Chapter 2

Literature Review

2.1 Experiential Marketing

Experience has been cited as important in marketing for a long time. Abbott (1955), cited in Holbrook (2006, p. 40) said that: “What people really desire are not products, but satisfying experiences”. Experiences were gained through activities that required physical objects for the services. People wanted products because they wanted the experience which they hoped the products would render. Dewey (1963) added the dimension of uniqueness and noted that experiences involved a progression over time and the involvement and uniqueness made the activity stand out from the ordinary.

A diversity of dictionary definitions of experience gave rise to some confusion. Collins English Dictionary described experience as “The accumulation of knowledge or skill that results from direct participation in events or activities” and “. . . the content of direct observation or participation in an event” (Collins, 2007). The Oxford English Dictionary stated that “Active participation in events or activities, leading to the accumulation of knowledge or skill” (OUP, 2006). A more affective and process based definitions was provided by the American Heritage Dictionary of the English Language (2006), which defined experience as “The feeling of emotions and sensations as opposed to thinking” and “. . . involvement in what is happening rather than abstract reflection on an event”.

The fact that actual experience with a product or service made it unique was not a new point of view; however, there had been increased interest in the role of experience in marketing. Based on the notable contributions of Hirschman and Holbrook (1982) and Schmitt (1999) to the experiential marketing literature, numerous articles and studies dealing with the emotional, experiential and sensory dimensions of marketing now addressed the implications on purchasing
and consumption behavior (Vigolo, 2007). Based on the seminal work of Holbrook and Hirschman (1982), many studies had framed value in terms of an experience for a customer (Schmitt, 1999; Pine and Gilmore, 1999). This meant that this view offered immersion into the consuming experience as opposed to the mere purchase of products or services (Caru` and Cova, 2007).

Experiences were private intangible events that occurred in response to some stimulation (e.g. as provided by marketing efforts before and after purchase). They often resulted from direct observation and/or participation in events. Schmitt provided a brief description of the five types of customer experiences that form the basis of the Experiential Marketing Framework (Schmitt, 1999). “Customer experience” indicates the value of something that impresses and appeals, involving the senses and impressions of the user such as those the customer actually feels directly and is impressed with when coming into contact with a company and a brand.

‘Customer experience’ was not an incidental value but an essential and intrinsic value where the products and services were understood from the customer’s point-of-view as those provided by the company and the brand. The objective of marketing, which created ‘Customer experience’ (‘Experiential marketing’), was not to provide products and services as tangible objects to customers, but to take the aspect of consuming in the context of the customers’ lifestyles and to interpret their consumption by appealing to their senses and feelings in the process. Schmitt (1999) classified experience values into five modules as a strategic basis of marketing activities. Sense marketing appealed to the senses. Feel marketing appealed to customers’ inner feelings and emotions, with the objective of creating affective experiences that ranged from mildly positive moods to strong emotions of joy and pride. Most affection occurred during consumption. Therefore, standard emotional advertising was often inappropriate because it did not target feelings during consumption. Think marketing appealed to the intellect with the objective of creating cognitive, problem-solving experiences that engaged customers’ creativity. Think appealed to engage customers’ convergent and divergent thinking through surprise, intrigue, and provocation. Act marketing aimed to affect bodily experiences, lifestyles, and interactions. Act marketing enriched customers’ lives by enhancing their physical experiences. Relate was about relative experience values that appealed to individual self-realization.
Ramaswamy’s (2009) article titled ‘Co-creating value through customers’ experiences’, focused on customer interactions to improve the quality of experiences undergone. Schmitt (1999) stated that experiences were a means to provide sensory, emotional, cognitive, behavioural and relational values and may replace functional values. Holbrook and Hirschman (1982) and then Pine and Gilmore (1998), described successful experiences as those that a customer felt were unique, memorable and sustainable over time. The definitions show a progression which began with experiences being about the accumulation of knowledge so that a customer’s response would be based on previous experience and learning. The later definitions said that every experience was a unique event.

A more all-embracing definition of customer experience was provided by Gupta and Vajic (2000), who said that ‘an experience occurred when a customer had any sensation or knowledge acquisition resulting from some level of interaction with different elements of a context created by the service provider’. Other authors had sought to broaden the concept of customer experience, Harris et al in 2003 talked about ‘the total customer experience which emphasised the importance of all contacts that a customer had with an organisation and the customer’s holistic experience’. Such broad definitions took us back to Abbott’s classification of experiences as being the transformation of products into value as seen by the customer.

A number of vastly discussed constructs either ran parallel to, or were major contributors to the theoretical construct of customer experience. The importance of various variables that were previously ignored were reconsidered like the ones by Addis and Holbrook in 2001 which emphasized the importance of emotions in behavior and that consumers were feelers as well as thinkers and doers and the fact that the customer had a role beyond the act of purchase not just in product usage but also in brand choice. The concept of customer experience became prominent in the 1990s with Pine and Gilmore’s book on the Experience Economy (1999) where they mentioned ‘“experiences” as a new economic offering in the progression of economic value. In the years thereafter different contributions focused their attention on customer experience as a new lever to create value for both the company and the customer (Addis and Holbrook, 2001; Caru’ and Cova, 2003; Ferraresi and Schmitt, 2006; Forlizzi and Ford, 2000; LaSalle and Britton, 2003; Milligan and Smith, 2002; Ponsonby-Mccabe and Boyle, 2006; Prahalad and
Ramaswamy, 2004; Schmitt, 1999; Schmitt, 2003; Shaw and Ivens, 2005; Smith and Wheeler, 2002). The starting point of these approaches was a fresh definition of consumption which said that consumption was a holistic experience which involved a person. Thus the recognition of the emotional and hedonic avatar of the customer beyond being just a buyer was acknowledged (LaSalle and Britton, 2003).

For this research, the concept of experiential marketing formed the basis of a relationship between the company and the customer. Customer experience originated from a set of interactions between a customer and a product, a company, or part of its organization, which lead to a reaction (LaSalle and Britton, 2003; Shaw and Ivens, 2005). This experience was strictly personal and implied the customer’s involvement at different levels (rational, emotional, sensorial physical and spiritual) (LaSalle and Britton, 2003; Schmitt, 1999). Its evaluation depended on the comparison between a customer’s expectations and the stimuli coming from the interaction with the company and its offering at the touch-points (LaSalle and Britton, 2003; Shaw and Ivens, 2005).

To make the experience unique co-opting the customer into creating a personal experience also became an important aspect to study.

As the scientific contributions were rich and diverse, so were the different interpretations and conceptualizations of customer experience offered by each author; nevertheless, despite the differences of perspective and the various models proposed, one could identify some common core characteristics of the customer experience. First, it had a temporal dimension which originated from the entire set of contact points (or moments of truth, Carlzon, 1987) between the customer and the company, or the company’s offer (Addis and Holbrook, 2001; Caru’ and Cova, 2003; LaSalle and Britton, 2003), then it was strictly personal and involved and engaged a customer at different levels (rational, emotional, sensorial, physical and also “spiritual”) so as to create a holistic perspective (Brakes, 2001; Schmitt, 1999). While the overall picture offered plenty of potentiality, very few companies adopted the perspective of the customer experience, whereas many were still far from the level of success that could potentially be obtained by leveraging on the customer experience. Two facts could then be regarded as main reasons for
such slow adoption rate: one was the lack in the extant literature of models, interpretation and conceptualization offering a common terminology and a shared mindset, the other was the lack of structured managerial approaches, which could only be overcome by a deeper comprehension of the role played by customer experience.

Hirschman & Holbrook (1982) say that consumers do not use products simply for their functionality, but instead seek to benefit from the sensational - emotional aspect of their consumption(s). Accordingly, memorable consumption must create differentiated feelings inscribed in the customers’ minds. Memorable consumption must also shape a good attitude toward the experience process.

Pine and Gilmore (1998) claim that the days of the service economy are greatly diminished today, just as what happened in the industrial era. Their basic idea is that while the global economy has moved from an agrarian economy to an industrial economy and then to a service economy, it now must change to a new era, which is the experience economy. The authors even believed that, at the time of writing their article, the economy was fast becoming a more complicated experience economy. In support of this view, Pine and Gilmore (1998) identified several clear differences between particular service characteristics and those that create experience memories. The article concludes that four different contexts can be suggested for consumption, which include educational, entertainment, aesthetic and escapist (Pine & Gilmore, 1998).

