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# CINÉPOLIS LUXURY CINEMA: FACTORY OR THEATRE?

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## AUTOBIOGRAPHICAL NOTES

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Enzo Baglieri

SDA Bocconi School of Management

enzo.baglieri@sdabocconi.it

Associate Professor, SDA Bocconi School of Management. His interests of research and teaching range from technology management and new product development to service operations and innovation

Simon Croom (corresponding author)

University of San Diego, School of Business Administration

scroom@sandiego.edu

Professor, USD School of Business Administration. His interests focus on supply chain strategy, service excellence and procurement

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May 10, 2013

## ABSTRACT

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**Purpose** – In our paper we explore the disconnect that occurs when a service that ostensibly appears to be a service theatre is managed using methods more attributable to service factory.

**Methodology/approach** – The paper is the outcome of a case-based research.

**Findings** – In our analysis we found that Service Quality dimensions (Johnston, 1995) were generally reflected in criteria pertaining to facilities and were typically ‘satisfiers’, whilst the comments regarding dissatisfiers all focused around operational execution. The focus of these data on operational control, process performance and facility capabilities indicated that customers regarded the Cinépolis as a factory.

**Research implications** – We conclude that the service theatre (Harris, Harris & Baron, 1990; Grove & Fisk, 1992; Grove, Fisk & Dorsch, 1998; Pine & Gilmore, 1999; Stuart & Tax, 2004; Fisk & Grove, 2013) and service factory (Chase & Erikson, 1989; Chase, Kumar & Youngdahl, 1992; Silvestro et al, 1992) model presents a dichotomy that, in this case example, was unresolved in the alignment between strategic goals and operational control.

**Practical implications** – The paper forces managers and executives in paying high attention to the alignment between strategic goals and operational control and in identifying the critical factors to focus on in order to reduce any disalignment.

**Originality/value** – This study represents an additional contribution to the seminal work started by Baglieri, Zambolin (2012) and Baglieri, Karmarkar (2010) on the convergence between service factory and service theatre as a consequence of the so called *service industrialization* phenomenon.

**Key words** (max 5) – Service Factory, Service Theatre, Operational Control, Strategic Alignment, Case

**Paper type** – Research paper

## INTRODUCTION

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In our paper we explore the disconnect that occurs when a service that ostensibly appears to be a service theatre is managed using methods more attributable to service factory.

The concept of service theater (Harris, Harris & Baron, 1990; Grove & Fisk, 1992; Grove, Fisk & Dorsch, 1998; Pine & Gilmore, 1999; Stuart & Tax, 2004; Fisk & Grove, 2013) and service factory (Chase & Erikson, 1988; Chase, Kumar & Youngdahl, 1992; Silvestro et al, 1992) have become embedded in the so called 'service dominant logic' (Vargo & Lusch, 2004; Lusch, Vargo & Wessels, 2008) concept used increasingly in our examination of service design, delivery and development.

This study represents an additional contribution to the seminal work started by Baglieri, Zambolin (2012) and Baglieri, Karmarkar (2010) on the convergence between service factory and service theatre as a consequence of the so called *service industrialization* phenomenon.

Service industrialization (Levitt, 1976; Karmarkar 2004) tends to be confused with services standardization. In reality, the industrialization of services is a phenomenon capable of producing a convergence or a divergence of the two services operations models we consider as the two major categories of reference: the service factory and the service theatre.

Table 1, below, summarizes the distinguishing features of the two opposites.

**Table 1. Service Factory and Service Theatre – Distinguishing features**

<b>Service Factory</b>	<b>Service Theatre</b>
Mass production, high volume Low cost Standardization Efficiency Low flexibility Dependability High price/quality	Niche production, low volume High cost Customization Relationship and customer intimacy High flexibility High quality of production factors High perceived value

Source: Baglieri-Zambolin, 2012

We have already described the basic features of these two models, as well as indicating clearly that in practice it is highly probable that we will see combinations of both.

This paper is the outcome of a case-based research. The case we use is a high-end cinema chain emerging in the US, Cinépolis Luxury Cinema. Data was collected through multiple site visits, interviews with management and interviews with clients.

The goal of this case is to discuss what can be the operational implications of designing a service production and delivery system that must perform as a service theatre, consistently with the overall business strategy.

