an opera. Applying this in the rural food industry can be characterised by a food processing festival organised by local sausage producers showing how their products are spectacularly made in different forms. In this sense, customers watch the dazzling skills of the producer in an entertaining fashion.

The educational realm of experience is characterised by a consumer's active involvement in an event that engages him/her mentally or physically. In the same way, the consumer "absorbs the unfolding events" as they are presented (ibid. p.33). In the food industry, a local brewery can offer customers a guided tour of the firm to learn about the process of beer production through observation and also giving them opportunities to engage in some aspects of the production process. Educational experiences can also be viewed to encompass narratives. Richards (2001, p.57) observes a focus shift in experience production from the attraction of physical resources to attaching narratives to products. This implies that narrative has become a tool to generate value on products which is expected to engage customers experientially. Although, Greg Richards fails to elaborate on the extent to which narratives will engage consumers experientially; it is assumed in this paper that narratives could be created around food products in rural areas, including the production process to engage customers experientially. The guided tours could be one platform to tell stories about food products which is based on for example; locally generated raw materials, labour, traditional machinery, and other local based resources used in production. This is expected not only to create value on products but also help to promote the region's identity, and subsequently to enhance rural development[4].

The escapist realm of experience manifest when a consumer's involvement in an event is greatly immersed and active. Application of escapist experience in the rural food industry may take the form of customers being engaged in the production or processing of their product. For example, customers are allowed to create their own salad recipe which will be packaged for them at special theme event. Esthetic realm also manifest when a customer's role in an event is immersive but passive. The creation of esthetic experience in the rural food industry could be a situation where a garden or national park is chosen as a place to sell some specific food products. In this sense the customers are passively immersed into the natural park environment.

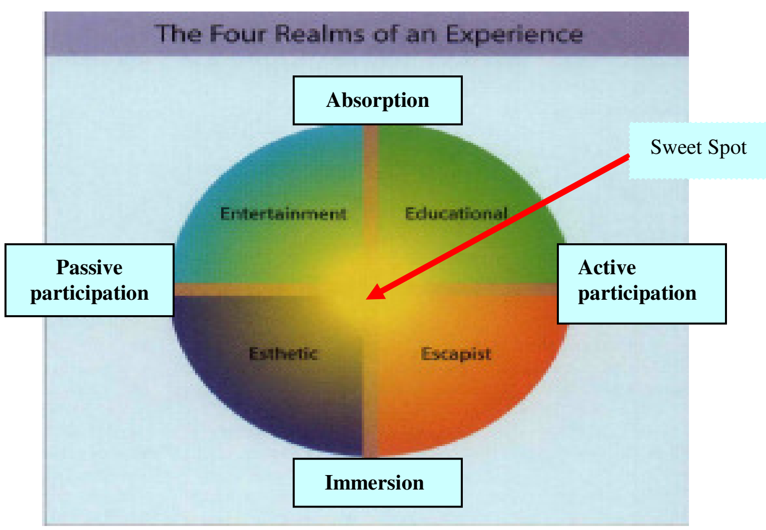

Figure 1 **The four realms of an experience (**Source: Pine & Gilmore 1998:102 with added emphasis)

[4] See Sonnino and Marsden (2006) on the discussion and significance of alternative food networks in Europe, which identifies among others the turn of territorial rural based development paradigm.

Reading in between the lines, these four realms do not only tell us what experience entails but also serve as model to determine the sorts of experiences that rural food firms may choose to offer their customers. Pine & Gilmore (1998, p.102) argue that the best experience a consumer could have should include all four realms. Figure 1 illustrates the four realms of experience. The central part of the figure where the arrow points signifies where the richest experience ("sweet spot") is consumed (ibid.). Does this signal rural food firms to provide experiences that involve all these realms if they intend to be competitive? Sims, et al. (2007) contends the "explanations and predictive power" of these realms of experiences are weak because it focuses on identifying a two-dimensional space that can be applied to assist in categorising experiences. Hence, it offers no exploitable means for business purpose (p.12).

Pine & Gilmore also suggest that in order for experience to work effectively, some elements must be considered to steer the development of memorable experiences. The initial element is developing a "theme" around the experience being provided. They emphasise that "an effective theme is concise and compelling". The second is about complementing the themes with "positive cues". Such positive cues are expected to create "indelible impressions" for the consumer. Thus themes must be presented in a consistent manner. The third is to "eliminate negative cues". This is about avoiding "anything that diminishes, contradicts, or distracts from the theme". The fourth is about providing "memorabilia" that harbours the consumers the memory of the experience. The final element is by engaging all five senses of the consumer to intensity the experience (Pine & Gilmore, 1998, pp.102-104). However, they caution that combining some senses together may not be the best since they are not "mutually complementary" (ibid. p.105). These elements signify that experiences offered in the rural food industry have to be tactfully designed in order to appeal to consumers.