Schmitt (1999) further defined experiential marketing from the customers’ perspective as customers developing recognition and purchasing goods or services of a company or a brand after they get experiences from attending activities and perceiving stimulations. Experiential marketing, an emerging form of marketing, focuses not only on a product or a service but also on an entire experience that a company creates for its customers. Compared with traditional marketing, experiential marketing is focused more on the customers’ experience creation processes, including pre-purchase, moment-of-truth, and post-purchase (Schmitt, 1999). Experience is the main component of experiential marketing. Businesses usually create special
stages for customers to experience through different stimulations. As a result of experiencing, customers have different perceptions and react to these stimulations. When they walk into these stores, or even close to them, they develop varied perceptions about them. Customers’ perceptions may be the outcome of marketing efforts that organizations have made. Therefore, in this study, the performance of experiential marketing was examined by measuring customers’ perceptions.

Customers define experiential value from different kinds of experiences obtained through encountering service providers. This value is important to induce customer satisfaction (Cronin, Brady, & Hult, 2000; Ennew & Binks, 1999; Kristensen, Martensen, & Gronholdt, 2000). In addition, creating and retaining satisfied customers is essential for the success of businesses. Fonvielle (1997) argued that high customer satisfaction is a competitive advantage for businesses because it contributes to repetitive purchasing. Researchers have pointed out that the higher customer satisfaction is, the higher will be customer loyalty, intention of repetitive purchasing, positive word of mouth, and market share (Bearden & Teel, 1983; Fornell, 1992; Fornell, Johnson, Anderson, Cha, & Bryant, 1996). In this regard, a study connecting experiential marketing, loyalty, word of mouth advocacy and customer satisfaction and further discussing the relationship among these factors by developing a model, would be beneficial to marketing practitioners.

However, customers perceive each experience as a complex but unitary feeling, each component being hardly distinguishable from the others. Moving from the basic idea of “engagement at different levels” Schmitt (1999) proposed a modular conceptualization of the concept of customer experience. Fornerino et al. (2006) analyzed the case of an immersive consumption experience and identified five distinct dimensions: sensorial-perceptual, affective and physical-behavioral (components) and social and cognitive (facets).

Customer experience originated from a set of interactions between a customer and a product, a company or part of its organization and the value that the consumer and the company gain is created through that set of interactions (Addis and Holbrook, 2001). Following Addis and
Holbrook (2001) a distinction could be made between two kinds of customer value: utilitarian value (or functional value) and hedonic value (or experiential value). Such distinction draws from the subject-object interaction as described by Holbrook (1999) where the type of value depends on the relative weight of the objective (or functional) features of the product over the subjective responses of the consumer (Holbrook, 1999), which, in turn, were elicited by ‘experiential features’ of the offer.

On the other hand, on the side of the company, the value generated from the set of interactions between the customer and the company (even when mediated by the company’s offering) tended to have a potential impact both on the traditional performance measures (i.e. market share, sales, profitability) and on a set of intangible assets of the company (brand equity and customer equity).

2.2 Co-creation and Experience

The memorability of the ‘‘staged’’ events, as in Pine and Gilmore’s works, was not of primary importance. Creation of value was not just about selling memorable experiences but also about enabling the customer to live all the moments of the relationship with a company in an excellent way, even beyond expectations (LaSalle and Britton, 2003) or, according to the viewpoint of Prahalad and Ramaswamy (2004), to co-create their own unique experience with the company. As per this viewpoint, companies did not sell (or stage, according to Pine and Gilmore’s perspective) experiences, instead they provided artifacts and contexts that could be properly employed by customers to co-create their own unique experiences (Caru` and Cova, 2003; Caru` and Cova, 2007). Schmitt (1999) stated that marketers needed to provide the right environment and setting for the desired customer experiences to emerge. A comprehensive contribution was offered in the book ‘‘Consuming Experience’’ (Caru` and Cova, 2007), in which the authors identified a ‘continuum of consuming experiences’ ranging from experiences that were mainly constructed by the consumers, to experiences that were largely developed by companies (a kind of approach which is close to Pine and Gilmore’s viewpoint), passing through experiences that were co-created by consumers and companies (Prahalad and Ramaswamy, 2004). Accordingly,
the role of the firm changed in each stage of the continuum: from a company pursuing almost a traditional product or service marketing approach to a company adopting a holistic and immersive experiential marketing approach (thus providing immersive experiences, whereby a consumer dived into an experience that was developed by a company), passing through a co-creation stage, in which a company provided the customer with the basic platform and raw materials that were then being used by the customer to mold and obtain his/her own experience.

In the new service-centered paradigm, value was no longer embedded in tangible offerings but was co-created with customers through relational exchanges in interaction experiences (Normann 2001; Vargo and Lusch 2004). Instead of delivering pre-produced offerings, firms could only offer value propositions, which customers then transformed into value through use (Gupta and Vajic 2000; Normann and Ramírez 1993). In this context, customer experiences could be viewed as internal and subjective responses to any contact with a company (Meyer and Schwager 2007) and were increasingly important to differentiating and adding value to a firm’s offerings (Pine and Gilmore 1998). More recent research had advocated a more holistic view of the customer experience (Gentile, Spiller, and Noci 2007; Verhoef et al. 2008) and some approaches had been proposed for managing customer experiences (Bardon et al. 2002; Berry, Carbone, and Haeckel 2002).

While traditional models identified value in the creation and delivery of goods and services, new approaches defined customer value as an interactive relativistic preference experience, highlighting the idea that experience defined what was valuable to a customer (Holbrook, 1996). According to this view, the consumer was not only a logical thinker but also an individual who was emotionally involved in the consumption process. In this process, imagination, sensory perceptions and emotions were particularly relevant.

To make an experience meaningful, it must be co-created between the company and its customers. La Salle and Britton (2003) stressed that the creation of value involved not simply the sale of memorable experiences, as suggested by Pine and Gilmore (1999), but also the enabling of the customer to experience interactive moments with a company in a personalized and extraordinary way. In their words, (La Salle and Britton, 2003, p. 38) a value experience “is a
product or service that when combined with its surrounding experiences go above and beyond to enhance and bring value to a customer’s life. Delivering this overall value allows products to exceed the ordinary and become extraordinary”. At the same time, Prahalad (2004) and Prahalad and Ramaswamy (2004a, b) pointed out the emergence of a new logic for value creation in which the firm and the consumer were collaborators in co-creating value with joint extraction of value as the result. They considered the co-creation experience between the individual and the experiential environment as the new frontier of strategy innovation and shift marketing theories on value creation from a firm-centric perspective to a co-creation perspective, wherein the interaction between firm and consumer was the locus of value creation and value extraction. In contrast to Pine and Gilmore’s (1999) work, they stated that in co-creation, it was not the company that staged the experience but increasingly customers themselves who did it; thus, experiences were staged in value-creating interactions between the company and consumer(s) (Prahalad and Ramaswamy, 2004a). From a different perspective, Caru` and Cova (2007, p. 3) discussed the passive and active ways the customer becomes immersed in experience; this active immersion could be ‘thought of as a whole set of operations that consumers carry out to produce the experience by manipulating to their own advantage whatever is being done to manipulate them’. Other research (Cova and Salle, 2008; Prahalad and Krishnan, 2008) has attempted to understand how the co-creation of value and experiences involves a consideration of consumer-to-consumer (C2C) interactions as the application of consumer social and relational resources (e.g. family or community).

Understanding and enhancing the customer’s experience was becoming a critical theme in the retail marketing agendas of academics and practitioners. Some studies have further analyzed the influence of store environmental features on the shopper’s search retail process and on the customer’s affective and behavioral responses (Gardner, 1985; Titus and Everett, 1995).

2.3 Service Experience

The term “service experience” referred to the customer’s personal experience of the service process as a result of interactions with the service organisation and its frontline staff, facilities, and technology (Meyer and Schwager, 2007; Johnston and Clark, 2008). Meyer (2007, p. 65)
stressed the affective aspect of the service experience in defining it as “... how the delivery of [a service] makes its recipient feel.” In a similar vein, Berry et al. (2002, p. 88) noted that: “Customers always have an experience – good, bad or indifferent – whenever they purchase a product or service from a company. The key was how effectively the company managed the experience”.

Services were sometimes defined as something intangible (Gummesson, 1987), however, many services also included some tangible elements (Johnston and Bryan, 1993). A product was a thing whereas a service was an activity/process which involved the customer who performed some role in the productive activity, i.e. the steps in the service process (Wild, 1977; Sampson, 2005; Sampson and Froehle, 2006). Service was much more than the point of staff-customer interaction or customer contact (Chase, 1981) or the moment of truth (Normann, 2000).

There were therefore two perspectives on service, the service provided from the operation’s point-of-view and the service received from the customer’s point-of-view (Ding et al., 2010; Johnston and Clark, 2008). The operation used its input resources, such as labour, materials, information, technologies, equipment, and customers (or something belonging to them), to design, create and enact the service together with the customer (the service process). From the operation’s point-of-view, services were those processes (activities) which were created and enacted by organisations into which the customer provided an input and took part in the service process itself. Services were therefore “co-created” or “co-produced” along with the customer (Brudney and England, 1983; Eiglier and Langeard, 1987).