## CINÉPOLIS

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Cinépolis operates in the film exhibition industry and has had an accelerated growth in the last 10 years. Within a few short months, he had been astounded by the phenomenal success and profitability of the Del Mar operation, which was double their forecast profit margin. This was all the incentive he needed to move forward his plans for expansion across the southwest states. By early 2013, Cinépolis Luxury Cinemas had five locations operating in California: in Del Mar, Carlsbad, 2 in Orange County and West Los Angeles.

Despite of this terrific performance, when Señor Magaña was invited to visit his old friend, a professor of Service Operations Management at a leading business school in California, he was not so comfortable after two hours in class with the MBA students analysis of the 'Cinépolis experience'.

Cinépolis (Spanish for 'City of Cinema') is the biggest cineplex chain in Mexico with 205 theaters in 65 cities, and have become the largest chain in Latin America and the fourth largest in the world with 230 theaters, 2,160 screens, with a total installed capacity of 298,801 seats and over 13,000 employees throughout Mexico, Guatemala, El Salvador, Costa Rica, Panama, Columbia, Brazil, Peru, India and the US.

Cinépolis possess four commercial brands: Cinépolis, Cinépolis VIP, Multicinemas and Cinemas Gemelos. Their market share in Mexico is around 61.4% and annual revenues are higher than US\$ 700 million.

### Mission & Vision

Cinépolis' mission is *to be the best option in entertainment, strengthening our international leadership in the film industry, providing happiness, innovation and a stellar service*. This mission is consistent with the company's long-term vision, which is *to light up the movie of your life with smiles and unforgettable moments*.

Passion, commitment, integrity and service are the fundamental corporate values that inspire the operations of this company.

In July 2011 they expanded for the first time into the United States, opening up a Luxury Cinema in Del Mar, Southern California, an innovative concept for cinemas, which aims to transform the movie into a more broad and encompassing 'VIP experience' at a premium price point.

## THE MARKET

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### The US Market

In 2011<sup>1</sup> the US had just over 40,000 movie screens earning \$12.6bn in revenue with a profit of \$543.7M (4.3%). Concessions (non-movie ticket) revenues account for 25% of receipts (see fig 1 below) and annual growth forecast to be in the region of 1.5% pa for the period 2011-16, primarily as a direct result of increase in ticket prices. Competition is intense, incorporating cable/satellite broadcasters, DVD, VoD (Video on Demand) and bootlegging, and being accessed through television, PC, tablet and smartphones that were all anticipated to present major pressures for the movie theater businesses. One common response to these pressures has been the introduction of improved technologies for 3D, Dolby surround sound, seating and automated digital projection.

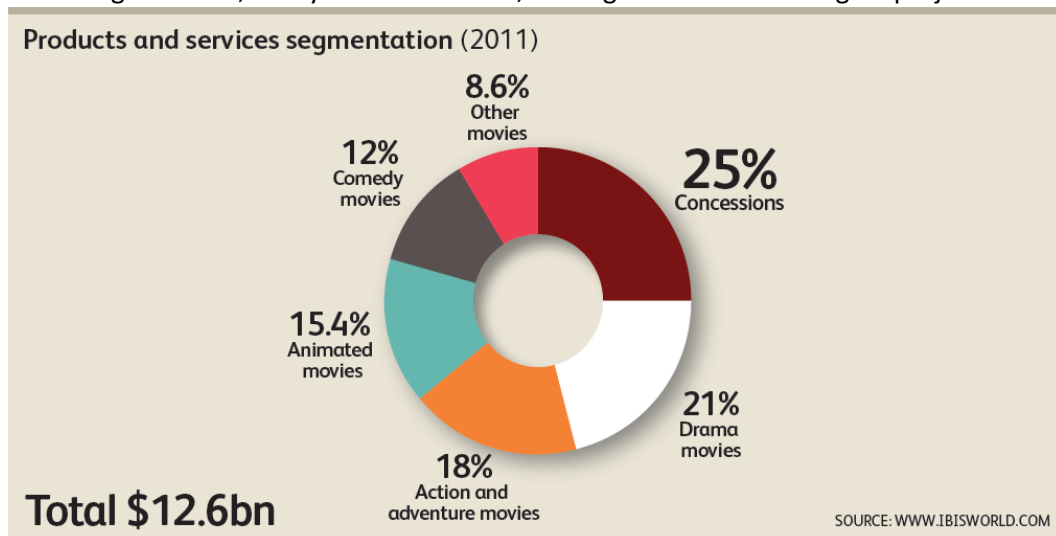


FIGURE 1 MAIN INCOME GENERATION

### Customer Segmentation

Cinépolis divide the users according to their profiles into three groups: Mainstream, Sociable and Movie Fans.

