Jay Kandampully *Editor*

Service Management

The New Paradigm in Retailing

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I dedicate this book to my mother
and to my wife, the two ladies who have
positively influenced my life, to whom
I owe everything for what I am today.

Preface

Service Imperative in Retailing

The rapid growth and increasing importance of services has been the most significant phenomenon in the global economy in recent decades. Contemporary businesses all over the world, including those that have traditionally relied on manufactured goods to generate the bulk of their income, are increasingly aware that they now compete primarily on the basis of the *services* that they provide to their customers, rather than relying merely on the physical products that they produce. This "service phenomenon" has become so pervasive that is now also apparent in the retailing industry, which has traditionally been almost totally focussed on the sale of physical goods. As customers increasingly perceive that there is little to differentiate comparable products among the myriad of retail offerings, the *service element* of retail business has assumed greater importance as a differentiating factor in the minds of customers.

> Contemporary businesses … are increasingly aware that they now compete primarily on the basis of the services that they provide to their customers.

Apart from the general escalation of the notion of "service" in all sectors of the global economy in recent decades, the prominence of service in retailing has received a huge impetus with the burgeoning use of the Internet, which has transformed the basic nature of retailing by enabling retailers to serve customers all over the world through multiple channels. In addition, other emerging technologies have enabled retailers to streamline their services to customers in terms of customised offers, self-service technologies, ease of payment, complaint resolution, and so on.

The transformation of the retail industry from local goods-based businesses to global service-oriented enterprises has not only had profound effects on customer relations but also has resulted in radical changes to the traditional business models and supply chains that have characterised retail business for generations. Information technology and the Internet have revolutionised the concepts of sourcing, buying, ordering, sales, and returns. Networks of designers, agents, consultants, producers, and suppliers now interact and collaborate all over the world in every aspect of retailing demand and supply. Multichannel and cross-channel alignment has become the norm in almost every component of the retail supply chain.

> The transformation … has resulted in radical changes to the traditional business models and supply chains that have characterised retail business for generations.

These developments have meant that contemporary retail businesses must provide effective services to both their internal customers (staff and members of their supply chains) and their external customers (end consumers) spread across the globe. It is therefore imperative that retailers know how to manage and orchestrate multiple services using modern service-management concepts within an organisational culture characterised by a customer-centric and service-focussed orientation. Effective service management enables the modern retail firm to enhance the service experience and establish meaningful relationships with both its customers and its partners, thus gaining their loyalty and achieving business success.

> It is imperative that retailers know how to manage and orchestrate multiple services using modern service-management concepts.

Implications for Retail Management Theory and Practice

Retailing is one of the largest economic sectors in both developed and emerging economies. As such, it has been the subject of numerous studies that have examined a wide variety of management issues within the retail industry.

In the past, retail management has traditionally been concerned with organisational and product-related issues. Now however, given the emergence of *service* as the central focus of retail business activity, there needs to be a paradigm shift in management thinking if retailers are to survive in today's customer-centric and service-focussed market. Retailers must seek ways to provide their customers with a memorable retail *service experience*, rather than merely providing them with goods. Unfortunately, despite these changing imperatives, it would seem that many practising retail managers continue to have a relatively limited understanding of the significance of *service management* for success in this rapidly changing industry. Many are unaware of the theory and practice of pertinent service-management concepts that are essential to gaining and maintaining a competitive advantage in modern retail management.

> There needs to be a paradigm shift in management thinking if retailers are to survive in today's customer-centric and service-focussed market.

In short, many practitioners of retail management have failed to make the transition from *goods management* to *service management*. Similar observations could be made about the development of retail management theory among many academic researchers, teachers, and students.

> Many practitioners of retail management have failed to make the transition from goods management to service management.

The Purpose of This Book

Against this background, the aim of *Service Management: The New Paradigm in Retailing* is to guide the theory and practice of retail management in a paradigm shift away from the traditional model of a departmentalised organisation that sells physical products towards a recognition that retailing is essentially a service business that meets customers' expectations through service experiences and personal relationships. Managers who make this paradigm shift and recognise that their retail offerings are essentially *service offerings* will gain a whole new understanding of the theory and practice of their retail business. Creating and maintaining superior service experiences that generate long-term loyal relationships with customers is a consistent theme of this book.

> Managers who make this paradigm shift … will gain a whole new understanding of the theory and practice of their retail business.

More specifically, the book aims to provide a detailed account of the critical services-management concepts that have direct application in the retail industry. Using case examples, each chapter demonstrates how these concepts can be applied in practice to gain customer loyalty, achieve market leadership, and ensure profitability in the retail industry.

Service Management: The New Paradigm in Retailing is the first full-length textbook to have incorporated service-management theory within the retailing context. As indicated by the title, this book represents a paradigm shift in retailing management; as such, there are currently no competing textbooks on the market that address the retail industry from the perspective of services management.

> This book represents a paradigm shift in retailing management.

The Content of This Book

Service Management: The New Paradigm in Retailing is intended for both *students* (business students and students who specialise in retail management at diploma, degree, and graduate levels) and *practitioners* (in the many and varied sectors of the retail industry). The book assumes that readers have a basic understanding of management, retail operations, and marketing.

Each of the sixteen chapters in this book deals with a specific topic of importance within the broad question of how service management can and should be applied to retailing. The contributing authors who have been invited to address these topics come from all over the world. All have been chosen for their recognised expertise in each area under consideration.

> The contributing authors … have all been chosen for their recognised expertise in each area under consideration.

In Chap. 1, Jay Kandampully of the Ohio State University (USA) *sets the scene* by outlining how service management has become the new paradigm in retailing. The chapter discusses the role of service and technology as strategic factors in the new paradigm in which the focus has moved decisively towards the customer's retail service experience.

In Chap. 2, Minjeong Kim (Oregon State University, USA) and Jay Kandampully (The Ohio State University) explain the *imperatives that are driving the new paradigm in retailing*. The chapter provides an overview of the retail industry and examines the influence of the "baby boomer" generation and "generation Y" in the global adoption of information technology and self-service technologies in retail management.

In Chap. 3, Tor Andreassen and Line Olsen (BI Norwegian Business School, Norway) emphasise the importance of *customer service* in establishing and maintaining long-term relationships with customers and partners in a competitive context. This chapter proposes and explains the notion of "customer equity" as a high priority for retail firms in attracting and retaining profitable customers.

In Chap. 4, Jim Barnes (Memorial University, Canada) and Jordan Wright (Department of Advanced Education Skills, Government of New Foundland & Labrador, St. John's. Canada) discuss the importance of a strategy for managing the *retail service experience* in both the online and off-line retailing contexts. The authors introduce the concepts of "customer context" and "contextual intelligence" in arguing that retail firms must create a context-appropriate shopping experience to create a memorable retail experience.

In Chap. 5, Timothy L. Keiningham, Luke Williams, and Alexander Buoye (IPSOS Loyalty, USA) and Lerzan Aksoy (Fordham University, USA) provide a holistic perspective of *loyalty* in which employee loyalty and customer loyalty are inextricably linked. The chapter defines the dimensions of profitable loyalty and explores the classification of profitable loyal customers.