Value was created for the organisation from the sale of the service for which the customer paid (value-in-exchange, Lusch et al., 2007). From the service-dominant logic perspective, Lusch et al. (2007) value was created for the customer in the service received; their experience of it (value-in-use, Lusch et al. (2007)) and the outcomes of the service including the benefits they got from it (Carbone, 2004; Edvardsson and Olsson, 1996). While a service was the process or activity, the customer’s experience was their personal interpretation of the service process and their interaction and involvement with it during their journey or flow through a series of touch points, and how those things made the customers feel (Csikszentmihalyi, 2000; Ding et al., 2010;
Johnston and Clark, 2008; Meyer, 2007; Pullman and Gross, 2004; Shaw and Ivens, 2002). The experience and value (Vargo and Lusch, 2004) was perceived purely from the point-of-view of an individual customer and was inherently personal, existing only in the customer’s mind. Thus, no two people could have the same experience (Pine and Gilmore, 1998). Experiencing a service resulted in the customer feeling emotions (powerful, subjective feelings and associated physiological states, Purves et al., 2001).

The benefits the customer got from using and experiencing the service included how they perceived they had gained from the service provided and their experience of it, i.e. how well their requirements and needs had been met. Another outcome of the service from a customer’s point-of-view would be their conscious or unconscious assessment of the service provided (Zomerdijk and Voss, 2010), the perceived value of the service received (Bitner and Hubbert, 1994; Oliver, 1997) and their overall satisfaction or dissatisfaction (an emotion) (Carbone, 2004). These judgments, good, bad or indifferent, would result in intentions to repurchase or not, recommend it to others, or the intention to complain or not. Therefore the key constructs in this research were word of mouth advocacy, satisfaction and loyalty.

Johnston and Clark (2005) defined a service experience as the customers’ direct experience of the service process, the organisation, the facilities, other customers and how the customer was treated by the service firm’s representatives. Indirect experiences concern customers’ encounters with messages sent by a company’s products and brands, often as word of mouth, advertising or reviews (Meyer and Schwager, 2007). According to them service experiences were usually initiated by the customer. The outcome of a service experience could be tangible outputs, value, emotions and judgements and/or intentions (Johnston and Clark, 2005, p. 9), which was partly in line with other definitions where the outcomes of experiences were described as cognitive, behavioural and emotional responses (Edvardsson, 2005; Edvardsson et al., 2005).

Given that most, if not all, services were co-created with the customer (Bendapudi and Leone, 2003; Vargo and Lusch, 2004, 2008), it was not possible (in theory or in practice) to separate the experience of the service from the customer. As Schembri (2006, p. 389) noted that the customer is, “required to . . . co-construct the meaning of services”. Lusch et al. (2007) adopted a similar
view when they contended that “value-in-use”, which was a crucial concept of service-dominant (S-D) logic, was closely related to customer experience in the consumption process.

The fact that value-in-use and the service experience were inextricably linked was the ultimate rationale for the desirability of service “test drives”. The customer could not experience the real service in isolation from use or consumption, a “pre-service” of some description was required to provide customers with some key experiences that enabled them to assess the potential value-in-use of the real service.

In test-driving a tangible product (such as a car or a bike), customers could use the real product in a real situation to assess “value-in-use” and thus make an informed purchase decision. The simulation of all or part of an experience has been referred to as “hyper-reality”. According to Hirschman and Holbrook (1982, p. 92), the term “hyper-reality” refers to “... the multi-sensory, fantasy and emotive aspects of one’s experience”. Applying this concept to a service experience, several authors have suggested that “hyper-reality” refers to a simulated (or partially simulated) service reality (Baudrillard, 1994; Edvardsson et al., 2005; Grove and Fisk, 1997; Martin, 2004; Venkatesh, 1999).

2.4 Trust

Academicians and practitioners agree that trust is of critical important to deepen customer relationships through emotional connections, to deliver at ‘signature moments’ of importance to the customer and to interact on a ‘human’ level. Trust is important in guaranteeing the success of business relationships, particularly those characterized by high degrees of risk, uncertainty and vulnerability, like services. The main benefit of trust is customer loyalty, which in turn leads to a longer term relationship, greater share of wallet, and higher advocacy or word-of-mouth. The other main factor influencing loyalty is customers’ satisfaction with their previous experience with a service provider. This is influenced by the customer’s own experience of service delivery and value, by what happens when things go wrong and by brand reputation, word of mouth, and the experience of others.
In situations of perceived risk or vulnerability, trust has the role of a safety net, helping the customer to make a decision by minimizing uncertainty and risk. The insecurity about the long time horizon of delivery, as well as the inability to test the service before actual consumption makes trust a valuable decision factor for customers of service organizations (Singh and Sirdeshmukh 2000). Trust develops in stages on the basis of a gradual deepening of the relationship and mutual adaptation to the needs of others. Thus it emerges from the accumulation of satisfactory previous experiences (Gounaris 2003). A customer’s experience or journey is created through both direct or lived experience as well as indirect experiences of others which are transferred through word-of-mouth or by the overall brand reputation (Elliott and Yannopoulou, 2007).

The trust in the purchased brand could be thought of as credibility, which reinforced the consumers’ repeat buying behavior (Amine, 1998).

Trust, therefore was not just derived from customer experiences but also led to greater loyalty and word of mouth advocacy. This was therefore considered as a key variable for this study.

2.5 Relevance and Ease of use/convenience

O’Brien and Jones (1995) proposed that customers’ value perception is a necessary condition for developing brand loyalty through a loyalty programme. They suggested that five elements of the loyalty programme determine the value of a loyalty program: cash value of redemption rewards (cash value), the range of choice of these rewards (redemption choice), the aspirational value of rewards (aspirational value), the perceived likelihood of achieving rewards (relevance), and the scheme’s ease of use (convenience). Therefore relevance and ease of use/convenience were also considered as key variables of study.

2.6 Value-in-use

Several attempts to create holistic conceptualizations of value have been put forth (e.g. Woodall
Generally value has been conceptualized on an individual level (Holbrook 1994; 1999), as an assessment of the tradeoff between benefits and sacrifices (Zeithaml 1988; Day 1990; Woodruff and Gardial 1996), or as means-ends-models (Howard 1977; Gutman 1982; Zeithaml 1988; Woodruff 1997). More recently the cognitive perspective has shifted to a more holistic and experiential perspective recognizing value in the context of customer experiences (e.g. Heinonen and Strandvik 2009), as part of extended social systems (Epp and Price 2010; Edvardsson, Tronvall and Gruber 2010) or as monetary gains created mutually by business partners (Grönroos and Helle, 2010). On a general level value creation has been recognized as a process which increases the customer’s well-being through which the user becomes better off in some respect (Grönroos 2008; Vargo, Maglio and Akaka 2008). When the production oriented perspective emphasized value delivery (value-in-exchange), more recently the element of value in use has been emphasized in service research (Vargo and Lusch 2004; 2008; Vandermerwe 1996; Holbrook 1994; 1999; Ravald and Grönroos 1996; Wikström 1996; Normann 2001; Prahalad 2004; Grönroos 2008). Value has been widely accepted as “perceived and determined by the customer on the basis of value-in-use” (Vargo and Lusch 2004:7).

The nature of value-in-use is the extent to which a customer feels better off (positive value) or worse off (negative value), where value accumulates over time through experiences during usage (Grönroos 2008; 2011). Value-in-use as a concept means that value is created by the customer during usage. The value creation process of the customer is not a linear process which automatically follows the provider’s activities. Value-in-use is therefore customer driven and accumulating over time in the customer’s sphere, which means that value is created by the customer in different spatial and temporal settings.

Value-in-use means that the customer as the user creates value. The customer creates and assesses value in a longitudinal and experiential process of usage. Value creation during usage is a longitudinal, dynamic and experiential process which may include phases of both construction and destruction (Echeverri and Skälen 2011) in different temporal and spatial settings, where the user is the one experiencing the process. Therefore we are going to define value creation as the
customer’s creation of value-in-use (Grönroos 2011), a view grounded already in Aristotle’s value theory, according to which value is subjectively experienced (Gordon 1964; 117-118; cf. Holbrook 1994:27: “Value is an interactive relativistic preference experience” and Mattsson 1991:42: “Value experiences are the ultimate effects of consumption”). Customer value creation had become the precursor to customer satisfaction and loyalty (Woodall 2003).

An organization not only played the role of value creator but also as co-creator of value along with the customer (Vargo and Lusch 2008; Vargo, Lusch and Akaka 2008; Lusch, Vargo and Wessels 2008). The ease with which the customer could decide on purchasing increased their probability of returning to the firm (making repetitive purchases) and taking them up to a level above that of satisfaction, thus making them loyal.