#### *Mainstream Moviegoers*

The Mainstream group is the audience between ages of 26 and 45 years old. They consider that going to the movies is a relaxing activity to share with others, especially children. Their visit to the movie theatres is not planned and the movie is not relevant. The most important factor for this segment is the total movie theater experience.

#### *Sociable Moviegoers*

The Sociable group consists of young people between ages of 13 and 25 years old who visit the movies with a group of friends. Their visit to Cinépolis (and theatres in general) is a moment to reaffirm their group identity and to an important factor for them is to share a common movie experience.

#### *Movie Fans*

Movie Fans are people for whom the movie is an art form and they attend select movies focusing on their sensory experience and the intellectual challenge presented by the

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<sup>1</sup> IBISWorld Industry Report 51213 Movie Theaters in the US June 2011 [www.ibisworld.com](http://www.ibisworld.com)

movie.

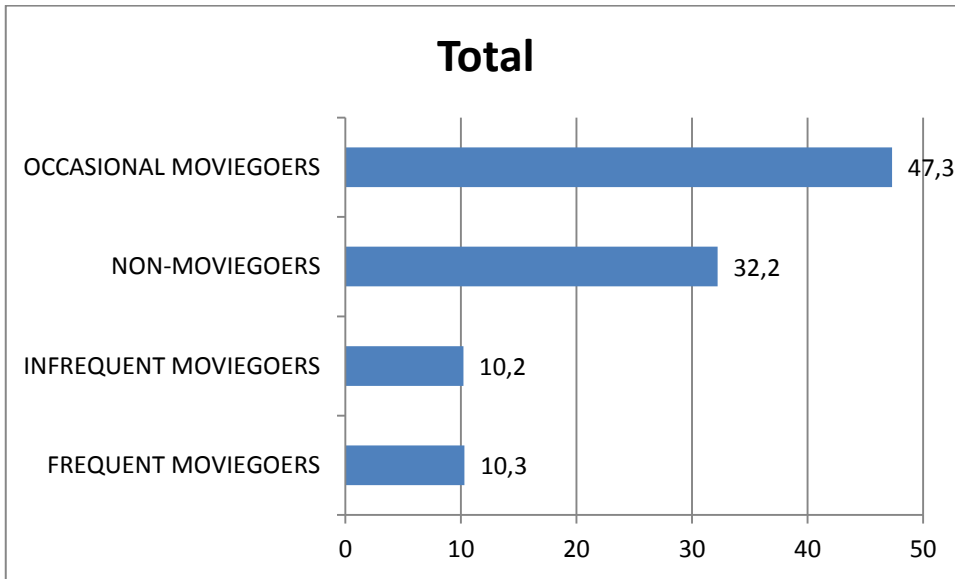


FIGURE 2 MARKET SEGMENT CLASSIFICATION

Targeting these different market segments, Cinépolis' four brands aim to align to different customer groups. Characteristics of these four brands are highlighted in Figures 3 and 4.