In Chap. 6, Allard van Riel (Radboud University, The Netherlands) examines the role and scope of *service innovation* in achieving sustainable competitive advantage in contemporary retailing. The authors discuss service innovation from an operations perspective with a strong emphasis on market orientation and customers' retail experiences.

In Chap. 7, Sharron Lennon (University of Delaware, USA) and Jung-Hwan Kim (University of South Carolina, USA) discuss the growth in *online retailing* and the importance of managing e-service quality. The authors examine the influence of e-service on online customer satisfaction (e-satisfaction) and loyalty (e-loyalty).

In Chap. 8, Patrick Vesel, Patricija Filipič Orel, and Mitja Špende (Big Bang, Slovenia) discuss *multichannel marketing* in contemporary retailing. The authors emphasise the importance of providing consistency of service across all channels in building customer trust, satisfaction, and commitment.

In Chap. 9, Jeff Smith (Florida State University, USA), Lorraine Lee, and Tracy Meyer (University of North Carolina Wilmington, USA) discuss the relationship between *new technologies and the retail service experience*. The authors use the services marketing mix to show how technology influences various elements of the customer–provider relationship.

In Chap. 10, Veena Chattaraman (Auburn University, USA) explores the significance of the growing *multicultural diversity* among retail customers. In particular, the author examines the important task played by multicultural marketing in achieving customer trust and brand loyalty.

In Chap. 11, Sanjukta Pookulangara (University of North Texas, USA) University of North Texas describes how *social media and cultural influences* have changed retail consumers' service expectations. The author examines the influence of technology acceptance on intention to use social media for shopping and interaction with like-minded consumers. The chapter also emphasises the importance of an effective social media strategy for contemporary retail firms.

In Chap. 12, Bernd Stauss (Katholische Universität, Germany) and Wolfgang Seidel (Servmark, Germany) emphasise the importance of *complaint management* in view of increasing customer expectations and decreasing customer loyalty in the global retail industry. The authors explain how retail firms can benefit by establishing proactive complaint management to restore customer satisfaction, prevent customer defection, and enhance the likelihood of repurchase.

In Chap. 13, Jiyoung Hwang (University of Florida, USA) and Julia Cooper (The Ohio State University, USA) provide an overview of *brand management* in the retailing industry. The chapter discusses how retail brands are established in the minds of customers through products, services, and the retail experience. The authors discuss how some retail brands can gain customer recognition and brand loyalty as a consequence of a firm's corporate social responsibility (CSR).

In Chap. 14, Bo Edvardsson and Bo Enquist (Karlstad University, Sweden) emphasise the advantages that *value-based service* can provide to customers, employees, and the retail firm. The authors examine the relevance of CSR in the contemporary retail industry and demonstrate the impact of a value-based corporate culture using the example of IKEA.

In Chap. 15, Pratibha Dabholkar (University of Tennessee, USA) uses the example of the *marketing* of a stage show, "The Wizard of Oz," to illustrate the importance of a deep and intuitive understanding of what customers want. The chapter also emphasises the role of "retail atmosphere" in making customers feel comfortable. The chapter illustrates that ongoing modifications of service are needed for continued success in the retail industry.

In Chap. 16, Jay Kandampully (The Ohio State University, USA) provides *case studies* of some "paradigm shifters" in the retail industry. The author examines the histories, policies, and philosophies that underlie these exemplar firms in market leadership.

Columbus, OH, USA Jay Kandampully

Acknowledgments

I acknowledge the friendship and contributions of the service researchers who have contributed to the production of this book.

Contents

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Professor Andreassen is the founder of Service Forum, The Norwegian Customer Satisfaction Barometer at the Norwegian School of Management, and the annual Professor Johan Arndt Marketing Conference. Dr. Andreassen has published seven text books and has received several awards for his academic research: MSI/H. Paul Root Award 2007 (*Journal of Marketing*), 2x Outstanding (Best) Paper Award (from *Managing Service Quality*) and Highly Commended Article Award (from *Managing Service Quality and the International Journal of Service Industry Management*); Citation of Excellence - Highest Quality Rating (*European Journal of Marketing, International Journal of Service Industry Management*); Most Downloaded Article - Top 200 (*International Journal of Service Industry Management*). Dr. Andreassen has been a Visiting Professor at Owen Graduate School of Management, Vanderbilt University, USA, University of Maastricht. NL, Robert H. Smith School Business, University of Maryland, USA, University of Queensland, AUS, and a visiting scholar at Stanford, USA. He has received pedagogical education and training from Vanderbilt University and Harvard Business School.

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Jay began his academic career at the University of Alaska, Fairbanks, USA. Subsequently Jay taught at Lincoln University in New Zealand and at The University of Queensland in Australia, where he was instrumental in developing services marketing programs. He is the author of the best selling textbook "Services Management: The New Paradigm in Hospitality" (this book has been translated into Chinese), and the lead editor of the book, "Service Quality Management", which has been translated into Chinese, Korean and Arabic. Additionally, he has published over 120 articles in prestigious academic journals and has presented numerous papers at international conferences. Jay's research interests include areas such as: service experiences, customer engagement, customer communities, multichannel marketing, service brand, retail management, health and wellness services, hospitality management.

Jay's research publication on the concept of "Service Loyalty" earned him the prestigious 'Literati Award'; his publication entitled "Competitive advantage through anticipation innovation and relationships" received the 'Highly Commended Award and Citation of Excellence award' and his article on "Service Orientation" received the best paper award at the International CHRIE conference. Jay's article on "Customer Loyalty" has been the most downloaded and most cited article in the *International Journal of Contemporary Hospitality Management* for the past 8 years. Emerald Literati Club presented him with the 'Leading Editor Award' and 'Outstanding Service Award for Excellence". Jay has also been the recipient of Excellence in Teaching awards. He is the founder and chair of the Service Education, Research and Innovation (SERI-Initiative) and International Research Symposium in Service Management (IRSSM) an initiative established to promote service research, teaching and practice in the advancing economies.

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Chapter 1
Service as the New Paradigm in Retailing

Jay Kandampully

Learning Objectives

The aim of this chapter is to introduce the reader to the basic premise of this book. Thus, this chapter will:

1. Introduce the concept of service as the new paradigm of management thinking in the retail industry.
2. Illustrate the need for a service-focused management approach to meet the growing demands of retail customers and to gain a competitive advantage in the market.
3. Explain the importance of both service and technology as two key strategic factors required to provide customers with a positive retailing experience.

The Challenge of a Changing Retail Environment

The increasingly competitive global marketplace of the twenty-first century, together with fundamental changes in the lifestyles of many consumers, has compelled retail organizations to transform their perceptions of themselves and the way in which they need to conduct business if they are to meet the changing needs of their customers. In particular, the increasing consumer demand for superior service and rapid developments in information technology, the Internet, and telecommunications have forced retail firms to operate within a new business environment that bears little resemblance to that of only a decade ago. At the same time, profound changes in consumer lifestyles and buying behavior have meant that previously successful

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retail business models and practices are no longer capable of providing an adequate framework to sustain effective and efficient retail operations. The critical success factors that guaranteed business prosperity in the past are, thus, no longer applicable, as retail managers have realized that they require a new paradigm for the retail industry of the twenty-first century. The two key strategic factors (or "pillars") of this new paradigm are (1) service and (2) technology.