In terms of loyalty programmes, Johnson (1999) argued that attainability, redemption behavior, and relevance determine value. Dowling and Uncles (1997) added psychological benefits of belonging to a programme and accumulation points. They noted that the summary of accumulated points and the qualification for a reward could be regarded as the psychological rewards in the frequent buyer program. Value perception might be related to the types of reward as well.

Value-in-use in the context of this study in terms of actual value derived while using the loyalty card and perceived benefits received in the process.

2.7 Satisfaction, Commitment and Experience

The concept of customer satisfaction has ruled the roost in marketing for some time. Achieving customer satisfaction has long been identified as the key to customer loyalty (Anderson and Sullivan, 1993). Satisfaction occurred when the customers truly felt that they had achieved greatest return on the investment made by them. Satisfaction was also defined by (Yi 1989) and Oliver (1997) as ‘The customer’s fulfillment response, the degree to which level of fulfillment is pleasant or unpleasant’.
Jones and Sasser (1995) said that completely satisfied customers were six times more likely to repurchase over the next year and a half than, somewhat satisfied customers. The satisfaction concept by Reichheld (1993) illustrated that satisfaction was not sufficient in any industry to affect customer loyalty. It was surprising to note that customers were dissatisfied despite there being a plethora of products and services to choose from.

2.8 Loyalty and Experience

Customers were interested not only in the quality of product or service offered to them consistently over a period of time but also in the ‘value added services’. Customer feedback and satisfaction surveys were slowly becoming passé as retailers were realizing that only focusing on the satisfaction aspect was not going to benefit the business. The retailer’s approach was slowly shifting from creating a base of satisfied customers to creating a set of ‘loyal’ customers. To ensure customer loyalty implied, creation of a sense of commitment, that is, a customer who would not voluntarily switch brands but remain affixed on his/her preferred brand. Retailers today were looking at a committed customer rather than simply a satisfied one.

In the brand context, commitment was defined as the customer’s strong willingness to maintain a lasting relationship with the brand (Morgan and Hunt, 1994; Dholakia, 1997). Gurviez and Korchia (2002) defined commitment from the customer standpoint “as the implicit or explicit intention to maintain a durable relationship” (p. 2). This durable relationship, between a firm and its customer could further be classified as ‘Loyalty’.

Loyalty was an accumulation of experience (Mascarenhas et al., 2006), accrued over multiple “moment of truths”. Delighted customers were more loyal than others (Johnston, 2004; Curasi and Kennedy, 2002).

The two key dimensions which loyalty practitioners focussed on were the behavioral and attitudinal. The first, behavioral loyalty, was defined with customer actions (not intentions) (Keiningham et al., 2007). Behavioral loyalty affected purchase frequency (Divett et al., 2003), purchase value (Mascarenhas et al., 2006), purchase quantity and variety (Jang and Mattila,
2005) and solicited WOM (Word of mouth). It was more short-term and lead to customer retention (Baumann et al., 2007; Mascarenhas et al., 2006; Skogland and Siguaw, 2004; Uncles et al., 2003). Repurchase intention, resistance to switching and willingness to recommend accounted for 62 percent of loyalty (Lee et al., 2000). Behavioral loyalty was a measurable aspect. It was the one which could be quantified and was extrinsic and situational. Therefore, most studies measured customer loyalty outcomes by behavioral loyalty dimensions such as word-of-mouth communication, purchase intentions, price insensitivity, and complaint behavior (Bloemer, de Ruyter, & Wetzels, 1999; Bloemer & Odekerken-Schröder, 2002; Ibrahim & Najjar, 2008; Zeithaml et al., 1996). This occurred since the attitudinal components, such as perceived value, were viewed as the antecedents of customer loyalty (Donio, Massari, & Passiante, 2006; Hennig-Thurau, Gwinner, & Gremler, 2002; Ibrahim & Najjar, 2008). This supported the findings of Dick and Basu (1994) that viewing loyalty as an attitude behavior relationship allows integrated investigation of antecedents of customer loyalty. Such antecedents of customer loyalty included customer perceived value and marketing mix (Bloemer & Odekerken-Schröder, 2002; Cronin et al., 2000; Yoo, et al., 2000).

However, the second loyalty dimension, which was attitudinal, was more intrinsic and was like the state of mind. If a product or service offered instant gratification, it got noted subconsciously in the customer’s mind and the customer looked for the same gratification on repeated purchases. It was not the cost, nor the appearance but the ‘value’ of the product in the customer’s mind that made him loyal.

Research studies indicated that committed customers exhibited the greatest amount of customer loyalty. This loyalty could be in terms of repeat purchase or making recommendations about the product or service. As per Sudhahar, Israel, Britto and Selvam’s 2006 definition, loyalty needed to include factors like commitment and trust.

Providing a good experience therefore was important because it affected customer satisfaction (Liljander and Strandvik, 1997), delivered customer loyalty (Yu and Dean, 2001; Pullman and Gross, 2004; Mascarenhas et al., 2006), influenced expectations (Johnson and Mathews, 1997;
Flanagan et al., 2005), instilled confidence (Flanagan et al., 2005), supported the brand (Grace and O’Cass, 2004; Berry and Carbone, 2007) and also created emotional bonds with customers or, conversely, lead to emotional scarring (Pullman and Gross, 2004).

2.9 Experience, Satisfaction, Word of Mouth Advocacy and Loyalty

A brand was seen to act as a mechanism in engaging both buyer and seller in a long-term consumer-brand relationship (Davis, Oliver and Brodie, 2000; Fournier, 1998; Keller 1993, 1998; Rao and Ruekert, 1994). The main input of this relationship was brand experience and the main output of this relationship was brand loyalty. The traditional method of brand marketing mostly appealed to functional links with consumer, but consumers now wanted a more compelling experience (Schmitt, 1999). Schmitt (1999) indicated that experiential marketing had proven itself to be a good starting point for studies on consumer-brand relationship. As the experience economy unfolded in the 21st century, brand marketers needed to bond with customers by staging holistic brand experiences (e.g., Schmitt, 1999; Pine and Gilmore, 1999). Brand meanings were crucial mediators between brand experience and consumer-brand relationship.

Brand experiences resulted from stimulations and lead to pleasurable outcomes, and consumers wanted to repeat those experiences. This implied that brand experience affected not only past-directed satisfaction judgments but also future directed consumer loyalty. Customers therefore were more likely to buy a brand again and recommend it to others and less likely to buy an alternate brand (Mittal and Kamakura 2001; Oliver 1997; Reicheld 1996) if the experience was positive.

Brand experience was created when customers used the brand, talked to others about the brand, sought brand information, promotions, and events (Ambler et al., 2002). Brand marketers needed to bond with customers by staging holistic brand experiences (e.g., Schmitt 1999; Pine and Gilmore, 1999). The marketing activities associated with the brand had an impact on the mind-set about the brand. The customer mind-set was everything that existed in the minds of customers with respect to a brand viz. thoughts, feelings, experiences, images, perceptions,
beliefs and attitudes as defined by Ambler (2000). When customers search for, shop for, and consume brands, they are exposed to utilitarian product attributes. These utilitarian product attributes form the focus of this particular study.

Satisfaction was defined as an affective response to purchase situations (Babin and Griffin, 1998; Bagozzi et al., 1999; Bennet et al., 2005; Anderson and Narus, 1990). Satisfaction was a positive affective reaction to an outcome of a prior experience (Ganesan 1994). The satisfaction derived and attitude formed as part of a prior experience (Ganesan, 1994) impacted subsequent purchases (Oliver, 1980), completing a cyclical pattern (Bennett et al, 2005).

Satisfaction was found to lead to long-term relationships (Gladstein, 1984; Anderson and Narus, 1990). Satisfaction was necessary but not a sufficient component of loyalty (Agustin and Singh, 2005). Satisfaction was an antecedent of brand loyalty, with increases in satisfaction leading to increases in brand loyalty (Bennett, 2001; Bolton, 1998); Jones and Suh, 2000; Ringham, Johnson, and Spreng, 1994; Bennett et al, 2005). This was the premise used in developing the model for this research.

Brand experiences lead to brand loyalty, active referral of the brand and increased profitability for the brand (Morrison and Crane, 2007). Brand experiences encouraged loyalty by creating emotional connections through an engaging, compelling and consistent context. The context was the environment in which the service encounter occurred; it encompassed the physical and relational characteristics of the setting in which the consumer consumed the service as well as everything that the customer interacted with in that setting.

2.10 The Marketing Concept and Customer Engagement

The marketing concept focussed on customer needs and determined the activities that a seller must perform in order to meet their needs (see, e.g. Borch, 1957; McKitterick, 1957). Customer engagement likewise focussed on customers and their needs in order to engage with them. Both
the marketing concept and customer engagement concept were customer-centric approaches that gave primacy to customers in order to determine the value adding required to meet their needs.