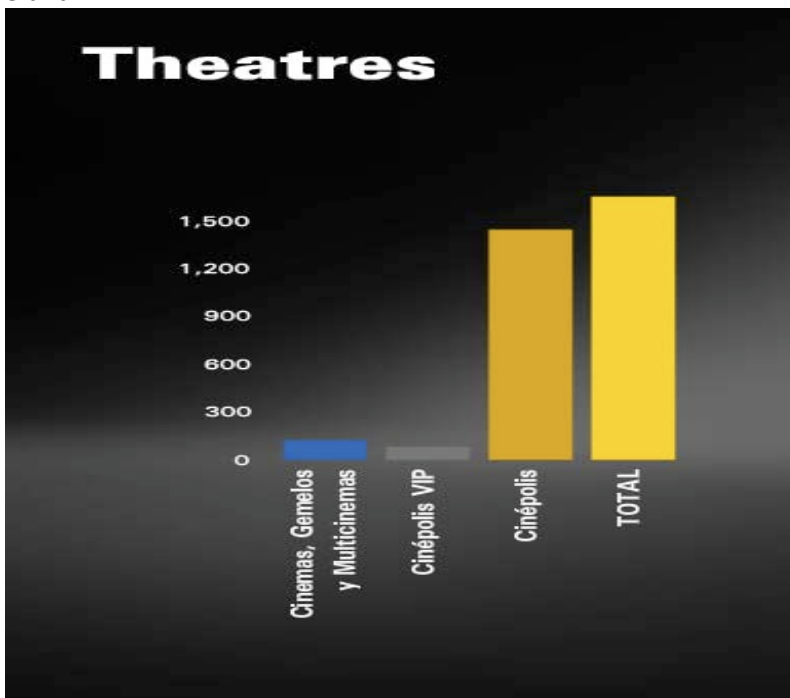


FIGURE 3 NO. OF THEATRES PER BRAND

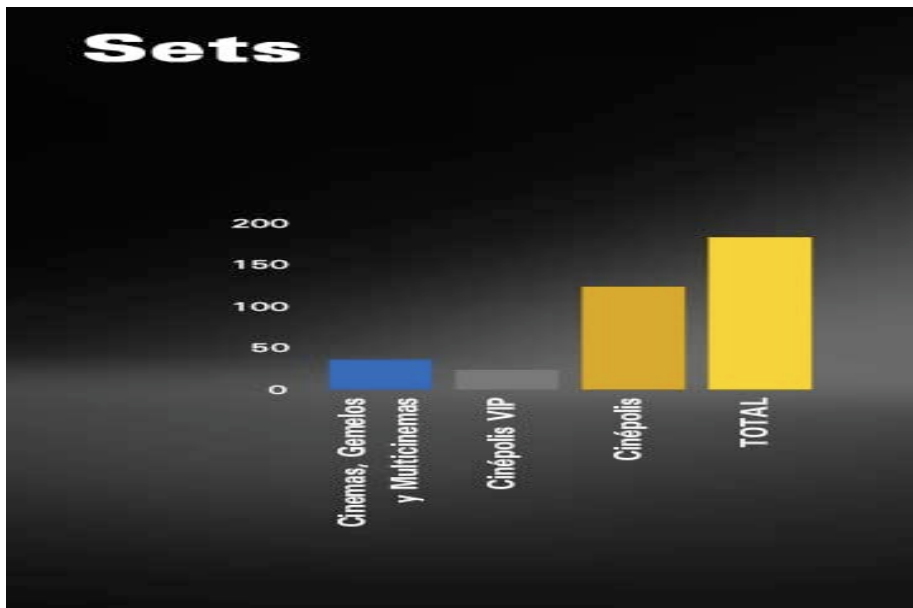


FIGURE 4 SEATS PER BRAND

In the US, they decided to concentrate solely on one of these brands, their VIP brand, which they launched as Cinépolis Luxury Cinemas.

## THE CINÉPOLIS LUXURY CINEMA EXPERIENCE

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In order to establish their market position in the US market and particularly in Southern California, Cinépolis started investing in their concept of Luxury Cinemas, whose goal is to emphasize the sensory experience for the customers, surrounding the film exhibition with additional services intended to 'delight' and astonish customers. Their first theater opened in Del Mar, CA on July 22 2011.

## THE PHYSICAL CHARACTERISTICS OF THE THEATRES

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Four elements of the *physical* characteristics of the Cinépolis experience are particularly striking for new visitors to the Del Mar venue:

- First, the steel, glass and stone-fashioned lobby looks like a modern and somewhat exclusive lounge bar; exclusive, elegant and well furnished. Above the bar, several large TV screens show sports. Around the lounge area are bar stools, tables and chairs all arranged to encourage a vibrant atmosphere. A number of staff is dedicated solely to bar tending (their skills are focused on bar tending). They offer high end (and high price) alcoholic and non-alcoholic drinks, and their food menu includes primarily appetizers or 'finger food' items. In general, the facility is designed to convey a feeling of warmth and luxury.
- Secondly, ticket purchases are facilitated by a fully automated touch screen system, which allows customers to choose specific seat location in their theatre, or through

a 'concierge desk' staffed by service clerks. (Tickets can also be purchased online using the same system for seat selection)