Service as the First Pillar in the New Paradigm of Retailing

In developing such a new paradigm of retailing, there is a growing awareness of the importance of the role of *services* in retail business. As Gummesson (1995, pp. 250–251) observed: "customers buy neither goods nor services, [rather] they buy offerings, which render services, which creates value." This shift in focus represents a paradigm shift for retailers, who have traditionally operated on the basis that value resides in the manufactured goods that they sell. Lusch and Vargo (2006, p. 4) described this paradigm shift in the following terms: "This shift in focus to services is a shift from the means and the producer perspective to the utilization and the customer perspective."

Vargo and Lusch (2004, p. 2) defined service as: "… the application of specialized competencies (knowledge and skills) through deeds, processes, and performances for the benefit of another entity or the entity itself." The same authors went on to argue that *all* enterprises are actually in the business of providing services; indeed, even those that primarily provide manufactured goods do so only as a means of transmitting their services to the customer. Moreover, the value of any offering of goods and services is actually defined by (and co-created with) the active participation of the customer (Lusch and Vargo 2006).

In developing these ideas, Lusch and Vargo 2006) proposed a new framework, which they called the "service-dominant logic" (S-D logic) of marketing. According to such S-D logic, the exchange of *service* (rather than goods and money) is the fundamental form of exchange in any business transaction. Although various criticisms have been directed at the new S-D logic, the ideas advanced by these authors have suggested numerous interesting and challenging directions for both scholars and practitioners of marketing. For example, given that most (if not all) services are co-created with the customer (Bendapudi and Leone 2003), the customer not only plays a role in the co-creation of value, but the customer and the producer share the service experience through which that value is created. Nevertheless, the value of the service experience is best understood by the customer and, therefore, is best marketed to the customer during the consumption stage of the service (Kandampully 2002).

Applying these ideas to the retail context, it is through the service processes of retail sales that the co-creation of value is accomplished; moreover, the co-creation of value and the co-consumption of the service represent the most significant aspects of the customer's experience. It is, therefore, imperative that retailers pre-design their service processes (through so-called "service blueprinting") to ensure that the customer has a positive service experience. The retailing context, thus, necessarily entails customer involvement in numerous service processes, in which the customer's role is the main determining factor in the co-creation of value and the overall retail experience.

This increased emphasis on service (as opposed to goods) is especially important in retailing because, as opposed to "pure" services (such as legal services, medical services, and consulting services), products play a particularly prominent role in retailing; indeed, they usually constitute the essential raison d'être of the interaction between the retailer and the customer. However, as the globally competitive market has made it increasingly difficult for retailers to differentiate their offerings on the basis of the goods that they sell, the service that they offer has become the crucial factor in establishing a competitive advantage, enhancing the firm's image, sustaining customer loyalty, and boosting profitability. This is why "service superiority" has become the "number one item" on the boardroom agenda of retail firms that wish to achieve and sustain a competitive advantage within the new paradigm of retailing. Modern retailers are increasingly recognizing that short-term economic and marketing goals might provide a temporary boost to revenue, but they are unlikely to provide a sustainable advantage. Given the new paradigm in which service is recognized as the fundamental form of exchange in retailing, a customer-centric and service-focused orientation (Sheth et al. 2000) provides the modern retail firm with the best opportunity to enhance the service experience, establish meaningful relationships with customers, gain customer loyalty, and achieve market leadership.

However, despite the increasingly impressive evidence that service is the key to success, some retail firms continue to operate within the old paradigm – spending time and resources on advertising goods and constructing an impressive physical presence in an effort to enhance their image. In the past, this was the accepted way of influencing customer perceptions and experience in the retail industry. However, in today's changed retailing environment, in which the emphasis is on the co-creation of value through service, successful retailers are increasingly adopting service-oriented approaches to ensure that they consistently outperform their competition.

Technology as the Second Pillar of the New Paradigm

As noted above, services and technology constitute the two crucial strategic factors (or "pillars") of the new paradigm in retailing. Just as technological advances have facilitated the convenience and experience of people in virtually every aspect of modern life, technology is transforming both the way in which retail business is conducted and the service experience of the retail consumer.

The changing needs and expectations of technology "savvy" customers with considerable spending power (especially "Generation Y" consumers and their "Baby boomer" parents) have had a significant impact on the growing service focus in retailing. In particular, many traditional retailers have recognized the importance of offering an on-line retailing channel to complement their "bricks-and-mortar" retail stores.

As noted above, the modern retailers' value proposition places great emphasis on establishing relationships with customers, providing superior service, and ensuring a positive customer experience. The challenges in this regard are, of course, greater in the off-line retail context, where the customer assumes an equal (or even pre-eminent role) in the co-creation of value through a positive service experience. However, successful on-line retailers (or "e-tailers" as they are often called) innovatively adapt services to provide numerous opportunities for customers to interact positively with the electronic retail interface and, thus, establish a form of "relationship" with the customer. For example, the "Lands' End" company, which has been cited as one of the most successful e-tailers (Berbee 2000), is continuously developing new on-line attributes for its customers – such as timely and accurate email responses to customers' enquiries and live on-line chat forums (Kim et al. 2007). The aim of these (and other) innovative web attributes is to communicate the firm's distinctive value propositions to its customers, enhance their e-tail experience, and nurture the all-important relationships between the firm and its on-line customers.

Kim et al. (2007) identified the five factors in the buying environment that are most valued by on-line retail customers. What is interesting is that none of these five factors was related to price and/or goods; rather, on-line customers attached greater importance to convenience, customization, information, communication, and website esthetics. Technology-supported services can, thus, offer many conveniences in the retailing context, but it would seem that the absence of direct human contact does not invalidate the importance of the generic concept of the co-creation of customer value in the on-line retailing context. As co-creator of the retail experience, the customer continues to demand that retail firms think creatively and proactively to implement service features that enhance his/her on-line retail experience. Thus, although the insurgence of technology has profoundly changed how retail companies interact with their customers, the essential desire for quality service has not changed (Bitner, 2001). However, what has changed is that firms that fail to meet customer expectations can now anticipate reviews of these adverse experiences being posted on the firm's website – which was certainly not a hazard in traditional "bricks-and-mortar" retailing!

Self-service facilities are another important area in which technology has had a significant impact on the retail industry. Examples include automated teller machines (ATMs), online banking interfaces, self-service checkouts, and so on. Unlike a traditional service setting, in which interpersonal interactions play a major role, self-service facilities increase efficiency and productivity for service providers by placing customers in the role of a quasi-employee (Walker et al. 2002; Zeithaml and Gilly 1987). Given the rapid developments in technology and the demands of "time-poor" shoppers for efficiency, it can be expected that such facilities will play an increasingly important role in service delivery in the retail industry by providing rapid service delivery, greater control over the service-delivery process, and enhanced customization of services (Meuter et al. 2000; Dabholkar and Bagozzi 2002; Beatson et al. 2007; Amato-McCoy 2008).