Thus far, the discussion has provided lessons on how firms can engage customers with their experience offerings and also the levels at which the best experience could be obtain. This is considered as useful framework for application in the rural food industry. Thus it helps to identify the forms of experiences that would be suitable for customers at a giving time and space. However, for one to understand how experience may become competitive advantage in the rural food industry there is a need to explore the possible strategic approach to achieve that.

3 Competitive advantage

This section attempts to explore the competitive advantage in relation to its definition and identify some management strategies that determine competitive advantage of firms/industry. This is considered useful to understand what it takes for rural food firms to achieve competitive advantage through experience offerings on the market.

3.1 What is competitive advantage?

According to Reed & DeFillipi (1990) competitive advantage is defined generally in the context of "price, cost and differentiation" (p.90). Porter (1985) is an example of literature that defines competitive advantage in the context of cost and differentiation. According to Porter:

> "Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price" (Porter, 1985, p.3)

This assertion proposes that competitive advantage has a correlation with "value" (Klein, 2001, p.2). The creation of value is about a firm's cost leadership or differentiation leadership. These leaderships are broad generic strategies used on the market. They are also applied in a narrow context, known as focus (Porter, 1985, p.11). A firm enjoys cost leadership when it operates at a lower cost than its competitors. Differentiation leadership is about a firm's uniqueness "in its industry along some dimensions that are widely valued by buyers". Focus is about utilising at particular aspect of the industry to strategise its goals. Focus strategy can be either cost focus or differentiation focus (ibid. p. 12-15). However, Klein (2001, p.2) argues that Porter's notion of competitive advantage is ill-defined. Thus it does not clearly define the concept.

Besanko, et al. (2007) define competitive advantage as " when a firm earns a higher rate of economic profit than the average rate of economic profit of other firms competing within the same market, the firm has a competitive advantage in that market" (p. 346). This definition is central to a firm's capability to earn superior profits over its rivals. The contextual focus of this definition is similar to that of Grant (2002). Kortler & Keller (2007) also defines competitive advantage as "a company's ability to perform in one or more ways that competitors cannot or will not match" (p.70). Although, the contextual approaches in defining competitive advantage differ among authors, they are central to firms' specific abilities to do or achieve things which are superior over their competitors on the market. Nevertheless, the conceptual definition for competitive advantage in this paper is central to profitability. Thus in agreement with Besanko, et al. (2007)'s definition.

3.2 Achievement of Competitive advantage

In the attempt to understand how experience could become profitable in the rural food industry, three basic models have been identified (the five Force model; resource-base view; and the relational view) in strategic management literature. These models are analysed as possible sources of competitive advantage.

1. *The five force model*

Several authors including (Douglas & Ryman, 2003; Xu, *et al.* 2006; Zack, 1999, Grant, 2002) credit the introduction of the five force model to Michael Porter. The five force model is considered to determine an industry's profitability (Porter, 1985, 5; Grant, 2002, p.72; Xu, *et al.* 2006, p.272). According to Douglas & Ryman (2003) the model offers a significant "conceptual framework for understanding and analysing the various effects of industry structure on the profit potential of firms within an industry" (p. 334). The five forces are: threat of new markets entrants; threat of substitute products or services; bargaining power of suppliers; bargaining power of buyers; rivalry among existing competitors (Porter, 1985,p.4; 2008, p.80). These forces offers the understanding that firms' competition for profits goes beyond the corridors of existing competitors to encompass customers, suppliers, potential entrants and substitutes products. They tend to define the structure of an industry and determine its competitive environment (Porter, 2008, p.79). Although these forces differ among industries, they have a common quest for profitability (ibid.).

The level of threat of new entrants into an industry[5] determines its portability. If the industry has high entry barriers, then there is a tendency of high profitability for the existing industry and *vise versa*. Barriers to entry are therefore advantage to "incumbents" as compared to new entrants

[5] This is in reference to experience production in the food industry.

(ibid.p.81)[6]. In strategic sense, assessment of entry barriers should be based on the capabilities of potential entrants, and awareness of the possible creativity of new entrants to avoid existing entry barriers (ibid. p.82).