Retention over time lead to loyalty but not necessarily customer engagement. Only if loyal customers developed feelings of intimacy and emotional attachment and became fans of the product, brand, or company did it result in customer engagement. Engaged customers were likely to recommend products to others, e.g. by word-of-mouth, blogs, social networking, comments on websites, etc., and even added value by providing user-generated content. In many ways customer engagement expanded the traditional role played by customers and included them in the value-adding process by helping sellers understand customer needs, participating in the product development process, providing feedback on strategies and products, and becoming advocates for the product. The need was to therefore clearly identify antecedents to customer engagement that would help companies to plan their strategies.

2.11 Market Orientation and Customer Engagement

The focus of market orientation as in the case of the marketing concept was on customers. But it broadened the domain to include other market forces like competition (Hadcroft and Jarratt, 2007). The needs of customers were met through value adding activities to make high quality products that provided benefits superior to that of competitors.

By generating intelligence on the changing needs of customers and gearing the organization to respond to it, market orientation contributed to customer engagement. Market orientation had also been shown to increase the esprit de corps and commitment of employees to the organization (Jaworski and Kohli, 1993), contributing to employee engagement, which had been shown to contribute to customer satisfaction and profit (Harter et al., 2002) and customer loyalty (Salanova et al., 2005). However, customer engagement went beyond market orientation by actively involving customers in generating intelligence on their changing needs and in helping the organization respond to those needs. The process of value creation was shifting from a product and firm centric view to personalized customer experiences with “Informed, networked, empowered, and active” customers increasingly co-creating value with the organization.
Interaction between the organization and engaged customers and among the customers themselves as well as with potential customers allowed them to co-create value by generating content, providing feedback, disseminating information, and becoming advocates for the organization among their peers. Market orientation helped lay the foundation for customer engagement, which expanded the role of customers to include participation in the value adding activities of the organization as co-creators of value. Generating intelligence and responding to changing customer needs with engaged employees helped the organization build intimate long-term relationships with customers.

2.12 Relationship Marketing and Customer Engagement

The desire for relationships with customers was implicit in both the marketing concept with its emphasis on meeting customer needs and the market orientation concept with its emphasis on meeting customer needs by providing superior value relative to competitors. Relationship marketing, however, broadened the domain to focus explicitly on the exchange relationship, enhancing the understanding of relationships between sellers and customers (Gronroos, 1994). Most importantly, it identified constructs that influenced the nature of the relationship in market exchanges between sellers and customers. The key norms that determined whether exchange between sellers and customers was transactional or relational were trust and commitment (Morgan and Hunt, 1994). Other norms like role integrity had also been suggested (Kaufmann and Stern, 1988), but the interactive nature of social media was likely to blur the role integrity of sellers and customers by expanding the role of customers and including them in the creation of value.

Customer engagement required the establishment of trust and commitment in buyer-seller relationships. Trust existed “when one party has confidence in an exchange partner’s reliability and integrity” (Morgan and Hunt, 1994). Only when customers trust sellers can they be expected to become advocates for the seller although trust alone may not suffice to turn the exchange into a long-term relationship. On the other hand, commitment, which has been defined “as an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it; that is, the committed party believes the relationship
is worth working on to ensure that it endures indefinitely” (Morgan and Hunt, 1994), leads to long-term relationships but not necessarily intimacy. A distinction has been drawn between two types of commitment: calculative and affective (see Gustafsson et al., 2005; Bowden, 2009). Calculative commitment results from switching costs or lack of other suppliers causing a customer to “stick” with a particular seller. Affective commitment, however, results in an emotional bond between seller and customer that “captures the trust and reciprocity in a relationship” (Gustafsson et al., 2005). Thus affective as well as calculative commitment or trust and commitment will likely result in customer engagement.

2.13 Customer Engagement

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” (Marketing Science Institute (MSI) Research Priorities 2006, pp. 2, 4). This research will answer this call in a business-to-consumer context. 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”.

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 programmes to educate consumers and developing new products that can be highly personalized by the consumer (e.g. iPod). 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’ involvement and engagement can be measured and which elements can be measured to provide a barometer on the Engagement Health of the service. From the managerial perspective, this research will explore the nature of engagement from the perspective of the customer.
The existing relationship marketing approach focuses on retention of customers, and getting repeat patronage or loyalty from them. The relationship marketing approach in its current form is silent about the acquisition of customers. Sole focus on retention and ‘repeat patronage’ overlooks several important aspects like: it does not account for the huge efforts organizations target towards prospects, does not explain relationship marketing programmes of organizations that are not product-centric, there are occasions when customers and prospects interact amongst themselves and this interaction may influence their consumption decisions and this is not factored in the existing RM literature, 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 is 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 because, in the evolving marketing paradigm, relationships are not just between buyers and sellers, but between any combination of (and among) prospects, potentials, society, buyers, their extended relationships, and sellers. Customer engagement is a construct that meets these two requirements and thus attempts to contribute toward expanding the domain of relationship marketing.

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). Further, we have known that “consumer choice is a function of multiple consumption values” (Sheth et al. 1991: 160). Therefore current research shows that the meaning of value and the process of value creation are rapidly shifting from a product, organization and exchange-centric view to personalized consumer experiences.
Kahn (1990) was the first to apply the concept of engagement to work. Describing the behavior of engaged employees, he suggested that employees vary in their expression of selves in work roles. Those who perceive more supportive conditions for authentic expression tend to be engaged. On the other hand, Maslach, Schaufeli and Leiter (2001, p. 417) defined work engagement as “persistent, positive affective-motivational state of fulfillment.” Later, presenting engagement as a motivational construct, Schaufeli et al. (2002) defined engagement as a positive, fulfilling, work-related state of mind that is characterised by vigor, dedication and absorption. Stressing the assumption of optimal functioning in terms of well-being (Hallberg and Schaufeli 2006), the concept of engagement in various sub-fields of psychology has been dimensionalized as involving vigor, dedication and absorption (Schaufeli et al. 2002).

While practitioners look at customer engagement from the perspective of the organization, and define it as activities “facilitating interactions that strengthen the emotional, psychological or physical investment a customer has in a brand” (Sedley 2006, p. 5), academics in the information systems discipline look at customer engagement as “intensity of customer participation with both representatives of the organization and with other customers in a collaborative knowledge exchange process.” (Wagner and Majchrzak 2007, p. 20).

The importance of engaging the consumer has been recognized in the existing literature. However, customer engagement until now has been predominantly researched in online contexts under the exchange paradigm, with very few if any, systematic or empirical attempts to explore and operationalize the construct. Most of the work on customer engagement is descriptive in nature. Sawhney, Verona and Prandelli (2005) studied two cases of online product development to suggest how differing levels of customer involvement can facilitate collaborative innovation. Studies also suggest that the interaction of customer engagement and employee engagement result in better performance. Fleming, Coffman and Harter (2005) found that business units with even moderately high levels of employee and customer engagement are financially more effective, as compared to those with very high levels of either customer or employee engagement. More recently, Bowden (2009) provided a conceptual framework of the process of customer engagement, which is based on the extent to which customers are either new or repeat purchasers of a specific service brand.
Several themes emerge from the existing literature on customer engagement. Customer engagement (CE) has been recognized as an emotional connection between a company and its customers (Narayen 2007; Rieger and Kamins 2006). CE is focused on interaction with and participation of customers (Wagner and Majchrzak 2007; Nambisan 2002). Knowledge exchanges with and between customers are the key to engaging customers. Information and communication technologies are providing great opportunities for organizations to exchange knowledge and engage with the customer (Erat et al. 2006; Joshi and Sharma 2004). The existing literature suggests certain antecedents and outcomes of customer engagement. Organizational processes, enabling technologies, goal alignment with customers, organizational monitoring processes, and the different roles customers want to take affect the extent to which customer can be engaged (Wagner and Majchrzak 2007; Bakker et al. 2007; Erat et al. 2006; Nambisan 2002). Moreover, businesses are primarily engaging customers into the product development life-cycles, involving customers in product and process innovations (von Hippel 2005; Joshi and Sharma 2004; Nambisan 2002; Thomke and von Hippel 2002).

Customer Engagement focuses on experiences, and not exchange, as the context in which the customer is engaged. This experience may happen with or without an actual exchange. Customer engagement focuses not only on the operative dimension of participation, but also the reflective dimension. Engaged customers not only actively interact with the offerings and the businesses, but also prepare before and/or reflect on the activity later.