The growth in information technology has also had a profound impact on the retail industry by changing the way in which retail businesses are organized, conducted, and linked to other organizations. In particular, the Internet has enhanced supply chain management (SCM) by facilitating the speed, ease, flexibility, and agility of real-time information exchange (Lancioni et al. 2003; Michelino et al. 2008). The Internet has, thus, provided numerous opportunities for cost reduction, coordination, and service improvement in supply chains (Malone et al. 1987; Ronchi 2003; Stores 2005). The Internet has also improved integrated forecasting, collaborative production planning, transportation management, customer relationship management, and new product development to meet the changing demands of consumers (Michelino et al. 2008; Radjou 2004). It is, therefore, not surprising that an increasing number of retailers now use the Internet for purchasing, transportation, inventory management, customer service, and supplier management (Lancioni et al. 2003).

Summary of the New Paradigm in Retailing

According to the new paradigm of retailing, service is no longer perceived as a value-adding component to the transactional sale of products; rather, service is now understood to be the *focus* of the exchange between the retailer and the buyer. Service is embedded in, and serves as the driving force for, *all* aspects of modern retail business – from procurement, through store operations, internal and external customer relationships, and networks of partner co-ordination.

If retailers are to survive and prosper in the dynamic environment of the twenty-first century, it is therefore imperative that they adjust their business philosophy from the traditional model in which retailers were essentially engaged in transactions of goods to a new way of thinking in which the strategic orientation of every activity within the retail firm is focused on customer service. This represents a *new paradigm* for the retail industry – that is, a radically new philosophy of services management to ensure success for retail businesses. In the chapters that follow, this book presents a selection of the more important aspects of services management that are of particular relevance to the ever-evolving retailing sector.

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Chapter 2
The Service Imperative in the Retailing Industry

Minjeong Kim and Jay Kandampully

Learning Objectives

- To understand the emerging trends in the retail industry
- To recognize the significance of service management in the turbulent and competitive global retail environment
- To develop a knowledge of the transforming role of service in a multichannel retail environment
- To develop an understanding of the impact of technology and Internet on the retail industry
- To appreciate the role of service in successful supply chain management in the evolving retail industry
- To identify a new service paradigm in the evolving retail industry

Introduction

Services permeate our everyday lives. Within the past 24 h, you might have listened to the radio; watched television; gone to the cinema; taken a trip on a plane, cab or bus; made or received a phone call; consumed a restaurant meal; used a bank or ATM; visited a gym; attended a sporting event; visited a doctor, dentist, or lawyer; had

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dealings with an insurance agency; bought groceries; purchased a book, magazine, or newspaper; filled a car with gas; used electricity and water for personal needs; and so on. In all of these instances, services and products from various firms are consumed through a process of exchange (between the consumer and the provider) that is commonly referred to as ‘retailing’.

The supply and management of such retail services in society is more than just a business issue dominated by concerns about market share and profit-and-loss. Because retail services pervade our lives, the standard of services is actually a quality-of-life issue: the better the quality of service of our doctors, lawyers, grocers, bankers, department stores, hotels, and other service providers, the better is the quality of life of the communities in which we live.

That said, it remains true that the economy of any society depends on the services it offers its citizens. In a deregulated and competitive global environment, the success of any firm is dependent on understanding the needs of customers, eliminating service and product failure, exceeding the expectations of customers, establishing and maintaining long-term relationships with loyal customers, innovating products and services on an ongoing basis to enhance their value to customers – and doing all these things better than the competition. All of this must be achieved in a competitive environment in which relentless advances in technology mean that products and services have ever-shortening life cycles (and hence, increasingly transient appeal to customers). Products and services that are deemed satisfactory by the customer today are likely to prove unsatisfactory to the same customer tomorrow. It is thus imperative that products and services are continuously improved to ensure the ongoing enhancement of customer-perceived value. In the turbulent and competitive global marketplace of today, it is the loyalty of satisfied customers, gained by the firm’s commitment to value through the provision of service of a superior quality, which provides the vital competitive edge that ensures survival and success.

Retailing is one of the largest service sectors – not only in developed economies but also in emerging economies. Indeed, the prominence of retailing as a service has escalated in recent years with the burgeoning use of the Internet, which has enabled retailers to serve customers globally through multiple channels. Today, almost all retail firms offer both online and offline stores and services. As retailing has become more prominent, researchers have conducted numerous studies to examine a wide variety of management issues within the retail industry. However, despite this interest, it would seem that managers and students alike continue to have a relatively limited understanding of the significance of *service management* for success in what is now a globally competitive retail industry.

Against this background, the aim of this book is to provide a detailed account of the critical services-management concepts that have direct application in the retail industry. Using case examples, each chapter seeks to illustrate how these concepts can be used effectively to gain customer loyalty, achieve market leadership, and ensure profitability in the retail industry.

An Overview of the Retail Industry

Almost all of the products and services that we consume every day are provided through retailing. Although most people readily associate certain products (such as groceries or clothing) with the idea of ‘retail’, the reality is that almost all service sectors are engaged in retailing in one form or another.

US retail industry

As shown in Fig. 2.1, US consumers spend their income on a wide variety of products and services that are provided to customers on a daily basis by extensive networks.

The $4.43 trillion US retail industry is one of the largest and fastest-growing industries in the country, where it accounts for the employment of more than 24 million people (National Retail Federation 2006; US Census Bureau 2009a). However, the recent economic recession triggered by the financial crisis of September 2008 has caused retail sales to plummet as unemployment has risen, house values have dropped, and consumer confidence has dipped. Indeed, several well-known retailers, such as “Circuit City”, “Sharper Image”, “Eddie Bauer”, “Filene’s Basement”, and

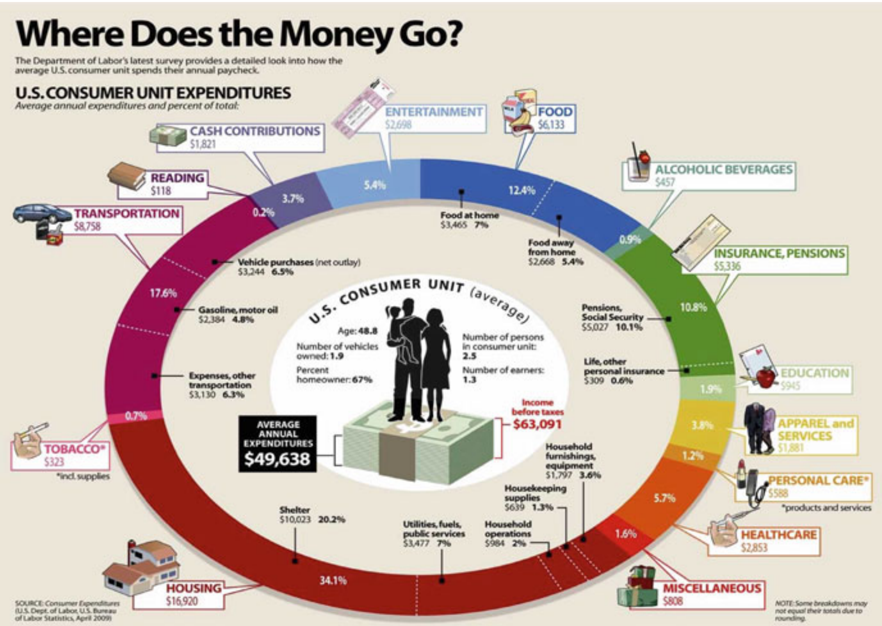

Fig. 2.1 Where does the money go? US retail spending 2009

"Hartmax Corporation", have filed for chapter 11 bankruptcies, and many others have suffered a sharp decline in sales and profitability (Berman 2010; Yousfi 2008).