- The third distinguishing feature is the movie theaters themselves, eight of which are available, and which are distinguished by two specific elements: the cutting-edge projection technologies and the seating. Projection is managed via an expensive and highly secure digital projection system, which is computer controlled and provides high a high quality projection of the video supported by Dolby surround sound quality. This minimizes the labor needed to project the movies, is highly controllable and automatically monitored. However, by far the most striking feature of the theatre furnishings are the leather *La-Z-Boy* or *chaise longue* leather reclining seats, which have full electronic control and a provide a large, (14 ft<sup>2</sup>) footprint per patron. Each seat has a side table and a moveable glass tray to allow food, drinks to be safely served. A small service call button is also located between seats. (see figure 5)



FIGURE 5 CINÉPOLIS' MOVIE THEATER SEATING

- The fourth feature of their movie theater service is that of catering service. Movie watchers place their food and drinks order during the previews prior to the main movie show and receive their food and drinks to consume during the show. In several theaters, alcoholic drinks are also available, subject to local licensing arrangements.

Therefore, at the heart of the Cinépolis customer experience is a heavy orientation on the physical infrastructure: luxury seats and décor, technology at the box office, the comfortable seats and the quality of sounds and images, all work to make the customers perceive the uniqueness of the ongoing experience.

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## SERVICE DELIVERY

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## Back Office

In manufacturing operations, the factory is typically protected from the sight of the customer (with notable exceptions such as VW's 'transparent factory' in Dresden<sup>2</sup>). In services, this applies only to the *back office*. In the case of Cinépolis, the processes of preparation and cooking of food are not particularly different from those of a medium quality restaurant. The kitchen is a small, long area located behind the bar out of view. The kitchen area is limited and serves primarily to reheat or fry cooked items and the preparation of non-cooked items. An electronic, iPad-based ordering system is used to convey orders from the theater to the bar and kitchen. These orders are intended to be collected and filled during the previews for each movie (an average window of 15 minutes). The movies in the eight screens have staggered starts, no two movies starting at the same time, in order to avoid bottlenecks occurring in the food preparation and delivery.

The projection of the film is a highly automated and complex process incorporating high definition, 3D, Dolby surround sound, bass units and synchronized preview presentation. The technology used costs approx. \$150,000 per screen and is based on hard drive delivery of movies by courier. However, broadband and satellite delivery is slowly being introduced across the sector. Quality of movie projection is a significant competitive factor, but is not regarded as an order winner due to the rapid growth of these technologies across the sector. As a whole, the movie theater industry has seen major financial restructuring and consolidation coupled with price increases for tickets and concessions (food & merchandise), increasing profit margins from 2.4% in 2008 to 4.3% in 2011<sup>3</sup>. However, these costs do continue to place financial pressures on the sector. The movie distributors have a very sophisticated security system, which monitors precisely how often each film is played, is connected to the ticketing system to identify precise viewing numbers and allows them to charge a fixed percentage (around 52%) of the cover price, no matter how much the theater charges. (In Cinépolis' case, this is typically \$18-\$22 per ticket)

Figure 6 below compares the movie industry to all industries' cost structure:

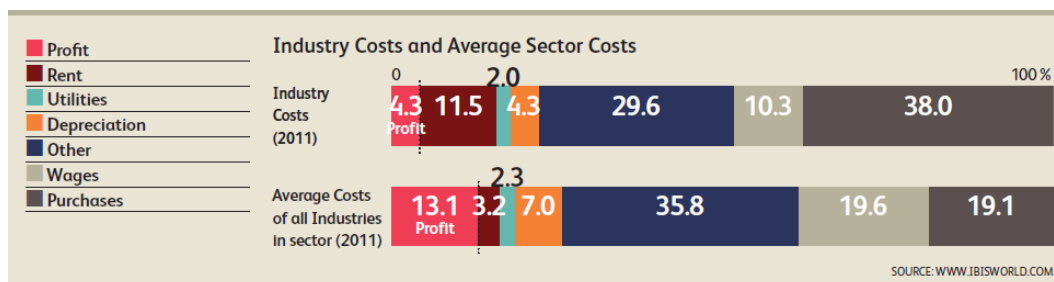


FIGURE 6 MOVIE THEATER INDUSTRY COST STRUCTURE

Within 3 months of opening, Cinépolis Del Mar had reported margins of over 15%, primarily because of the inclusion of alcohol in their offering and its attendant mark up.

<sup>2</sup> <http://www.youtube.com/watch?v=nd5WGLWN1IA>

<sup>3</sup> [www.ibisworld.com](http://www.ibisworld.com)

Forecast financial performance for their first year was to achieve a margin of 18% – way beyond that experienced at any of their other theaters.