Amidst the “growing resistance of consumers to traditional marketing programs, marketers’ interest in novel means of engaging consumers continues to grow” (Bagozzi and Dholakia 2006, p. 45). The increasing trend for novel marketing programs converges with “an increased demand for experiences rather than for products as major avenues for need satisfaction.” (Etgar 2008, p. 99). The research emphasis on experience-seeking has been growing since the early 1980s. (Hirschman and Holbrook 1982; Arnould, and Price 1993; Mano and Oliver 1993; Pine and Gilmore 1998, 1999; Schmitt 1999). More recently Vargo and Lusch’s (2008) emphasis on phenomenological determination of value by the beneficiary has brought renewed attention to the research in interpretive marketing (Firat, Dholakia, and Venkatesh 1995; Firat and Venkatesh
1993; Berthon and John 2006; Holbrook 2006), specifically, the theory of consumption values (Sheth, Newman, and Gross 1991) and consumer value perspective (Holbrook 2006).

Work on experiential marketing emphasizes emotional, contextual, symbolic and non-utilitarian aspects of consumption (Arnould and Thompson 2005). Suggesting that value resides in the experience, Holbrook (1999, p. 8) argues that “value (an interactive relativistic preference experience) resides not in the product purchased, not in the brand chosen, not in the object possessed, but rather in the consumption experience(s) derived therefrom,” and this way separates value from exchange between the buyer and seller and relates it to experience. Holbrook’s (1999) conceptualization of value incorporates the operative as well as reflective dimensions of experience. “The operative dimension refers to the way we make use of products for our activities. The reflective dimension addresses the way we think about a product and give it meaning.” (Margolin 2002, p. 42).

Based on the definition of value as experience, Holbrook (1999) identifies three dimensions on a continuum characterizing user value--intrinsic versus extrinsic, self-oriented versus other-oriented, and active versus reactive. Intrinsic values involve appreciating an experience for its own sake and enjoying the process, while extrinsic values will serve as a means to an end. Consumers deriving extrinsic value focus on the outcome of the experience, such as the knowledge gained out of co-creating a service, or the freebies associated with it. The second dimension, self-oriented versus other oriented, corresponds to whether an experience is valued because of its benefits to the user, or because of the reactions it draws from others. Finally, the active-reactive dimension represents a distinction regarding whether there is a manipulation of the object of experience by the user or vice versa.

Etgar (2008) suggests adding excitement and variety-seeking (McAlister and Pessemier 1982; Kahn 1995; Ratner, Kahn, and Kahneman 1999), or deviation from daily routine to Holbrook’s list of intrinsic values. When an experience is appreciated for its ability to facilitate excellence, autonomy, self expression and uniqueness, enables use of personal inherent capabilities not exercised in the daily routine, or realizes hidden fantasies, individuals are deriving extrinsic value from the experience.
Sirdeshmukh, Singh, and Sabol (2002) argue that value is “the superordinate consumer goal in relational exchanges……consumers are thought to consummate exchanges with providers that provide maximum value” (p. 21). Value has been conceptualized (Houston and Gassenheimer 1987; Neal 1999; Woodruff 1997) and empirically demonstrated (Bolton and Drew 1991; Sirdeshmukh, Singh, and Sabol 2002) as central to marketing activity. The engagement initiatives of organizations are also designed to be consumer-value centric. An engaged consumer is expected to derive intrinsic and extrinsic value from the experience (Holbrook 2006). The value resulting from an engaging experience is further expected to drive several marketing outcomes (Sirdeshmukh, Singh, and Sabol 2002; Srivastava, Shervani, and Fahey 1999; Heskett, Sasser, and Schlesinger 1997).

The important role of experiences is being increasingly recognized (Vargo and Lusch 2008; Prahalad and Ramaswamy 2004; Pine and Gilmore 1999; Hirschman and Holbrook 1982). Vargo and Lusch (2004) emphasize that marketing should be viewed as facilitating phenomenological experiences of consumers. Relationships among the value configurations are longitudinal, dynamic and interactive experiences. CE recognizes this increasing emphasis on experiences which is central to customer engagement.

Central to the new relationship marketing logic with increased importance and attention for co-creation and consumer experiences, is the context of customer engagement. Brodie et al. (2011b) states that the concept of customer engagement centers on the interactive consumer experiences. Likewise, Vivek (2009) posits that customer engagement is the principal construct of the marketing system within the perspective of expanded domain of relationship marketing. Moreover, Prahal & Ramaswamy (2004) mentions ‘dialog’ as one of the building blocks of interaction for co-creation of value. The authors define ‘dialog’ as interactivity, deep engagement, and the ability and willingness to act on both sides, which clearly emphasizes the necessity of customer engagement in the context. Varfo and Lusch (2010) also place customer engagement as the central concept of S-D logic by stating that, interactive, co-creative customer experiences can be interpreted as the act of engaging. Furthermore, Brodie et al. (2011a) discusses that S-D logic is the conceptual root of customer engagement by drawing on over 50 articles that used the term engagement addressing the S-D logic.
Van Doorn et al. (2010) focus on the behavioral aspects of the customer-firm relationships and therefore use the term, ‘customer engagement behaviors’. The authors define it as —customer’s behavioral manifestations that have a brand or firm focus, beyond purchase, resulting from motivational drivers. Brodie et al. (2011a) makes an extensive analysis of definitions and conceptualizations of the term engagement in social sciences and management disciplines, and the term customer engagement in the marketing and service literature. They, accordingly, suggest five fundamental propositions based on which they provide a general definition of customer engagement:

Customer engagement (CE) is a psychological state that occurs by virtue of interactive, cocreative customer experiences with a focal agent/object (e.g., a brand) in focal service relationships. It occurs under a specific set of context dependent conditions generating differing CE levels; and exists as a dynamic, iterative process within service relationships that cocreate value. CE plays a central role in a nomological network governing service relationships in which other relational concepts (e.g., involvement, loyalty) are antecedents and/or consequences in iterative CE processes. It is a multidimensional concept subject to a context- and/or stakeholder-specific expression of relevant cognitive, emotional and/or behavioral dimensions (Brodie et al., 2011a).

In contrast to the uni-dimensional behavioral view of customer engagement, the multidimensional view defines it as a psychological state comprising cognitive, emotional, physical and/or behavioral dimensions(Brodie et al., 2011a,b; Patterson et al., 2006; Hollebeek, 2011; Vivek, 2009; Cheung et al., 2011). Brodie et al. (2011) indicate that unidimensional approaches do not reflect the rich conceptual scope of customer engagement. Hollebeek(2011), in consistence, applies a multi-dimensional approach and incorporates cognitive, emotional and behavioral aspects in the conceptualization of customer brand engagement. The author defines customer brand engagement as the level of a customer’s motivational, brand-related, and context-dependent state of mind characterized by specific levels of cognitive, emotional, and behavioral activity in brand interactions. Likewise, Patterson et al. (2006) draw on organizational behavior literature and define customer engagement dimensions by absorption, dedication, vigor and interaction. Brodie et al. (2011) argue that absorption and dedication
corresponds to cognitive and emotional engagement dimensions respectively, whereas vigor and interaction, together, reflect the behavioral engagement.

The investigation of customer engagement as an outcome of brand loyalty is consistent with the voice and exit model of Hirschman (1970). According to Hirschman (1970), consumers either take voice or exit decisions with respect to perceived company performance and based on their loyalty levels. Consumers’ voice choice refers to the communication behaviors designed to express their experience and exit choice refers to behaviors designed to curtail or expand their relationship with the brand (Van Doorn et al., 2010). Hirschman (1970) argues that a brand loyal customer will search for ways to be influential for the organization, therefore will try to communicate his experiences using voice. Even when the loyal customer evaluates the company performance to be deteriorating, he will believe that he can get it back on track by using the voice option, and avoiding the exit alternative. Therefore, brand loyalty increases one’s willingness to be influential for the organization which in turn increases the willingness to communicate with the organization. It is likely that the stronger the brand loyalty is, the more influential a person will feel towards the brand, therefore, the more he will be willing to use his voice option which will create increased levels of engagement.

A customer's degree of engagement with a company could be seen as a continuum that represented the strength of his investment in that company. Positive experiences with the company strengthened that investment and moved the customer along the continuum of engagement.

If an organisation had a high proportion of engaged customers it could be assumed to be successful. Our definition of an engaged customer was one that was loyal and was satisfied with the product/service and so actively recommended the product/service to others. This is the basic premise of the model developed and tested in this research. Engaged customers drove word-of-mouth marketing that was ten times more effective at resonating with a target audience than television or print advertising (Kirby, 2006). The importance of customer recommendation and
its strong correlation to long term growth and profit has been well documented in Fred Reichheld’s book, The Ultimate Question. Engaged customers also provided invaluable feedback, had longer business relationships and posed less risk to the company as they were committed to solving problems without escalating to more aggressive behaviours such as litigation (LaMalfa, 2008).