Nevertheless, after the tough times experienced in 2008 and 2009, the US retail industry is again showing signs of recovery (Ellis 2010). For example: (1) the 2009 holiday sales increased by 0.5% compared with 2008; (2) "Cyber Monday" sales in 2009 grew by 5% (compared to the previous year) to $887 million (comScore 2009); (3) the National Retail Federation (NRF) has predicted a 2.5% annual increase in sales from 2009 to 2010 (in contrast to a 2.5% decrease in sales from 2008 to 2009) (Berman 2010); and (4) non-store sales (including online retailers) increased 2.2% in December 2009 and 1.6% in January (Ellis 2010).

E-commerce

Electronic commerce (e-commerce) has continued to show healthy growth (even its growth rate did slow from 25% per annum to less than 15% per annum during the recent economic downturn) (Internet Retailer 2009b). Historically, online retail sales grew, on average, by 23.1% per annum from 2002 to 2007, and by 18.4% in 2007 alone – as compared to an overall 5% annual growth rate for all retail sales in the USA (US Census Bureau 2009b). According to Forrester Research, US online retail sales were predicted to grow to $156.billion in 2009. Approximately 75% of Americans now use the web for shopping (Internet World Stats 2009) and 60% of web users make at least 36 web purchases a year. In addition, a majority of web users consider the web to be a "critical" information source (Internet Retailer 2008). For their holiday season purchases in 2009, 85% of US consumers planned to shop online, and about 75% planned to purchase holiday gifts online (Internet Retailer 2009a). Despite these impressive figures, e-commerce still accounts for a small fraction of total retail sales in the US (accounting for only 3.2% of total US retail sales in 2007).

Online retail sales growth in the UK also continues to be strong, despite the recent credit crunch (Thompson 2008). Indeed, UK online retail sales have been growing at almost ten times the rate of the total retail industry in the UK. The convenience of e-commerce combined with improved retail websites and increased broadband adoption have contributed to the strong growth in UK e-commerce (Thompson 2008).

Multichannel Retailing

The impact of e-commerce on the retail industry as a whole is not restricted to the fact that its growth rate is faster than that of offline retail sales; rather, the impact of e-commerce has been felt in terms of its complementary stimulation of the offline retail industry through the popularity of *multichannel retailing* (DMNews 2006). Indeed, multichannel retailing has now become a key retail trend.

About 40% of retailers have embraced multichannel retailing with a view to establishing a competitive advantage and enhancing sustainable growth and profitability in the long term (Bagge 2007; DMA 2005). Nearly half of all transactions are expected to be Internet-enabled by 2011, and a growing number of consumers expect to be provided with the flexibility to shop across channels (Jupiter 2006). Research has shown that contemporary shoppers continue to enjoy brick-and-mortar stores for the experiential and social aspects of shopping, while also valuing the convenience of shopping online; it would thus seem that retail customers want to be able to choose particular retail channels for different products, as long as they receive consistently good service across all channels (Bagge 2007).

Nearly 90% of US consumers consult a retail website before going to off-line stores, and 75% report that online shopping prior to store shopping is helpful in making their subsequent in-store purchase decisions (Parry 2010). Indeed, more than 65% of US retail customers make offline purchases after researching the product online (Citino and May 2006), and more than 33% of UK online shoppers are regular users of multiple channels. In the UK, more than 25% of consumers shop via the web or a mobile device (Grau 2006; Riseley 2006a, b), and such consumers feel empowered by search information to make valid comparisons between potential purchases. Moreover, these consumers often consider a brick-and-mortar store and a website to be one entity, and they thus expect a seamless shopping experience across channels (Ryan 2010).

From the retailer's perspective, multichannel shoppers are more profitable than single-channel customers. According to Kushwaha and Shankar's (2008) study of one million shoppers purchasing 24 product categories over a four-year period, the average monetary value of a multichannel customer was $467 more than an average "offline-only" customer and $791 more than an average "online-only" customer. Multichannel shoppers spend about 60% more at drug stores and Costco and nearly 40% more at Wal-Mart and Sam's Club (Cassar 2008).

For these reasons, retailers have realized that a multichannel retailing strategy is essential for their prosperity. However, a successful multichannel retailing strategy requires retailers to transform their culture, operations, and technology to provide a seamless shopping experience that enables customers to choose their favorite retail channel for particular products and to receive consistent service across all channels (Bagge 2007). To accomplish this, retailers need to build a flexible infrastructure that facilitates integration of new technologies and service capabilities as they emerge (Bagge 2007). They also require a new business model of supply chain management that serves customers, staff members, and business partners efficiently.

Growing Influence of "Baby Boomers" and "Generation Y" on Retailing

The so-called "baby boomer" generation was born in the post-war period between the mid-1940s and mid-1960s; there are now about 75 million "boomers" in the US (Strauss and Howe 1991). The members of so-called "generation Y" (also called the "millennial generation"), who are the children of the "baby boomers", were born between the mid-1970s and mid-1990s; there are now about 72 million members of "generation Y" in the US (Weiss 2003). Although "baby boomers" tend to be more homogeneous as consumers and "generation Y" are more diverse in their consumption behaviors, both generation groups are shoppers with high spending powers (Carter 2008).

"Baby boomers" represent one of the largest buying groups in America – worth approximately $43 billion in retail sales annually (Business Wire 2006). As a consequence of their relatively higher education levels and buying powers (compared with their parents' generation), "baby boomers" have defined contemporary Western culture and economic trends ("Cold War, Hot Development" 1994). For example, youth-oriented "boomers" led to the development of "trendy" casual apparel ("Cold War, Hot Development" 1994), and their growing interest in personal hygiene and appearance led to a substantial growth in the mass market for health-and-beauty products in the past fifty years (Prior 2003). "Baby boomers" tend to remain loyal to the brands that they trust (Morrison 2007), while valuing efficiency and convenience in their shopping habits. These two characteristics of "baby boomers" have encouraged the growth of "super centers" selling well-known brands to relatively affluent consumers (Business Wire 2006).