### Front Office

The front office processes are focused around the main foyer of the theater, primarily the bar, offering a variety of drinks and snacks. The drinks list incorporates wine, beer, liquor and cocktails but there is no particular element of novelty compared to usual bar processes: customers order, get their drinks and pay. Drinks and food cannot always be taken from the bar to the movie theatre, the reason for this being a desire to maintain separation of the two processes finances and occasionally the lack of a liquor license in specific screens. However, ‘gourmet’ popcorn and candies can be purchased and taken into the theaters.

The bar does have a regular clientele who do not necessarily view a movie, preferring to have a drink and then move on. (The Del Mar Theater is located adjacent to many fine dining establishments, bars and other attractions)

The process of purchasing a ticket can be completed online, by using a touch screen in the foyer or at the ‘conciierge desk’; the distinctive facility being an ability to select one’s desired seat. Seat selection had been perceived by customers as a major benefit in their offering, very much appreciated by customers who typically state that this is a genuine ‘value added’ service.

Cinépolis had purchased an existing movie theater at Del Mar (an Ultra Star Theater) capitalizing on the restructuring that was taking place in the industry and leading to property sell off and this had the great benefit of providing the basic infrastructure for their theaters. Décor was the critical factor and even down to the bathrooms conveys a luxurious feel –glass, chrome and stone being the main theme in their design imprint.

Entry to the individual screens is available 20 minutes or so prior to each screening. The entrance to individual screens is a small dark vestibule, which opens out to a well-appointed seating area. However, due to the wait staff needed to service food and drink orders, there is some congestion around the entrance and a period of hectic activity by these staff as they attempt to take and deliver orders in the 15-minute window before the start of the movie. In addition, a relative deep clean process<sup>4</sup> takes place between shows to ensure that food and other debris is cleared, so adding further to the congestion through maintenance and cleaning staff being present at this time.

Customers select from a menu (see figure 7 below) aided by a courtesy light, and waiters are expected to take orders (via iPads) swiftly, after which ‘runners’ deliver drinks, food and other items from the kitchen and bar as soon as possible. Waiters often reappear after order delivery to collect payment.

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<sup>4</sup> To maintain the high standards of the physical environment, carpets in the theaters are steam cleaned every week and often replaced completely after 9 months. This is a major expense, which reflects the habits of moviegoers to throw trash on the floor, a high incidence of spillage.