The bargaining power of suppliers determines a firms' profitability. If suppliers of labour, raw materials, advertisers, and other inputs have high bargaining power, firms' profits in the industry reduce. However, if the bargaining powers of suppliers are low then their profits increases, therefore it becomes an advantage them (Grant, 2002, p. 82). Thus in analysing how the experience becomes profitable, firms would have to take into consideration of suppliers bargaining power.

The general aim of experience producers is to create distinct economic offering that attracts higher value. However, this may depend on the bargaining power of buyers and the market environment. If there are few buyers, and undifferentiated products on the market, the possibility for buyers to bargain hard to reduce prices is higher. Buyer's power also dwells much on price sensitivity. Consumers may not bargain hard on quality products, and also if prices have less impact on consumers' income, then they become less price sensitive (Porter, 2008, p.83-84). Based on these assumptions, experiences may generate competitive advantage or high profits if they are of high quality and well differentiated for consumers.

The profit of an industry is affected by high "threat of substitutes" (Porter, 2008, p.84). This gives an indication that food firms producing experiences in rural areas stand a risk of their natural substitutes. This raises a question as to how the rural food industry eliminates the threat of substitutes. Porter suggests that industry must separate itself from substitutes through product performance, marketing, or other means, to avoid threat of profit loss and growth potential (ibid.). This raises another question of how the experience producers can separate themselves from substitutes. Hence, distinctive or differentiated activities may become tool for experience producers to overcome competitors. This could be their uniqueness in engaging customers experientially to offset a substitutes' potential to reduce their profits.

According to Grant (2002, p.77) the general scope of competition and intensity of profits in most industries is defined by rivalry between firms. Rivalry between experience producers will thus determine the extent to which their competitive advantage could be achieved. The rate at which rivalry impact industry's profit possibility depends on the "intensity" and the "basis" on which they compete. High intensity of rivalry exists when the size of competing firms are almost alike, slow growth in the industry, high exist barriers, and high level of commitment to business. When the basis of rivalry is mainly on price, it becomes "destructive to profitability". This is because competition based on price leads to shifting of industry profits to buyers (Porter, 2008, p.85). This may occur when rivals reduces prices, to attract new clients when there is low demand or existence of low switching cost to consumers for almost identical product or services of rivals. However, if the basis is not on price, but on brand or service for example, it has minimal tendency to destruct profits since it increases customer value and support high prices. This can also elevate the difficulty facing new entrants (ibid. p. 86). The above implies that profitability of experience

[6] See reference for seven major sources of barriers to entry, i.e. supply-side economies of scale; demand-side benefits of scale; capital requirement; incumbency advantages independent of size; Unequal access to distribution channels; restrictive government policy.

producers is determined by the intensity and basis on which they compete. In general, the five forces model offer a strategic approach or guide to identify the competitive position of an industry to become profitable in relation to its external environment.

2. *Resource-base view*

Edith Penrose is recognised for pioneering the resource-base view as basis for competitive advantage (Zack, 1999, p. xii). Unlike Porter's five forces model that adopts an external approach to analyse an industry's performance to obtain competitive advantage, the resource-base view analyse the uses of internal organisational resources and capabilities to achieve competitive advantage in a selected environment (Douglas & Ryman, 2002, p.333).

The resource base view highlights on the distinctiveness of a firm and proposes that the means to "profitability" is for firms to exploit "differences", rather than doing the same things as their competitors (Grant, 2002, p. 137). This view is confirmed by Barney & Hesterly (2008). They emphasise that a "firm gain only competitive parity" when it does what its rivals does (p.101). In this regard, achieving competitive advantage entails devising and executing an approach that utilises the distinctive elements of a firm's reserve of resources and capabilities (Besanko et al., 2007, p. 403; Barney & Hesterly, 2008, p. 74). The distinctive elements of a firm's resource and capabilities are characterised as "its own valuable, rare and costly-to imitate resources" than to duplicate that of a rival (Barney & Hesterly, 2008, p. 101). Schroeder, *et al.* (2002, p. 106) also echo on Barney (1991)'s view on the above.