Although "baby boomers" are moving online, their main shopping channel continues to be offline stores (Morrison 2007). However, many "baby boomers" are multichannel shoppers who conduct preliminary research online before purchasing offline (Morrison 2007). Nevertheless, "baby boomers" are the fastest-growing online consumer segment (Maguire 2005), and it is, therefore, reasonable to expect that shopping purchases by "baby boomers" will increasingly be made on the web.

"Generation Y" represents a lucrative market for many retailers not only for their own purchases ($187 billion annually) but also for the influence they exert on the spending of their "boomer" parents ($300 billion annually) (Gardyn 2002; Gronback 2000; Morrison 2007; Weiss 2003). This generation also has access to more financial credit than any prior generation, and their spending power is likely to increase even more as they become older (Gardyn 2002; Weiss 2003). It is already apparent that older members of "generation Y" spend more than younger members of the generation, especially on discretionary items such as personal care and music purchases (Gardyn 2002).

"Generation Y" is a "high-tech" generation of consumers who grow up in a media-saturated, brand-conscious world (Fernandez-Cruz 2003). They, thus, tend to be skeptical about marketing promotions, although they do like to be entertained (Sullivan and Heitmeyer 2008). They tend to be heavy Internet users and spend $1.5 billion online each year (Internet Retailer 2000). They also use the Internet to stay connected with friends, socialize, and gather information (Morrison 2007).

"Generation Y" consumers are more diverse, more unpredictable, less brand loyal than their parents, and more likely to be influenced by their peers in their purchase decisions (Morrison 2007). "Generation Y" is, thus, difficult for marketers to influence (Gronback 2000; Sullivan and Heitmeyer 2008). In addition, approximately 40% of generation Y members are non-white, whereas less than 30% of their 'boomer' parents are non-white (Jones Lang La Salle 2002). The proportion of

Hispanics in "Generation Y" has risen to 14%, which is in accordance with the fast-growing proportion of Hispanics in the total US population (13%). This diversity in "Generation Y" presents particular challenges for targeted marketing (Jones Lang LaSalle 2002).

Most "generation Y" consumers are multichannel shoppers; however, like their "boomer" parents, they prefer to browse online and make the actual purchase in stores. Whether shopping online or offline, generation Y consumers are very interested in social connectivity. Even when shopping online, "generation Y" consumers stay connected with their peers to gain advice on their purchases (Morrison 2007).

Impact of Technology and Internet on the Retail Industry

Firms in the retail industry have been among the biggest purchasers of information and communication technology (ICT) over the past decade. According to IBM, the US retail industry spends about 2.1% of its annual sales on technology (Stores 2005).

Supply Chain Management

The growth in ICT has had a profound impact on the retail industry by changing the way in which retail businesses are organized, conducted, and linked to other organizations. In particular, the Internet has enhanced supply chain management (SCM) by facilitating the speed, ease, flexibility, and agility of real-time information exchange (Lancioni et al. 2003; Michelino et al. 2008). The Internet has thus provided numerous opportunities for cost reduction, coordination, and service improvement in supply chains (Colombo et al. 1997; Malone et al. 1987; Ronchi 2003; Stores 2005). The Internet has also improved integrated forecasting, collaborative production planning, transportation management, customer relationship management, and new product development to meet the changing demands of consumers (Michelino et al. 2008; Radjou 2004). It is, therefore, not surprising that an increasing number of retailers now use the Internet for purchasing, transportation, inventory management, customer service, and supplier management (Lancioni et al. 2003).

The Internet has improved inter-firm relationships, strategic partnerships, information sharing, mutual learning, and transparent SCM processes (Michelino et al. 2008). In many instances, this has transformed hierarchical relationships into market relationships among previously disparate organizations (Malone et al. 1987; Gibson and Edwards 2004). For example, the Internet has led to the development of electronic marketplaces (e-marketplaces) where buyers and suppliers can "meet" to exchange information about products and prices (Russell and Taylor 2003). This is in keeping with Litchford's (2007) observation that successful retail businesses require effective communication and interaction both within and outside the organization; however, in the past, retailers were reluctant to share sensitive information on inventory levels and production schedules with other members of their supply chain. This has now been largely overcome through e-marketplaces and other IT innovations – including emails, websites, electronic financial transactions at point-of-sale (EFTPOS), and electronic data interchange (EDI). Large retailers such as Wal-Mart were the first to share their POS information with their suppliers, thus enabling suppliers to be up-to-date with stock levels at stores and able to make timely replenishments to ensure optimal inventory levels at stores (Lancioni et al. 2003). The spread of this new era of communication has meant that information from a variety of sources can now be analyzed to make faster and more informed business decisions, which has led to greater inventory efficiency and increased revenues (Litchford 2007).

Self-Service Technology

The growing use of ICT in services has transformed how service providers interact with their customers (Liljander et al. 2006). In the case of retail services, self-service facilities are another important area in which technology has had a significant impact on the industry. Examples include automated teller machines (ATMs), online banking interfaces, self-service checkouts, and so on.

Self-service technologies (SSTs) can be defined as technological interfaces that enable customers to produce services without the direct involvement of service employees (Meuter et al. 2000). SSTs thus enable consumers to take an active role in both the production and the delivery of a service experience (Anitsal and Schumann 2007).

Unlike a traditional service setting, in which interpersonal interactions play a major role, SSTs increase efficiency and productivity for service providers by placing customers in the role of a quasi-employee (Walker et al. 2002; Zeithaml and Gilly 1987). Successful implementation of SSTs can increase the speed of service delivery, enhance the customization of services (Berry 1999), reduce labor costs (Walker et al. 2002), improve productivity (Curran et al. 2003), and enhance competitiveness (Walker et al. 2002). For the customer, SSTs offer a new and convenient channel for service interactions (Meuter et al. 2003).

Given the rapid developments in technology and the demands of "time-poor" shoppers for efficiency, it can be expected that SSTs will play an increasingly important role in service delivery in the retail industry (Beatson et al. 2007). Research has shown that a majority of US and Canadian consumers prefer businesses that offer the convenience of SSTs (Amato-McCoy 2008; Meuter et al. 2000). As a result, self-service transactions, which have already been estimated to exceed $775 billion per annum, can be expected to achieve double-digit growth in the near future (Liddle 2009).

SSTs have been increasingly installed in checkouts in major supermarket chains, although many retail businesses have been reluctant to embrace them due to doubts about the benefits (Hunter 2007). Nevertheless, the recent economic downturn has encouraged many types of retail businesses to turn to SSTs as a way of saving money, reducing staff costs, and improving customer service (Liddle 2009). For example, self-service kiosks in North American retail locations were expected to rise by 69% in 2007, and such kiosks have been shown to increase sales by approximately 8% (Hunter 2007). Payment-accepting self-service kiosks in North America were estimated to have generated more than $155 billion annually in 2003, and to have increased transactions by more than $1 trillion by 2007 ("Future of Kiosks Looks" 2003). The British retail giant, Tesco, opened its grocery stores in the US with all check-out lanes being self-service (Kiviat 2008). Transactional kiosks are expected to grow three or four times faster than POS devices, and to achieve an estimated annual growth of 20% by 2010 (Howell 2006).