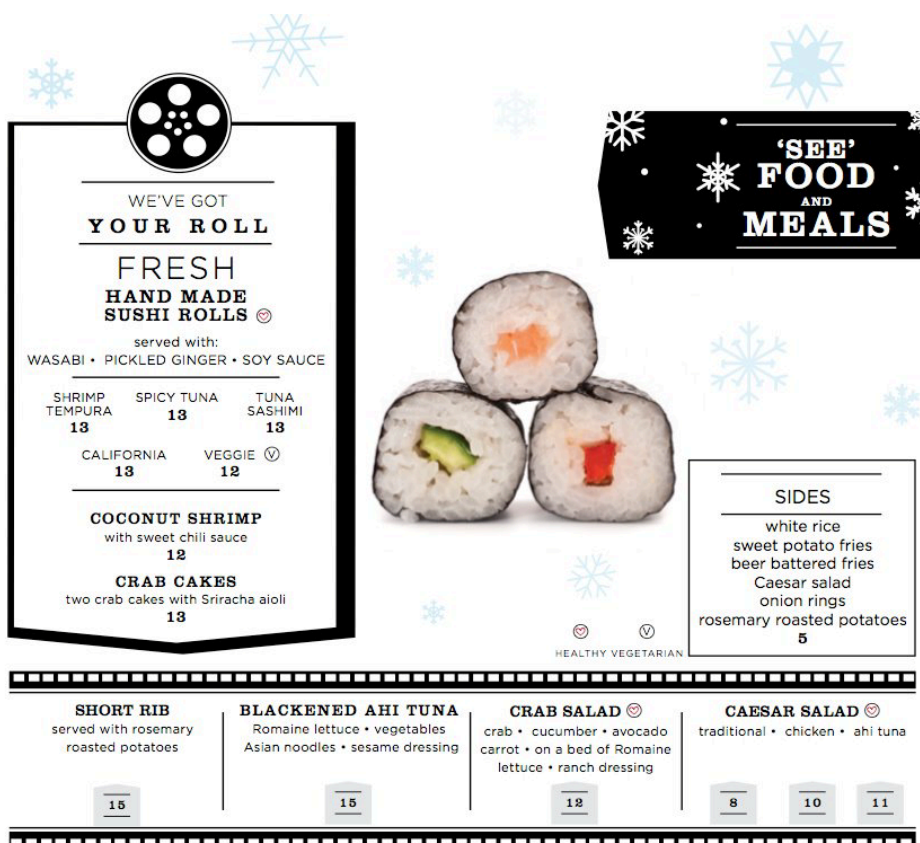


FIGURE 7 SAMPLE MENU PAGE FOR CINÉPOLIS

Once the movie commences, customers can use call buttons to place another food or drink order, again involving the iPad order system and runners to deliver orders.

## THE CUSTOMER EXPERIENCE

One (self-appointed) reviewer<sup>5</sup>, on visiting the Del Mar Theater shortly after opening had these comments to make about his experience:

*“When you walk into the new Cinépolis Luxury Cinemas in Del Mar, you are greeted by an inviting, upscale bar and lounge area that looks refreshingly unlike the sterile lobby of a chain megaplex. After purchasing a ticket at the “conciERGE desk,” you make your way to a reserved seat -- an over-sized, comfortably appointed leather recliner.”*

*“At \$15.50-\$19.50 a ticket (more for 3-D), it’s barely hyperbolic to call their poor service “robbery.””*

<sup>5</sup> <http://www.sandiegoreader.com/weblogs/big-screen/2011/aug/12/danny-baldwin-rates-the-cinopolis-experience/>

*“Seeing CAPTAIN AMERICA opening week, I experienced the complete failure of one of the company’s signature offerings -- in-seat food service. After placing my order during the trailers, the grub never came. Following the show, I informed the General Manager and, after a ridiculous half-hour wait, he finally refunded everything. I even wrestled two re-admission vouchers out of him because he couldn’t refund my tip (why, I never figured out).”*

*“My laundry-list of complaints against Cinépolis mounted -- they never answered their phone when I called for information, the seat-reservation portion of their online ticketing rarely worked and, when it did, the chart was backwards, giving patrons the front-row when they wanted the back-row. I started to suspect this would not become my go-to movie-house anytime soon. But I thought I would keep trying.”*

*“Today, after an atrocious experience, I decided that I wouldn’t be back anytime soon. Figuring that I would need a comfortable chair to endure THE HELP’S 140-minute running time, I decided that Cinépolis would be the perfect venue.*

- *The movie started in the wrong aspect ratio (2.35:1 instead of 1.85:1); meaning that roughly, 22% of the canvas was invisible to the audience.*
- *The two servers working the show would have noticed this problem had they been properly trained.*
- *I didn’t mind notifying one of them that it existed. He tried to fix it himself, walking behind the screen to what I assume was a control panel (there are no projection booths for most auditoriums). The only result: the sound went out for several minutes.*
- *I told him I wanted a replacement for the re-admission pass I ‘paid’ with, as was only fair. “OK,” he said, directing me back to the concierge desk where I was informed that they couldn’t issue a re-admission voucher that’s good for any show. They needed me to specify an exact date and showtime. I once again asked to speak with the manager.*
- *Another 10 minutes passed, and upon the manager’s return, I explained the problem. I was told to wait just a little bit longer before he once again disappeared. The manager never came back. I left in anguish”.*

Several groups of MBA students also visited Cinépolis as a part of their service management course, sampling the full experience incorporating a back office tour, watching a movie, dining, drinking, and thus having a first-hand consumer experience. Their analysis embraced front office and back office and found both positive and negative aspects from their experience. They summarized their analysis of their experiences by making direct reference to the *service factory/service theater* concept.

### The Service Factory

The Service Factory dimensions of Cinépolis’ operations embrace the ticketing process, the facility infrastructure and the food supply process, from order to delivery. Little human interaction is necessary for ordering tickets and this was a simple and easy

system, adding much to the customers' satisfaction by allowing seat selection and avoiding long queuing at peak times. In essence, customers have three purchasing channels: online, touch screen and 'concierge desk', which mitigated most typical ticket purchase delays.

The facility infrastructure is well maintained, clean, and comfortable. The cinema seats exceed many customers' expectations, are very comfortable, provide a larger than average 'footprint' per customer and significantly enhance comfort and viewing during the movie show. Line of sight to the screen is clear and the distance from the screen, even for front row customers, is sufficient for a good experience.