Penrose (1999,) defines resources to comprise "the physical things a firm buys, leases, or produces for its own use, and the people hired on terms that make them effectively part of the firm" (p.63). Resources are defined again broadly to include a firm's capital equipment, human resources, intellectual capital (Grant, 2002, p.139) patents, brand names, finance, etc (Grant 1999, p. 7). These definitions highlights on things or assets own by a firm that contributes to its performance. Capability is also viewed as the ability for a set of resources to carry out a venture. "While resources are the sources of a firm's capabilities, capabilities are the main source of its competitive advantage" (ibid.). However, Grant (2002,) argue that usually, these resources do not generate value for the firm on their own. Hence, to obtain competitive advantage, "resources must work together in order to create organisational capability"[7] (p. 139). That is resources are to be combined to determine a firm's capability to yield competitive advantage. Penrose (1999, 63) also stresses on personal and material resource interactions in firm. These assertions justifies that resources are combined in a firm to yield its profitability. In this regard, what are the resources available to rural food producers to create experiences? How do they combine these resources to obtain advantages competitive?

Penrose (1999, p. 63) argues that resources are heterogeneous because they offer multiple services which is imperative for the creative prospect of a firm. This also indicates that resources of a firm can be utilised for multiple purposes. This may imply that different forms of memorable experiences can be created from the available resources of rural food producers. Yet, this will be based on the firm's capabilities to utilise these resources.

[7] Organisational capability is defined as a firm's capacity for undertaking a particular productive activity

In general, resource-base view provides an understanding that if experiences will lead to competitive advantage in a firm, then the firm has to identify and take advantage of what it is capable of doing better than its competitors given its available resources. This resonates Hofer and Schendel (1978)'s argument that a direct linkage exist between competitive advantage and competence. Hence they proposed that "advantage is achieved through the unique position a company attains, relative to its competitors, by the development of its competencies" (Reed & DeFillippi, 1990, p.88). Consequently, if a firm's resource strength/competence lies with its human resources, then it may have to exploit the special talents in them to produce experiences with very positive themes or ones that could engage all five senses of customers above the capabilities of their rivals.

3. *Relational view*[8]

As emphasised in management literature such as (Dyer & Singh, 1998; Duschek, 2003; Douglas & Ryman, 2003); the relational view regards firms' profitability as a function of resources that are firmly rooted in inter-firm relations. Thus collective resources pooled through inter-firm networking become possible sources of competitive advantage and also helps a firm to secure valuable place on the market (Douglas & Ryman, 2003, p. 333). Dyer & Singh (1998, p.662) argue that inter-firm relations are useful because they obtain "relational rents (supernormal profits)" which may be unachievable when they operate separately. The achievement of competitive advantage by firms in a relational context are said to be possible "when alliance partners combine, exchange, or invest in idiosyncratic assets[9], knowledge, and resources/capabilities, and/or they employ effective governance mechanism that lowers transaction cost" (p.622.). Duschek (2003, p.62) also confirms this suggestion. These four factors (inter-firm relational-specific assets; inter-firm knowledge-sharing routines; complementary resources endowments; effective governance) are expected to help understand ways in which rural food producers could achieve competitive advantage from experience offerings.

a) Relational specific assets as possible basis for competitive advantage in inter-firm relations is drawn from (Williamson 1985)'s transaction cost theory, which identifies three kinds of assets specificity: "site specificity", "physical asset specificity" and "human asset specificity" (Dyer & Singh, 1998, p.622; Duschek, 2003, p.63). Site specificity becomes achievable through joint-specialisation of resources. Therefore series of production processes organised within the network are placed in each other's proximity (Dyer & Singh, 1998, p.622.). This means that in the food industry, firms could jointly specialise in producing specific experience by positioning the various processes of their activities in proximity to each other. In this sense several operational cost are reduced through this process.

Physical asset specificity spells the collaboration between firms in the specialisation of specific capital investment. It is identified as a means to product differentiation and also escalating product veracity (ibid.). For instance a spatial area/amusement park could be jointly acquired by alliance firms purposely to provide a special food festival that is aimed at creating memorable experience to customers. Although such an investment may help alliance firms to differentiate their products from their competitors, I presume this may also reduce their investment cost compared to if each firm

[8] This concept is treated extensive in Dyer & Singh (1998) and Duschek (2003) and will form the main reference points for this section.
[9] This also defined as relational specific asset in the same literature and also in Duschek (2003).

had invested separately. Human specific *asset* is about exchange of specific knowledge accrued by firms through "long standing relationships. This becomes an impetus for valuable and resourceful interaction between firms that enhances quality operations on the market (ibid).

