Chapter 1

Background, Relevance and Scope of Study

1.1 Background and Relevance

Since the early 1990s, relationship marketing (RM) research has focused on customer-company relationships largely through customer retention and repeat patronage or loyalty. The interactions in the customer-company relationship are driven by the firm, and the outcomes of these interactions are measured in terms of exchanges of products and services. However, the RM approach currently explains little about: the acquisition of customers, organizations’ efforts towards prospects and potentials, and customer experiences as the basis of marketing relationships. This dissertation addresses some of these gaps in the RM literature by establishing a connection between memorable experiences and customer engagement. The attempt is to explore the connection customers, prospects and potentials form with organizations, that are based in their experiences with the offerings and activities of the organizations. The consumers build these experience based relationships through intense participation by way of unique experiences embedded in the offerings and activities of the organizations.

In its 2006-2008 research priorities, the Marketing Science Institute (MSI) called for a better understanding of “engagement.” As “rapid changes in communications technology as well as globalization of markets are creating communities of customers and prospects rather than a multitude of isolated customers…….companies are discovering new ways to create and sustain emotional connection with the brand…….thus engaging (emphasis added) customers through innovation and design” (Marketing Science Institute (MSI) Research Priorities 2006, pp. 2, 4). This research will answer this call in a business-to-consumer context.
Existing literature suggests that it is appropriate to begin understanding the concept of consumer engagement from the customer’s perspective. The service-dominant logic suggests that all business actions should start with understanding the customer value-creating activities. Even Payne, Storbacka and Frow (2008, p. 89) opine that, “planning for co-creation is outside-in as it starts from an understanding of the customer’s value-creating processes”. This research answers this call and focuses on the customer’s perspective of being engaged via experiences (MSI 2006).

From a practical perspective, organizations are spending millions of dollars creating “fun” retail experiences so that “consumers interact physically with their merchandise” (Baron, Harris, and Harris 2001, p. 103), sponsoring programs to educate customers, and developing new products that can be highly personalized by the customer (e.g. iPod). Through blogs, feeds, podcasts, and public events, companies are also providing platforms for customers to interact with one-another. Although most successful businesses realize the need for replacing mass marketing with creation of unique experiences, and encouraging customers to participate and interact with businesses (Prahalad, 2004), they are not sure how the customers can be involved most effectively, and which elements of such efforts can best impact the bottom-line. From the managerial perspective, this research will explore the nature of engagement from the perspective of the customer. Uncovering the values that customers expect to derive by being engaged with certain offerings and activities of an organization will give a better understanding of where the managers should focus their strategies in order to measure whether the engagement exists or not and then correct those metrics.

Brodie et al. (2011) proposed that engaged customers have a key role in enhanced corporate performance by providing word-of-mouth about the products, services, and/or brands to others, involving in new product/service development, and co-creating experience and value. Van Doorn et al. (2011) emphasize that customer engagement explains the behaviors that go beyond transactions and purchase. In recent years, the domain of relationship marketing has been broadened (Vivek, 2009), with the perspective shifting from ‘marketing-to’ to ‘marketing-with’ approach. The latter is symbolized by the service-dominant logic (S-D logic) which claims that the value is always co-created with the collaboration of the consumers, in contrast with the
goods-dominant logic (G-D logic) of traditional view where consumers are provided with the value created by the firms (Lusch, 2007). Schau et al. (2009) also emphasizes this revolution in marketing thought and agrees with the argument by Lusch and Vargo (2006) that cocreation will ultimately induce firms to collaborate with customers to co-create the entire marketing programme. Correspondingly, Verhoef et al. (2010) reveal the increasing trend in companies trying to encourage their customers to involve in this kind of non-transactional behaviors that go beyond the purchase intentions; e.g. Lays’ who made a contest asking consumers to create the best chips flavor, or LEGO who created the robotic kit Mindstorms harnessing the consumer innovation (Koerner, 2006).