Food selection, delivery and consumption are less efficient. Whilst Cinépolis aims to provide food during the 15 minute of previews, this is not achievable. Customers do not all arrive 15 minutes before the start of the movie. Some customers take a long time to select their choices and consequently delivery of orders continues for at least 10 minutes into the start of the movie. This last factor is a major dissatisfier due to the interruption and the distraction caused by servers. Furthermore, the wait staff often collects payment only after delivery, adding to the disruption during the early section of the movie. A further point was noted by several students – it can be very disconcerting to eat in the dark, especially food that could spill or leave trails of sauce on one's clothing!

A major perceived benefit by the students was the availability of alcohol on the theater, which many students regarded as an attraction due to the novelty of such an offering compared to other theaters.

#### The Service Theater

"Cinépolis is a destination venue' was the comment made several times by the Del Mar Manager, Pablo del Pozo. "We can put a package together offering a limo service, customized menu, Champagne and even use our links to a sister nightclub for after the movie."

The 'wow' factor for first time customers was a significant determinant for return visits. The comfort of the seats, the sophisticated surroundings and an overall ambiance of 'luxury' embedded in the minds of many of the students who had participated in the visit. In talking with previous customers, often they couldn't recall the movie by name but always recommended the venue and highlighted the benefits of combining a meal, drink and movie in one experience.

However, the delivery of *service theater* characteristic of enrapturing the customer by engaging them in the process (Pine & Gilmore, 1999) was distinctly lacking in the interactions between customers and service staff. In addition to the experience of our blogger above, many students commented that their wait and serving staff lacked interpersonal skills and were too focused on 'operating the machine' than 'enrapturing the client'

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## FINDINGS AND IMPLICATIONS

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In our analysis we found that Service Quality dimensions (Johnston, 1995) were generally reflected in criteria pertaining to facilities (aesthetics, comfort, cleanliness, security, access) and were typically 'satisfiers', whilst the comments regarding dissatisfiers all focused around operational execution. Dissatisfiers tended to outweigh satisfiers for customers on repeat visits and included competence and attentiveness ('poor speed of service'), reliability ('errors in food and drink orders', 'billing errors'), care & responsiveness during the movie. As Johnston (1995) notes, the impact of each of the 18 service quality criteria or dimensions he identified will differ upon customer satisfaction (due to their presence in the service experience) or customer dissatisfaction (due to their absence in the service experience) as illustrated in figure 8.

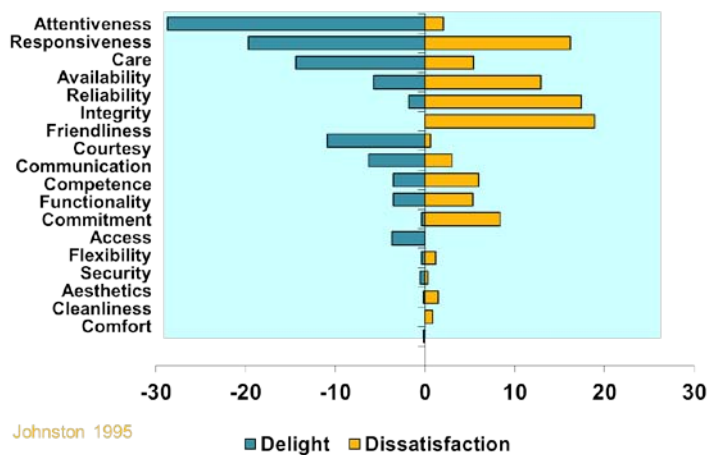


FIGURE 8 R JOHNSTON'S (1995) SATISFIERS & DISSATISFIERS

The focus of these data on operational control, process performance and facility capabilities indicated that customers regarded the Cinépolis as a factory. When revisited the management to explore their performance metrics and goals. Surprisingly, given their previous statements regarding their focus on 'experience and theater', their metrics were all concerned with the financial consequences arising from productivity, throughput, speed and accuracy. At the time of our review of their operations, they had no service experience data available, nor means of gathering such data.

We can conclude that the *theatre-factory* model presents a dichotomy that, in this case example, was unresolved in the alignment between strategic goals and operational control.

The evidences of this paper force managers and executives in paying high attention to the alignment between strategic goals and operational control and in identifying the critical factors to focus on in order to reduce any dis-alignment.

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