b) Both Duschek (2003) and Dyer & Singh (1998) describes inter-firm knowledge sharing routines as basically learning and problem solving capabilities of alliance firms to obtain competitive advantage from their networks. According to Dyer & Singh (1998) empirical studies shows that in most instances, inter-firm knowledge routines are the most essential resource of "new ideas and information that result in performing enhancing technology and innovations" (p. 665). Innovations literature such as: (Powell & Grodal, 2005:60; Graf, 2006:14) attest to the usefulness of knowledge exchanges (networks) between firms. In this regard, if experience economy in the rural food industry may achieve competitive advantage, then knowledge exchange between firms becomes a crucial element. Inter-firm knowledge sharing to yield profits are identified to be aided by "partner specific absorptive capacity" as well as (Duschek, 2003 p. 63), encouragement of transparency and reciprocity, and the discouraging of "free riding" (ibid.; Dyer & Singh, 1998, p. 665) among partners. Absorptive capacity is defined by Cohen & Levinthal (1990, p.128) as "the ability of a firm to recognise the value of new, external information, assimilate it and apply it to commercial ends" (Dyer & Singh, 1998, p. 665). This implies that the level of absorptive capacity of experience producing firms to make use of external knowledge will be determined by the extent to which they can identify new ideas or innovations from partners, acquire them and put them to economic use in a logical manner. However, Dyer & Singh (1998) argues that the context of Cohen & Levinthal's definition is only applicable to individual firms and not firms in partnership. In the case where the absorptive capacity involves partnership firms it is known as partner specific absorptive capacity. It works better when firms are well familiarised with each other's resources and capabilities to make use of, and also an established environment that allows partner firms to easily acquire and transmit knowledge among themselves (ibid.).

c) Complementary resource endowment is defined as "distinctive of alliance partners that collectively generate greater rents than the sum of those obtained from individual endowment partner" (Dyer & Singh, 1998, p. 666). This offers another understanding of how competitive advantage is achievable through inter-firm relations. According to Dyer & Singh, sometimes a firm's capacity to make profits from its resources may have to be employed concurrently with the resource of another firm (ibid.). Therefore a rural food producer may choose to outsource a well endowed firm in production of experiences within its networks to jointly create memorable experiences, which will yield higher profits than could be obtained individually. There is a suggestion that for resources to create competitive advantage through inter-firm relations, it is imperative that neither firm in the alliance can buy the related resources in another market. More so, the resources should be "indivisible" in order to encourage each firm to form partnerships to utilise the complementary resources. Another suggestion is that when examining the level at which firms combine their complimentary resources to yield profits, it is critical to consider the level of a prospective partner's strategic resources that is "synergy- sensitive" with the firm's resources. This is because when the level of synergy- sensitivity is high, the possibility of earning higher profits from combining complimentary resources also increases (ibid. p. 667).

However, this process is identified as challenging since prospective firms would have to find one another and identify the likely significance of merging resources. Right Information is also required to assess the significance of different partner combination, and thereby collaborate tactfully with firms which are suitable to create combine value. Apparently, this process is considered typically expensive and difficult. This is because firms' capacities to recognise and assess their complementary resources differ for three reasons: "differences in prior alliance experiences; differences in internal search and evaluation capacity; and differences in their ability to acquire information about potential partners owing to different positions in their social/economic networks" (ibid). Thus for experience producers to achieve competitive advantage through combination of complimentary resources with other firms; they must have: "prior alliance experience; investment in internal search and evaluation capabilities; and ability to occupy an information-rich position in social/economic networks" (ibid., p.668). Even though these three factors will potentially aid in firms' profitability, it is dependant on whether the compatibility of their organisational systems, process and cultures are adequate to facilitate coordinated activity (ibid).

d) Effective governance is considered as vital ingredient for achieving competitive advantage in inter-firm relations. It is seen as means for firms to adopt appropriate network institution and mechanisms that lowers transaction cost and also generate a motivation for increasing transaction values more than their competitors. The greater the length of safeguard and volume of transaction, the higher the potential of achieving profits (Dyer & Singh, 1998, p. 670). Through effective governance in inter-firm relations, networking firms are able to safeguard against "opportunism". The risk of opportunistic behaviour looms from high "co-specialisation" of resources which concurrently decreases the value of resources in different uses. In order to safeguard opportunism among partners; measures such as: "self-enforcement governance mechanism and informal self-enforcement governance" are put in place. In essence, these measures are meant to build trust among partners (ibid). Although other forms of governance modes such as "formal" safeguard exist, they are unable to generate competitive advantage as compared to self-enforcement governance mechanism, and informal self-enforcement governance. This is because formal safeguard have higher marginal cost and also they easier for competitors to imitate (ibid. p.671). The understanding for now is that effective governance is useful to enhance good relationship between firms' interactions that will latently results in business advantages.