For multichannel retailing, SSTs are not just another addition to the channel, but a tool to redefine the customer service experience (Hunter 2007). Beyond self-service kiosks at retail stores, a growing number of retailers have introduced more advanced SSTs to provide additional service for their customers. Examples include the following.

- Some large US retailers, such as Staples and Best Buy, have installed Internet access in their in-store kiosks (Sweeney 2001).
- AT&T has provided a touch screen that shoppers can use to access product information.
- Staples Business Depot has installed a kiosk that gives customers access to a live service agent (Amato-McCoy 2008).
- Polo Ralph Lauren, a well-known apparel brand, has tested an innovative interactive store window that incorporates a touch-screen digital display and a payment device, which enables shoppers standing outside a retail store to make an actual transaction (Howell 2006).
- A chain of Malaysian sushi restaurants has provided ordering screens connected to the kitchen so customers can order their own menu directly.
- Motorola has developed a hand-held scanner that supermarket customers can carry around while shopping.
- Continental airlines is testing a personal digital assistant (PDA) device that enables users to check a standby list without having to talk to a counter agent or move from one terminal to another (Kiviat 2008).
- IKEA uses a hand-held device as a "line-busting" technology that enables customers waiting in line to have their purchases checked out and their payments accepted (Britt 2006).
- Near-field communication technology is now being used to process payments via mobile phones to expedite the checkout process in stores; the use of such near-field communication is projected to double by 2012 in North America (Lovett 2007).
- Biometric payments, such as "pay by touch" (utilizing fingerprint scanners), are being tested to replace payments by debit card; however, the adoption of such biometric payments is still in its infancy (Britt 2006).

SSTs can, thus, provide a number of benefits for consumers in terms of rapid service delivery, greater control over the service-delivery process, and enhanced customization of services (Dabholkar and Bagozzi 2002; Meuter et al. 2000). However, some consumers do not yet feel comfortable with the technology and some are concerned about the loss of personal interaction with service employees (Curran et al. 2003; Zeithaml and Gilly 1987).

Market Intelligence

Technology is also being used in the retail industry to gather business intelligence. For example, Macy's East has adopted WebFOCUS to assess the effectiveness of marketing promotions and inventory strategy. WebFOCUS aggregates various databases to provide a summary of the effects of promotions on customer buying trends. This enables Macy's to gain a better understanding of how its advertising campaigns have influenced retail sales and how to respond more appropriately to its customers' buying trends (Worldwide Database 2006).

Multichannel Sourcing, Distribution, and Sales

Supply Chain Management in Multichannel Retailing

As noted above, multichannel retailing is revolutionizing how people shop. Multichannel shoppers expect seamless service integration across the various channels because they view the multiple channels as one entity (Armitt 2005). According to a recent study, over 80% of shoppers with a frustrating online shopping experience reported they were less likely to return to the site, and almost 40% of shoppers with a negative online experience said they are less likely to shop at the retailer's brick-and-mortar store (CRMindustry.com 2008).

To achieve such seamless integration in the growing trend of multichannel retailing, there has been a need to transform how supply chains are managed in the retail industry – from an emphasis on single firm competition to a focus on competitive supply chain networks (Lancioni et al. 2003). Multichannel retailing is not simply about adding more shopping channels to the market; rather, multichannel retailing demands coordination, flexibility, and agility in supply chains, based on real-time sales data (Stores 2005; Internet Retailer 2010). Through strategic partnerships, multichannel retailers can capitalize on the vast amount of information available from new technology to deliver a totally new integrated experience for the customer and members of the supply chain (Lancioni et al. 2003). This involves integration and synchronization of merchandising, order fulfillment, and inventory management to ensure quality service to all supply-chain members (Avlonitis and Karayanni 2000; Croom 2005; Novack et al. 1995; Tan 2001). By combining differentiated and unique resources in the supply chain, retailers can develop competitive synergies in sourcing and procurement, inventory optimization, warehouse management, logistics distribution, and transportation (Doz and Hamel 1998; Lee 2002).

EDI, QR, and VMI

Electronic data interchange (EDI), quick response (QR), and vendor managed inventory (VMI) are good examples of supply chain management practices that enable retailers to exchange key business information with their suppliers via the Internet (Diamond and Litt 2003).

Using EDI, ordering, invoicing, and shopping become faster, cheaper, and more accurate than the past. For example, eBags.com uses an EDI system including a virtual area network and a standardized interface to communicate efficiently with suppliers and, thus, reduce the time required to fill customers' orders by more than 50% (Diamond and Litt 2003).

VMI enables suppliers to gather information about the sales of products across multiple channels, thus facilitating continuous replenishment and the maintenance of optimal levels of inventories at retail stores. Large retailers such as Wal-Mart, JC Penney, and Kmart are significant users of VMI strategy (Diamond and Litt 2003).

QR enables close monitoring of inventory levels and appropriate rapid adjustments to product schedules. This enables retailers to keep an optimal level of stock at stores and deliver the right merchandise at the right time.

Through EDI, QR, and VMI, retailers can thus ensure seamless integration among suppliers, warehouses, and transport in developing strategic partnerships built on mutual trust to gain competitive advantages (Diamond and Litt 2003; Stores 2005).

Multichannel retailing trends are, therefore, not limited to brick-and-mortar stores adding e-commerce channels. Improved management of supply chains and the development of networks has revolutionized the notion of multichannel retailing. For example, a pure e-commerce company such as Amazon.com has expanded the common notion of multichannel retailing by partnering with various retailers, such as Marks and Spencer in the UK and Toys "R" Us in the US; indeed, more than 240,000 developers now use the Amazon web service to add an e-commerce function to their current operations (Business Week 2007). Amazon.com pays commissions to more than one million associated sites that send customers to buy on Amazon. In addition, some retailers and manufacturers now use e-Bay to liquidate excess merchandise (as well as to sell brand-new merchandise). In a related development, a large proportion of Google's profit comes from selling online ads to entice customers who are ready to buy (Business Week 2004).

Radio Frequency Identification

Radio frequency identification (RFID) is another technology that is being utilized to improve inventory management by offering real-time inventory visibility ("RFID in the Retail Industry" 2006). RFID uses electronic tags to store data; however, unlike barcodes, RFID contains more in-depth information about items, does not need to be in close proximity to a scanner, and can be embedded within packaging (PC Magazine 2007). Using RFID, retailers can monitor and trace their inventory at all times and receive shipments from suppliers automatically (Sikander 2005). When required, items on shelves or in storerooms can be located immediately, which ensures shorter waiting times for customers and a better shopping experience ("RFID in the Retail Industry" 2006). Apart from improving the efficiency of supply chain management, extensive adoption of RFID is expected to save tens of billions of dollars annually by preventing thefts through more accurate tracking and safety monitoring of merchandise (Stores 2005). According to a report from the University of Arkansas, the use of RFID at Wal-Mart stores reduced out-of-stock levels by 16% compared with non-RFID based stores (Supply Chain Digest 2009).