Customer engagement has emerged in the last few years as a topic of great interest to managers and consultants in diverse industries and companies worldwide as evidenced by the large number of white papers, blogs, discussion forums, commentaries, seminars, and symposia generated by a general search for the terms. Increasing interest in customer engagement has paralleled the continued evolution of the internet and the emergence of new digital technologies and tools that have been dubbed Web 2.0, especially social media like wikis, blogs, micro blogging sites like Twitter, bookmarking sites like del.icio.us, video sites like YouTube, virtual worlds like Second Life, and social networking sites like Facebook, MySpace, and LinkedIn (see, e.g. Wirtz et al., 2010). The interactive nature of social media with its ability to establish conversations among individuals and firms in communities of sellers and customers and involve customers in content generation and value creation has excited practitioners with its potential to better serve customers and satisfy their needs.

Practitioners had been at the forefront of attempts to understand, define, and build customer engagement (e.g. Advertising Research Foundation, 2008; EIU, 2007a, b, c, d; Forrester Consulting, 2008; Gallup, 2009, 2010). Surveys of managers in private as well as public sector companies across the world sponsored by Adobe, a software company whose stated objective was to develop the tools for companies to connect with customers (Adobe, 2008), indicated that companies were striving to create a high level of customer engagement defined as “an intimate long-term relationship with the customer” (EIU, 2007a, b, c, d). Implicitly, managers appeared to view customer engagement along exchange relationship dimensions. Exchange relationships could span a continuum from short-term discrete exchange in markets to long-term relational exchanges within organizations (Macneil, 1981). As exchange relationships evolved from market-mediated exchange to organization-mediated exchange, more intimate and enduring relational exchanges took place.
Markets and organizations were alternative mechanisms for satisfying needs and customers could choose to rely on either the market mechanism and buy the product required to satisfy their needs or the organization mechanism to make it (Coase, 1937; Williamson, 1985, 2000). Customer engagement appeared to resemble in terms of intimacy and duration the relationship between parts of the same firm that transact with one another. Customer engagement between independent buyers and sellers in market transactions could represent the closest equivalent to the relationship between two parts of the same organization (business units of the same firm) without a merger supplanting market-mediated exchange. In market transactions, customer engagement, by establishing intimate bonds in enduring relational exchanges between seller and customer, appears to enable customers to continue to rely on buy rather than make transactions as well as co-create value.

Building customer engagement in both business and consumer markets requires adaptation of the marketing mix to take advantage of new technologies and tools to better understand and serve customers. Social media provided the opportunity to connect with customers using richer media with greater reach (see, e.g. Thackeray et al., 2008). The interactive nature of these digital media not only allowed sellers to share and exchange information with their customers but also allowed customers to share and exchange information with one another as well. Using social media, organizations could forge relationships with existing as well as new customers and formed communities that interactively collaborated to identify and understand problems and developed solutions for them. These interactions changed the traditional roles of both seller and customer in exchange relationships. Customers often added value by generating content and even became ardent advocates for the seller’s products and could influence purchase decisions of others in peer-to-peer interactions. This can be clearly established on the internet however this research attempts to understand customer engagement without the internet as the primary medium.

2.14 Practitioner Perspectives on Customer Engagement

Customer engagement had entered the lexicon of managers in private as well as public sector enterprises as a concept that was critical to the success of their organizations. Its rise in the consciousness of managers had paralleled the emergence of new technologies and tools that
enabled greater interactivity among individuals and organizations. The evolution of the internet and in particular the emergence of social media with its enhanced ability to facilitate interaction between buyers and sellers had captured the interest of managers seeking to better understand and serve their buyers using these technologies and tools. But what exactly was customer engagement seemed to be in doubt with considerable variation in interpretations of the concept and several different definitions of customer engagement proposed by practitioners. As a consequence, customer engagement often got equated with the measures that managers and consultants chose to use. There clearly seemed to be gap in terms of conceptual and academic understanding of customer engagement.

An early attempt to define customer engagement was made by the Advertising Research Foundation (ARF) in March 2006. ARF in conjunction with the American Association of Advertising Agencies and the Association of National Advertisers undertook a “defining engagement initiative” according to which engagement was “Turning on a prospect to a brand idea enhanced by the surrounding context” (Advertising Research Foundation, 2008). According to ARF, a broad definition was deliberately chosen to be inclusive rather than exclusive and provided a “framework that fostered sharing of perspectives and knowledge, rather than a single, definitive approach to measuring and applying the engagement construct” (Advertising Research Foundation, 2008). But a consequence of this approach was that customer engagement could conceivably encompass a wide variety of situations ranging from awareness, interest, and desire to purchase, retention, and loyalty. A series of empirical studies conducted by the Economist Intelligence Unit with managers in private and public sector enterprises worldwide (EIU, 2007a, b, c, d) lead them to define customer engagement as “an intimate long-term relationship with the customer” but also note that it was sometimes used to describe marketing, satisfaction, retention, and loyalty (EIU, 2007b). In terms of strategy, “engagement refers to the creation of experiences that allow companies to build deeper, more meaningful and sustainable interactions between the company and its customers or external stakeholders” and proposes that “It is not a fixed point that can be reached but a process that expands and evolves over time” (Economist Intelligence Unit, 2007b). This perspective not only extended the customer engagement concept to all experiences and external stakeholders, but also suggested that customer engagement was a process that evolved over the course of a relationship.
On the basis of a survey of 200 business decision makers in companies across the world, Forrester Consulting (2008) defined customer engagement as “creating deep connections with customers that drive purchase decisions, interaction, and participation over time.” Their survey indicated that companies were investing more in online programs and believed that the internet was essential for building customer engagement. Measures of customer engagement used by these companies included sales volume, customer satisfaction, and frequency of visits to a website. Forrester recommended identifying the ten most important things that engaged customers and prospects did, and created a dashboard to track the adoption, frequency, and intimacy metrics associated with these activities. Besides turning customer engagement into a company-specific concept, this approach failed to indicate how measures of these different activities related to an overall assessment of customer engagement.

A consulting firm that had placed much emphasis on customer engagement (and also employee engagement and brand engagement) was Gallup, which used 11 questions to measure rational as well as emotional aspects of customer engagement in both consumer and business markets. Gallup Consulting (2009) distinguished four levels of customer engagement: fully engaged, engaged, disengaged, and actively disengaged. According to Gallup, fully engaged customers represented an average 23 percent premium while actively disengaged customers represented a 13 percent discount relative to average customers on an index based on share of wallet, profitability, revenue, and relationship growth. As an example of the impact of customer engagement on performance, Gallup cited a study of the casual dining industry in which a restaurant chain with an engagement ratio of 5.4 (which means 5.4 of the chain’s customers were fully engaged for every actively disengaged customer) in 2006 improved its ratio to 7.2 in 2008, during which time its overall sales grew by 30 percent and per unit sales grew by 13 percent, while another chain with an engagement ratio of 0.63 in 2006 that declined to 0.46 in 2008 saw a 2 percent decline in its sales. However, Gallup desists from defining customer engagement although it does state that engaged “customers are not just “satisfied” or “loyal,” they are emotionally attached to the organization’s brands or services” (Gallup Consulting, 2010). Therefore their chances of being completely committed to the brand or service were very high.
There was increased interest in customer engagement driven by the interactivity of social media. Some examples of practitioner discussions of the concept have been cited. In an E-marketing glossary, customer engagement was defined as follows: “The customer engagement concept is intended to increase the time or attention a customer or prospect gives to a brand on the web or across multiple channels” (Chaffey, 2008). Another blogger who defines customer engagement as “Repeated interactions between a customer and brand that strengthen the emotional, psychological or physical investment a customer has in that brand” (Chaffey, 2007). In response to a post that engagement was not a metric that anyone understood, rarely drove action or improvement at the web site, and was difficult to define in a standard way, a blogger responded that marketers should be thinking about how engaged the customer was with the company, product, or brand, not its narrow connection to web sites and the online channel and argued that customer engagement encompassed a number of dimensions: product involvement, purchase frequency, service interactions frequency, types of interactions, online behaviour, referral behaviour/intention, and velocity (Shevlin, 2007). This was the exact perspective that we wished to investigate via this study and in fact not consider the internet and social media at all. A recent post suggested that a central role in many marketing strategies was played by a customer engagement cycle said to consist of awareness, consideration, inquiry, purchase, and retention stages (Ertell, 2010), but these were stages in a purchase decision rather than a customer engagement cycle. However, the post does argue that missing from the cycle were two critical stages, satisfaction and referral (Ertell, 2010). Apart from loyalty, the two constructs of satisfaction and referrals signified by word of mouth advocacy were the central pieces in the model proposed in this research.