4. Towards a synthesis of strategic management models in the rural food industry

So far, this paper has discussed the experience economy concept in relation to its components and applications. It has also discussed the competitive advantage concepts by defining it, and also identifying its sources in relation to three strategic models: five forces model, resource-base view, relational view. These models did not only provide sources of identifying and understanding competitive advantage, but also serve as conceptual framework to reflect on how competitive advantage can be obtained in an experience economy.

In retrospect, the five forces model is seen to aid firms in finding out strategies to compete with regards to their industry structure. That is by identifying the threats and opportunities that surrounds industry, and thereby adopt relevant strategies to sustain opportunities being enjoyed and also prevent possible threats. This explains the pragmatism of the concept and therefore serves as leverage for identifying and analysing the "competitive position" (Barney. 1991, p. 100) of experience producers in the rural food industry. Porter (1985, p. 4) establish that the foundation and prospects for competitive advantage necessitates understanding of competition in the industry. Hence, the five force model serve as guide to understand the prospects of obtaining competitive advantage through experience offerings in the rural food industry.

The resource base view also focuses on identifying the internal resources and capabilities of a firm as competitive strategy. This implies the capacity of rural food firms to exploit their internal resources and capability to produce memorable experiences becomes an impetus for achieving competitive advantage. The growing importance of experiences as emphasised in literature is an indication of competitiveness. To confront this challenge, a cue is taken from this assertion: “firms that are able to accumulate resources and capabilities that are rare, valuable, non-substitutable, and difficult to imitate will achieve a competitive advantage over competitors” (Dyer & Singh 1998, p. 660). This is not only a message to firms but also a framework for one to analyse the internal capacities of a firm to achieve competitive advantage.

The relational view adds to one’s understanding of ways to analyse the achievement of competitive advantage through inter-firm relations. It justifies the old saying that ‘two heads are better than one’. However, three or more could be much better literally. The relational view also helps firms to seek for “an effective position in its industry” (Douglas & Ryman, 2003, p. 333).

Obviously these conceptual models are antithesis of each other when one reviews the notions surrounding them. The five forces model is critiqued for its emphasis on only industries’ profitability other than firms (Zack, 1999, p.ix) and also its focus on external analysis (Xu, et al. 2006, p. 272). The resource-base view is therefore considered as means to address the above criticism by focusing on the internal capabilities (Zack, 1999, p.ix) to determine a firm’s profitability. Despite the usefulness of both the five force model, and resource base view in understanding how firms obtain competitive advantage, they overlook the significance of network relations (Dyer & Singh 1998, p. 660) or “strategic alliance” (Douglas & Ryman, 2003, p. 333) among firms. These arguments prompt one to inquire about which of these models is the most suitable for a firm/industry. Is it worth considering one or combining all? Although each model portrays different rationalities, they can be identified as not logically contradictory since they all contribute to the understanding of achieving competitive advantage. The significance of each model cannot be eliminated in this regard. This logic inspires a preposition that all three models can be combined to analyse how experience economy in the rural food sector may lead to competitive advantage.

This paper assumes that the rural food industry is an engine of economic growth for rural regions and therefore a competitive strategy is needed for the industry’s profitability. Consequently, the experience economy concept is being used as basis for competition. In this regard, developing a strategy to sustain the industry’s opportunities and avoiding its threats is imperative. Thus the significance of the five force model to achieve competitive advantage cannot be ruled out if experience producers are expected to yield a good competitive position on the market. The resource-base view is also important to analyse the resources and capabilities of individual firms to obtain competitive advantage in the experience economy. This is because a firm’s ability to attach memorable experiences to traditional products to increase product value will be determined by its resource and capability. The significance of inter-firm networking is important to this paper because the ongoing research on Thisted’s food industry seeks to understand innovations from the perspective of experience economy. Since networking among firms have been identified as credible source of innovation in most innovations literature including Murdoch (2000), the relational view is considered useful to examine how firms combine their resources (knowledge) and capabilities through networking to create memorable experiences that can yield higher profits than their competitors.