Relationship marketing research has mostly limited itself to studying the development and retention of customers in buyer-seller relationships that are solely based on exchange. The excessive focus on retention has led to the neglect of understanding about the acquisition of customers, even though the service-dominant (S-D) logic (Vargo and Lusch 2004, 2008) and more recently Prahalad and Ramaswamy (2000, 2002, 2003, 2004) emphasized the importance of experiences of prospects, potentials, and the value configurations - the “economic and social actors within networks interacting and exchanging across and through networks” (Vargo and Lusch 2008, p. 5). The approach taken by Vargo and Lusch (2004, 2008) and Prahalad and Ramaswamy (2000, 2003, 2004) calls for broadening the view of RM research to include the experiences of prospects, potentials, as well as the value configurations as a whole. In spite of these calls for broadening the domain of RM research, even the most recent academic work under the umbrella of service dominant logic continues to focus on buyer-seller relationships which are essentially bound by exchange (e.g. Payne, Storbacka and Frow 2008). The existing approach overlooks the opportunities created by organizations for interactions among customers and prospects that are focused on helping them share experiences and solve each others’ problems. The literature on customer communities addresses some of these relationships, but a new construct/s is/are needed that could encompass the interactions among organizations, organizational networks, customers, prospects and potentials in what Vargo and Lusch (2008) call the value configurations. The new construct should be based on experiences of consumers, irrespective of the exchange, and should capture the participation of consumers within and
outside of the exchange situations. This is important as in the evolving marketplace, relationships are not just between buyers and sellers, but between any combination of (and among) prospects, potentials, society, buyers, their extended relationships, and sellers. CE is a construct that meets these two requirements and thus attempts to contribute toward expanding the domain of relationship marketing.

Central to the new relationship marketing logic with increased importance and attention for co-creation and customer experiences, is the context of customer engagement. Brodie et al. (2011b) state that the concept of customer engagement is based on interactive experiences. Vargo and Lusch (2010) say that customer engagement is the central concept of service dominant logic. This engagement is interpreted by interactive and co-creative customer experiences. The exchange paradigm suggests that exchange and the resulting functional or economic value precedes experience, as well as the non-functional values explored by phenomenological researchers. Recent developments in marketing suggest that “value is always uniquely and phenomenologically determined by the beneficiary” (Vargo and Lusch 2008, p. 9). We also know “consumer choice is a function of multiple consumption values” (Sheth et al. 1991 p 160). Recent research therefore implies that the meaning of value and the process of value creation is rapidly shifting from a product, organization and exchange-centric view to personalized customer experiences.

Considerable conceptual and descriptive work has been done on the topic of engagement across various disciplines. However, there are gaps in our understanding of how, why and when the consumers engage themselves with offerings and activities. The research on customer engagement is predominately qualitative and descriptive, done primarily in an online context, and lacking an overarching or generalizable theory and measure of this behavior.

Several authors have researched on the topic of customer engagement. The notable include Pine and Gilmore (in HBR, 1998) and Schmitt (JMM, 1999). The authors have spoken about ‘Customer Engagement’ (Pine and Gilmore, HBR 1998, Bernd Schmitt, JMM, 1999) via unique and memorable experiences. Many types of media including new age compete for attention
(Norman, Ivey Business Journal, 2005) and therefore it has become challenging to reach the relevant target audience. Co-creation of content along with customers to create memorable experiences that add value-in-use are seen to be most relevant (Prahalad & Ramaswamy, HBR, 2000). The authors who first talked of the importance of Experience in Marketing were Holbrook and Hirschman in 1982. Since then the concept has evolved considerably and also been researched extensively.

However, no clear connect between Experiential Marketing and Customer Engagement has been established in a real life retail service environment. Competitive differentiation that cannot be easily replicated seemed to be the formula most organizations were looking for, one felt that something that will always be distinct and novel would be the obvious answer. This research has tried to consider Experiential Marketing as that differentiator. Experiential Marketing is likely to be different every time for every customer on account of personal and situational factors. Every customer is likely to view each consumption situation differently. Therefore organizations may be able to control the framework of the situation and the metrics of the Experiential Marketing effort and thereby create competitive differentiation in the form of a Consumption Experience. This is what will be the focus of this research.

1.2 Scope for research (Industry and Product)

Retail Industry

In this research we are concentrating on the growing services sector in India with specific reference to the Retail industry. India is a growing economy and it is noteworthy that the Services sector is set to grow by 9.9% (CMIE data, business.gov.in). The Service sector contributes as much as 68.6% of GDP (business.gov.in). Retailing in India accounts for 14 to 15
percent of its GDP and therefore is a significant contributor in the Services sector. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people. As of 2013, India's retailing industry was essentially owner manned small shops. In 2010, larger format convenience stores and supermarkets accounted for about 4 percent of the industry, and these were present only in large urban centers. However the large format stores were growing at a rate much faster than the local retailers and this rate was higher than the industry average.

The Indian retail industry has strong linkages with the economic growth and development of the economy. Liberalization of the economy, rise in per capita income, improved infrastructure, growing consumerism, retail attributes and marketing strategies of retailers are some of the more important factors for the growth of organized retail in India. The Indian customer is showing a preference for modern retail formats for shopping as it provides more value in form of improved quality, pleasant shopping environment, entertainment facilities, trial rooms for clothing products, return and exchange policies and competitive pricing. Customers are switching not only within formats but also across formats. The increased amount of digitization has also lead to altering consumer preferences.