The fascination of managers in both consumer and business markets worldwide with customer engagement and heightened interest in the concept since the arrival of the internet and especially social media with its potential for greater interactivity represented the strong desire of practitioners for new approaches to better serve customers. Social media with its ability to facilitate relationships could help realize the promise of the marketing concept, market orientation, and relationship marketing by providing the tools to better satisfy customers and build customer engagement. As many of the definitions discussed suggest, customer engagement seemed to go beyond awareness, beyond purchase, beyond satisfaction, beyond retention, and
beyond loyalty. In many ways it represented the evolution of marketing from the marketing concept era to market orientation to relationship marketing.

2.15 The Customer Engagement Cycle

Customer engagement focussed on satisfying customers by providing higher value than competitors to build trust and commitment in relationships. Engaged customers became partners who worked with sellers in the value adding process to not just satisfy their needs but that of other customers as well. The interactivity of social media greatly facilitated the process of establishing enduring relationships based on trust and commitment. Customer engagement was therefore was about building strong and sustainable bonds with them.

The process of building customer engagement constitutes a customer engagement cycle. The stages of the customer engagement cycle are connection, interaction, satisfaction, retention, commitment, advocacy, and engagement (Sashi, 2012).

Fig 2 – The Customer Engagement Cycle by Sashi (2012)
Customer engagement increased the role of customers by including them in the process as co-creators of value. By including the customers in the creation of value, there was an enhancement of the satisfaction of customers as well as sellers, this was important given that these needs tended to change over time. When engaged customers developed new connections, they in turn became advocates for the seller during interactions with other customers and also non-customers. Customer engagement therefore turned customers into fans who remained loyal throughout. It was thereby assumed that when problems would arise in such an engaged relationship then they were likely to be resolved by passive acceptance or constructive discussion rather than disengagement (Hibbard et al., 2001). This lead to the relationship to becoming stronger which lead to better and newer connections being established and leading to higher customer engagement.

Engagement was a holistic characterisation of a consumer's behaviour, encompassing a host of sub-aspects of behaviour such as loyalty, satisfaction, involvement, word of mouth advertising, complaining and more. Satisfaction was simply the foundation, and the minimum requirement, for a continuing relationship with customers. Engagement extended beyond mere satisfaction. Highly engaged consumers were more loyal. Increasing the engagement of target customers increased the rate of customer retention and thereby profitability. Highly engaged customers were more likely to engage in free (for the company), credible (for their audience) word of mouth advertising. This could increase new customer acquisition and have an increasing ripple effect.

The behavioural outcomes of an engaged consumer was what linked customer engagement to profitability. Simply attaining a high level of customer satisfaction did not guarantee business however engagement could improve profitability.
2.16 The Engagement and Experience Connect


An experientially engaged customer is better because a good experience:

- Creates enduring loyalty which is attitudinal
- Leads to customer advocacy by way of positive and active word-of-mouth publicity
- Creates a customer who is not easily swayed by short term attraction measures employed by competitors and therefore is more profitable to the organization
- Puts the onus of deriving value on the customer and moves focus to customer dominant logic

The organization is only required to provide all the ingredients of a good service experience and keep measuring the quality of experience gained and thereby the customer derived value. Competitive differentiation and advantage is created for an organization by the customer co-creating and deriving valuable experiences from the service consumption process.

2.17 Development of the concept over the years

- Experiential Marketing - Interaction with physical products leads to creation of an Experience. Since interaction tends to be unique for every individual depending upon their
personal factors, past experiences and situational variables – Experiences tend to be unique everytime. Successful experiences are sustainable over time. Such successful experiences can create a strategic differentiation. Thus experiences become levers to create value during the ‘consumption experience’. This value can be utilitarian or hedonic. Successful experiences can lead to involvement and engagement. Therefore the fact that unique and successful experiences lead to higher customer engagement has been established in literature. However what has not clearly established is the importance of Experiential Marketing in improving Customer Engagement levels and building the correct experience to impact loyalty and thereby profitability of an organisation.

- **Consumption experience** – Simulation creates a situation of hyperreality that customers connect to. This was more in the domain of products rather than services. Therefore there exists a clear gap in terms of defining the consumption experience in the service industry. Satisfaction with a consumption experience leads to formation of a positive attitude and impacts future purchase. Satisfaction is an antecedent of loyalty and directly proportional to loyalty. All customer experiences provide an opportunity for engagement. Value-in-use is a part of what a customer experiences and desires and is also closely related to the service experience. Knowledge sharing is a critical part of the service encounter. Therefore there is a felt need to clearly define in some way the service experience context.

- **Customer engagement** – A combination of trust and loyalty lead to engagement. Being consistently satisfied over time creates customer delight which increases the overall commitment and interaction with the service leading to engagement. A satisfied customer tends to be loyal and becomes an active advocate of the product/service. Such a customer is called ‘Engaged’. Internet, mobile and web2.0 have improved avenues of participation and interaction thereby driving customer engagement. There is however a clear gap in terms of defining the construct for ‘Customer Engagement’ conceptually. Most definitions today are practitioner led or descriptive and/or qualitative in nature.
A clear conceptual gap which showed up and will be hopefully taken care (to some extent) by this research is understanding the consumption experience to drive engagement using the experiential marketing approach.

A highly engaged customer therefore means that the loyalty is enduring and most importantly attitudinal. Customers who are engaged actively indulge in positive word-of-mouth publicity. The engaged customer is not easily swayed by short term attraction measures employed by competitors and therefore is more profitable to the organization in the long term. Onus of deriving value rests on the customer and moves the focus to customer dominant logic. The organization thus is only required to provide all the ingredients of a good service experience and keep measuring the quality of experience gained and thereby the customer derived value, to enable modification and correction for optimization of experience. Competitive differentiation and advantage is created for an organization by the customer co-creating and deriving valuable experiences from the service consumption process.

Providing a good experience is important because it impacts customer satisfaction (Liljander and Strandvik, 1997), delivers customer loyalty (Yu and Dean, 2001; Pullman and Gross, 2004; Mascarenhas et al., 2006), influences expectations (Johnson and Mathews, 1997; Flanagan et al., 2005), increases confidence (Flanagan et al., 2005) and creates emotional bonds with customers which may lead to emotional scarring (Pullman and Gross, 2004) if not managed well.

Thompson and Kolsky talk about an experience being a sum total of events. Furthermore, it has been shown that a customer’s perception of an organization is built as a result of their interaction across multiple-channels, not through one channel, and that a positive customer experience can result in increased share of wallet and repeat business. Pine and Gilmore (1998, JMM) mention that the more advanced experience businesses can begin charging for the value of the "transformation" that an experience offers. Prahalad and Ramaswamy (2000, HBR) propounded co-creation to enhance customer engagement by enhancing value-in-use.
2.18 Summary of gaps identified and the ‘Service Experience Context’ and the ‘Experience Engagement Model’

Researchers link service experience to consumer purchasing behavior, either directly via customer loyalty (Haeckel et al., 2003; Mascarenhas et al., 2006; Reichheld, 2003) or indirectly via customer satisfaction (Pullman and Gross, 2004), recommendations and positive word-of-mouth (Pine and Gilmore, 1998). However, these studies are conceptual and researchers have not yet operationalised the construct of service experience.
2.19 Service Experience Framework

The Service Experience Framework essentially shows the cycle of the consumption experience. Whenever a customer interacts with a service for the first time, he/she goes through an experience and, depending on the personal outcome, derives positive or negative value from it. This value impacts future purchase behavior with the same organization and even similar type of service, as it sets a comparative benchmark in the memory of the customer. This entire process is also strongly influenced by ‘intrinsic’ or personal factors of the customer like personality, learning etc and ‘extrinsic’ factors like situational variables and past experiences in life. One would like to suggest that the entire consumption experience is embedded in the memory of the experience expected and derived from the service encounter.

Fig 3 – The Service Experience Framework
2.20 Experience to Engagement Model

This model considers the utilitarian perspective of benefits derived from a service experience. The proposition is that the consumption process, the actual product/service trial and the opportunity to interact with the ‘experienced’ customers strongly influence the experience components of trust, relevance, convenience/ease of use and value-in-use. These components are the variables that impact the key constructs of satisfaction, loyalty and word of mouth advocacy. Sashi (2012) has proposed that, all the three constructs together are antecedents of customer engagement. This model is proposed to be tested in this research.

Customer engagement, on account of its unique experiential perspective is likely to lead to better and sustained profitability. This is so because the customer will be attitudinally loyal and will consistently use the same service and may use the service with increased frequency as well. The
other advantage for practitioners is that a personally unique service experience will provide constant and dynamic competitive differentiation which is difficult to replicate. Successful engagement strategies therefore are likely to lead to not just mass but also personal customization of the value offering.