Although all three strategic models discussed are divergent from each other in theory, there are some correlations between them that can be exploited together. Barney (2002, p.160) argues that industry-based models which comprises of opportunities and threats in industry environment are complements to the resource-base view. To buttress on Barney's argument, I will emphasise that a correlation actually exist between the five forces model and the resource-base view. This is because for an industry to take advantage of opportunities and avoid its external threats; individual firms within the industry need to combine their resources and capability to achieve this goal. This justifies the complementarities between both models and also the need to consider them in analysing competitive advantage of experiences. The relational view can also be argued as a complement to the resources-base view because it takes the internal resources and capabilities of alliance partners to establish networks. In this regard, the significance of the three models and the linkages between them calls for their combination in analysing how experiences may lead to competitive advantage. Combining all three models will be a useful framework because it provides a broader scope for analyses.

Based on the lessons drawn from the three strategic models, a set research questions have been developed. These questions are to be addressed empirically in a future case study to examine how experiences may lead to competitive advantage in the food industry of Thisted.

a) To examine the competitive position of the food industry in Thisted, the following question is formulated: What are the possibilities of achieving competitive advantage from experiences in the rural food industry of Thisted? To address this question, the following sub questions will be considered:

- How does the threat of substitute products affect profits on experiences in the food industry?
- How does the barging power of buyers affect the experience products in the food industry?
- What are the threats of new entrants on the profitability of experiences in the food industry?
- How does the bargaining power of suppliers affect profits on experience products in the food industry?
- What is the level of rivalry among experience producers in the rural food industry and what basis do they compete?

b) To examine the prospects of firms' internal resources and capabilities to achieve competitive advantage from experiences; the following questions will be addressed:

- How do firms identify their resources and combine them to realise their capability?
- What are the distinctive elements of firms' resources and capability to produce experiences and how do they utilise them?

c) To examine the prospects of inter-firm networks as source of competitive advantage in experience production, the following questions will be addressed:

- What are network firms relational specific assets and how are they utilised?
- How do network firms benefit from knowledge sharing routines?
- How do network firms utilise complementary resources and what are the challenges involved?
- What are benefits of governance process among networking firms?

5. Conclusion

The aim of this paper has been to identify a conceptual framework that will aid in analysing of how the rural food industry could achieve competitive advantage in an experience economy. Pine & Gilmore (1998; 1999)'s typology of experience economy is viewed as strategic approach to generate higher value on experiences. The attempt to understand how this concept could be profitable in the rural food industry is inadequate due to its lack of conceptual framework for analysing how experiences may lead to competitive advantage. This inspired the idea to identify existing strategies that could be used as framework to analyse how competitive advantage may be achieved in experience economy. Analysis of strategic management literature helped to identify three conceptual models (five forces model, resource-base view, and relational view) as tools to analyse how firms/industry obtain competitive advantage. Based on the significance of these models, it is argued in this paper that they should be combined to analyse the profitability of experiences in the rural food industry. It is assumed that such profitability will serve as leverage for the community in which these firms are located. The paper concludes with a suggestion that the components of the three models identified could be critically examined in a future research to develop further insights on their usefulness. Mores so, it is suggested that these models will serve as conceptual framework for empirical analysis in the case of the food industry in Thisted, Denmark.