Therefore loyalty, customer retention & acquisition and competitive differentiation are key issues in a highly competitive marketplace like India (McKinsey Global Report) and so understanding how to effectively engage with the Indian customer in the modern retail format such that there is better return on marketing investment, has acquired renewed importance.

**Loyalty Cards – the product under study**

Since the retail industry includes many products/services this research focuses on ‘Loyalty Cards’ which is a fairly new phenomenon. Loyalty programs have been used in commerce for many years, originating in Germany where price based competition was disallowed by governmental restrictions in certain industries. In the 1950s, S&H Green Stamps rewarded
grocery store and gas station customers with stamps redeemable for appliances and other merchandise. The modern day loyalty program was launched in 1981 by American Airlines, and was quickly duplicated by other airlines and other hospitality industries including hotels, car rental companies, and credit card organizations.

Retail loyalty programmes evolved when progressive retailers recognized that unless they had a means to identify the customers, understand their individual behavior and reward them accordingly, they would not be heard in the market chatter.

The model developed by Gallup links up all the key concerns of the loyalty card managers in a comprehensive way and shows how return on marketing investment can be achieved. The model clearly outlines the importance of Experiential Marketing at each stage of the process, especially clearly from step 3 to step 7 in terms of actual action. This research has been considered in developing the framework and forms the basis of this study.
Fig 1 - Managerial relevance of Experiential Marketing as proposed by Gallup

In USA, only a small proportion (only 12% - 15%) of customers are loyal to a single retailer, but that small proportion generate between 55% - 70% of company sales, according to the Center for Retail Management at Northwestern University. Indian retailers too have also realized the benefit of implementing loyalty programs. Shoppers’ Stop, one of the leading lifestyle retailers, derived 65% of the sales in 2008 from its just over 1 million members. In 2011, the retailer was not only able to significantly increase its programme members, but also the proportion of sales from its members. It derived 73% of the sales from its just over 2 million members and generated a total profit of 7,518 lakhs. Lifestyle, another leading lifestyle retailer, got 50% of its annual revenue from about 2 million members of its 'The Inner Circle' programme. Many other retail organizations are also generating impressive proportion of revenues from their loyal customers. While Future group’s Green Card loyalty programme of Pantaloons accounts for 55% of sales,
Tata group’s Westside retail chain currently generates over 50% sales from its over eight lakh members of ClubWest loyalty programme. Shopper’s Stop retail group’s hypermarket chain, Hypercity is also experiencing impressive sales from its over 11.8 lakh loyalty members. Loyalty programmes have also proved successful even in times of economic downturn. The overall customer participation in loyalty programs has jumped 19% in the U.S. since 2007 and even higher when it comes to Women at 29%, and Millennials (age 18-25) at 32%. And despite the recession, over two-thirds of all U.S. consumers report that they still participate actively in at least one reward program. Loyalty programs have proved successful in the recessionary times around 2008 and 2009 in India too.

Given the industry context and the stage of life cycle for loyalty cards in India one considered it prudent to review, research and understand this growing area in retail. Since the stage was set for increased competition, it would also be important for organizations to understand how to competitively differentiate themselves in every transaction. Customers today demand value in every transaction and therefore understanding how to retain the existing and acquire new customers is important. One feels that this research may be able to provide a model and framework to improve and enhance a consumption experience through using some principles of Experiential Marketing such that it enhances Customer Engagement even in the live retail setting.

The reason to include loyalty cards, especially coalition loyalty cards is because these cards give access to the customers to a host of stores that offer different types of products and services. The customer has the opportunity to go through various service experiences like modern retail formats, multiplexes, restaurants, grocery shops etc. These customers would be exposed to various types of service experiences and therefore would be in a better position to evaluate experiences.
It was felt that all four zones of India should be represented, especially the urban population. This was done because credit or debit cards per se were a more urban phenomenon and therefore loyalty cards, which are an enhanced version of the same, would be used more in urban centres. The final structured instrument would be designed after conducting an exploratory study which would be qualitative in terms of methodology to generate the various attributes. It was proposed that the interviews would be conducted face to face amongst users and some non-users of loyalty cards via a structured instrument administered amongst regular users of the modern retail format in a random manner.

The facets of the consumption experience would be understood and it was proposed to find out the metrics of improving customer engagement by way of experiential marketing. All this would be found out amongst the real customers in a live setting. Various experiential aspects would be considered in the research, as variables, while interviewing the respondents.