References

1. Barney, J. B. (2002) "Gaining and sustaining competitive advantage". 2nd edition. New Jeysey: Prentice Hall.
2. Barney, J. B. (1991) Firm resource and sustained competitive advantage. *Journal of Management,* Vol. 17, No.1, pp.99-120.
3. Barney, J. B. & Hesterly, W. S. (2008) "Strategic management and competitive advantage: concepts and cases". 2nd edition. New Jersey: Pearson Education.
4. Besanko, D. et al. (2007) "Economic of strategy" 4th edition. John Wiley & Sons.
5. Carù, A. & Cova, B., (2003) "Revisiting consumption experience: a more humble but complete view of the concept". *Marketing Theory Articles,* Vol.3, No.2, pp.267-286.
6. Duschek, D. (2004) Inter-firm resources and sustained competitive advantage. *Management Revue*, Vol. 15, Issue 1.
7. Dyer, J. H. & Singh, H. (1998) The relational view: cooperative strategy and sources of interorganisational competitive advantage. *Academy of Management Review,* Vol. 23, No. 4, pp. 660-679.
8. Fiore, A. M. et al. (2007) "Experience economy: adding value to small rural businesses" *Journal of Extension*, Volume 45, Number 2, Article number 21AW4. pp.1-13. Also available at: http://www.joe.org/joe/2007april/iw4.shtml (Accessed on 24.03.2008).
9. Gentile, C. et al., (2007) "How to sustain the customer experience: an overview of experience components that co-create value with the customer", *European Management Journal*, Vol. 25, No.5, pp. 395-410.
10. Graf, H. (2006) "Networks in the innovation process: local and regional interactions". Cheltenham: Edward Elgar.
11. Grant, R.M. (1999) "*The resource- based theory of competitive advantage: Implication for strategy formulation"*: in Zack, M. H. (ed.) Knowledge and strategy. Boston: Butterworth-Heinemann publication.
12. Grant, R.M. (2002) "*Contemporary strategy analysis: concepts, techniques, application*". 4th edition. Oxford, Blackwell.
13. Hayes, D. & MacLeod, N. (2007) Packaging places: designing heritage trails using and experience economy perspective to maximise visitor engagement *Journal of Vocation Marketing,* Vol. 13, No.1. Sage Publications. pp.45-58.
14. Hjorth. D. & Kostera, M. (eds.) (2007) "Entrepreneurship and the experience economy", Copenhagen: Copenhagen Business School Press.
15. Hirschman, E. C. & Holbrook, M. B. (1982) Hedonic consumption: emerging concepts, methods and preposition. *Journal of Marketing*, Vol. 46(summer), pp. 92-101.
16. Howell, J. (2005) "Manufacturing Experience: Urban Development, Sport and Recreation" *International Journal of Sports management and Marketing*, Vol. 1, Nos. ½. Pp.56-68
17. Lorentzen, A. (2008) "Knowledge networks in the experience economy: An analysis of four flagship projects in Frederikshavn" *Center for Regional Development & Department of Development and Planning Working paper Series*, No. 321.
18. Lorentzen, A. et al. (2007) "Small cities in the experience economy: an evolutionary approach. A paper presented at the International Conference (Regional Studies Association): Regions in Focus Conference. 2nd-5th April 2007. University of Lisbon, Portugal.
19. Murdoch, J. (2000), "Networks – a new paradigm of rural development". *Journal of Rural Studies*, Vol.16, No.4. pp. 407 – 420.

20. Nielsen, T. (2004) "*Understanding the experience industry*: A Swedish Perspective on Creativity", Stockholm, QNB Analys & Kommunikation AB.
21. Penrose, E. T. (1999) "Excerpt from the theory of the growth of the firm". In Zack, M. H. (ed.) "Knowledge and strategy". Boston: Butterworth-Heinemann publication.
22. Pine II, B. J. & Gilmore, J.H. (1998) "Welcome to the experience economy" Harvard Business Review, pp. 97-105.
23. Pine II, B. J. & Gilmore, J.H. (1999) "The Experience Economy: work is Theatre and Every Business a Stage "Boston, Harvard Business School Press.
24. Porter, M. (2008) The five competitive forces that shape strategy. *Harvard Business Review.*
25. Porter, M. (1985) "The Competitive Advantage" London, MacMillan Press limited.
26. Powell, W. W. & Grodal, S. (2005) "*Networks of Innovators*". In Fagerberg *et al.* (Eds.) (2005) The Oxford handbook of innovation. New York: Oxford University Press.
27. Richards, G. (ed.) (2001) "Cultural Attractions and European Tourism" Cambridge, MA. CABI.
28. Schroeder, R.G. *et al*. (2002) A Resource-Based View of Manufacturing Strategy and the Relationship to Manufacturing Performance. *Strategic Management Journal*, Vol.23, pp.105-117
29. Sims, F. et al. (2007) "Understanding the Mobile Experience Economy: A Key to Richer More Effective M-Business Technologies, Models and Strategies". IEEE Computer Society, A paper presented at the Sixth International Conference on the Management of Mobile Business, 9-11 July 2007.pp:12-12.
30. Sonnino, R. & Mardsen, T. (2006) Beyond the divide: rethinking relationships between alternative and conventional food networks in Europe. *Journal of Economic Geography, Vol. 6. pp. 181-199*
31. Sundbo, J. (2007) "Innovation in the Experience Economy: A Taxonomy of Innovation Oragnisation" A paper presented at the XVII International RESER Conference :(Service Competitiveness and Cohesion, - Balancing Dynamics in the Knowledge Society) Tampere, Finland, 13-15 September 2007.
32. Toffler, A. (1970) "Future Shock", New York, Random House.
33. Xu, F. *et al*. (2006) Identification and promotion strategy of core competrncy of non-staet-owned high-tech enterprises based on innovative SWOT matix: a case study on Shanghai Garlen Environment Protection Company. *IEEE.*
34. Zack, M. H. (ed.) "Knowledge and strategy". Boston: Butterworth-Heinemann.