The RFID market is expected to increase by 23% annually, and RFID spending in the US retail industry was expected to grow from $91.5 million in 2003 to nearly $1.3 billion in 2008 (Stores 2005). However, retailers appear to be lagging behind manufacturers in adopting RFID (Multichannelmerchant.com 2006). Currently Wal-Mart, Best Buy, and other retailers are testing RFID's ability to provide visibility of their assets and products (Swedberg 2006). Marks and Spencer, a well-known UK retailer, has recently extended RFID tagging across 120 stores nationwide (Computer Weekly 2007).

In its advanced form, RFID can be used to enhance the interactive shopping experience of customers in the store by providing product information in a fitting room, making product recommendations based on past behavior, and allowing customers to communicate with sales staff via PC or PDA in the fitting room ("RFID in the Retail Industry" 2006). For example, Paxar and Thebigspace have developed a "magic-mirror" system using RFID technology to provide product information (descriptions, colors, and sizes) and make recommendations to consumers in the dressing room (Swedberg 2006). Customers can also use a "magic mirror" to communicate with a salesperson on their PDA or PC (Swedberg 2006).

High-end fashion retailers such as Prada and Mi-Tu have also adopted interactive RFID-enabled mirrors to provide an enhanced shopping experience for their customers (Swedberg 2006, 2007). Mi-Tu experienced 30% sales growth as a result of adopting such interactive shopping systems, which enable customers to interact with sales staff from the dressing room and receive prompt assistance upon request (Swedberg 2007). The system also collects data about which items have been tried on and purchased, which enables Mi-TU to analyze the performance of its various products. Moreover, this system can be combined with an RFID-enabled customer card, which facilitates retailers recommending appropriate products and targeting relevant marketing promotions based on an analysis of each customer's buying history.

Courier Services

Courier services have also made a significant contribution to the growth in multichannel retailing. Without reliable courier services, e-commerce retailers are unable to fulfill the purchases that consumers make online. By partnering with a reliable courier firm, retailers gain improved visibility of shipment and better inventory management – thus increasing their profit margin (Timme and Li 2007). Successful integration with courier firms also enhances overall service quality and customer satisfaction for multichannel retailers (Song 2003).

The choice of a courier is therefore critical. In choosing a courier service, e-retailers must consider the following: (1) on-time delivery, tracking service, and quick response; (2) reasonable fare rate; (3) high security and reputation; (4) professional and flexible service; (5) reliable equipment and packaging; (6) courtesy and quality; and (7) diversified service (Lin and Lee 2009).

Courier services such as Federal Express (FedEx), United Parcel Service (UPS), DHL, and U.S. Postal Service (USPS) provide a wide spectrum of services, most of which can be accessed online to schedule shipments, generate email notifications, and track shipments (Song 2003). To achieve this, both UPS and FedEx have developed courier services that are specifically geared toward e-commerce (FedEx 2000).

More than 12 million packages are delivered globally by UPS every day. UPS offers one-stop shopping for a variety of services – ranging from same-day shopping to shopping that takes a week (Rocks 2000). FedEx has improved its e-commerce customer service by providing real-time information for online shoppers and integrating its services with multichannel retailers to make shopping simple and convenient (Song 2003).

A New Service Paradigm in Retailing

It is apparent from the above discussion that the main focus in a true multichannel retail environment needs to be on the whole shopping process – including why the customer purchased, how channels were used in the shopping process, the value of each channel in the process, and how well the channels were integrated to provide a positive shopping process (Bagge 2007). To achieve this, there is a need for improved supply chain management, information management, measurement, and analytics. Multichannel retailers need to be agile in their interaction with their customers as well as their business partners in the supply chain. An organizational structure that promotes cross-channel sourcing, pricing, promotions, sales, and returns needs to be in place (Bagge 2007).

Retailers must be able to collect, aggregate, and analyze information about customers, products, stocks, and merchandise across all channels. Being able to react in real-time is critical. This can be accomplished by flexible labor, transport, and stock solutions using new dynamic information technology. Strategic relationships with internal partners can facilitate the development and fulfillment of such flexibility. Such information can optimize cross-channel customer-relationship management opportunities by enabling a better understanding of the needs and wishes of their core customers (Bagge 2007). Successful retailers in the twenty-first century excel in merchandising, provide cost-efficient means of meeting customer expectations, and manage their supply chains efficiently across a complex network of suppliers (Bagge 2007).

Discussion Questions

- In this chapter, we have discussed the increasingly significant role of service management in the fast evolving and transforming retail environment. One of the shifts in service paradigm in a multichannel retailing environment is the concept of internal and external customers. While a traditional model of service management focuses on external customers, the new service paradigm sheds new light on the importance of serving internal customers in supply chain management. Discuss why it is important to provide service to internal customers in a multichannel retailing environment and what kind of services can be offered to internal customers to improve service management in a multichannel retailing environment?
- Information and communication technology, especially the Internet, has transformed the retail industry. Discuss examples of the key impact of technology and the Internet on the retail industry. What are examples of new developments as a result of the evolution of technology and the Internet discussed in this chapter? How do these new developments change the creation, interaction, delivery of service in a new service paradigm?
- Discuss the new role of service management in successful supply chain management in a multichannel retailing environment. What are some key challenges facing multichannel retailers in terms of service management? What are the examples of key technologies in supply chain management and how can they improve supply chain management in terms of service management?

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Chapter 3
Customer Service: Does It Matter?

Tor W. Andreassen and Line L. Olsen

Learning Objectives

By the end of this chapter, readers will:

1. Understand the importance of customer service in retailing
2. Recognize how customer service relates to other key performance measures
3. Be aware of how different levels of customer service can lead to different consumer evaluation processes
4. Understand the key managerial implications of customer service within the retail industry

Introduction

Imagine you are a contestant on the TV quiz show, *Jeopardy!* The lights, the cameras and all eyes in the audience are on you. The host turns to you and says: "*The word is 'Bad'. Remember to phrase your answer in the form of a question!*" Without batting an eyelid, you respond: "*What is customer service?*" While the audience applauds your response, the host shakes his head signaling that this is not the answer he had in mind…

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Customer service can be problematic, even for highly-professional service firms. On January 10, 2010, Knowledge@Wharton, published by the famous Pennsylvanian business school, posted a commentary entitled, "*Will Google's Nexus One Change the Wireless Industry?*" In this article, the authors reflect on Google's launch of the new Nexus cellphone, noting that: "*On January 5, Google launched the Nexus One – the company's new "superphone" – with a good deal of fanfare… Google unveiled its own online store to sell the phone independently from wireless service providers that operate as device gatekeepers under the traditional sales model… The honeymoon didn't last long, however. Google quickly encountered a deluge of customer service complaints about everything from wireless network coverage, buggy touch screens that wouldn't allow customers to type, batteries that didn't hold a charge and high fees associated with returns. These problems were compounded by the fact that customers could only communicate with the company through online forums and email – not live customer service agents...*"

It could be postulated that these events will have a negative impact on the adoption and diffusion of the new Google cellphone.

A search of *Business Week* magazine back issues for articles containing "*customer service"* in the title, reveals numerous articles published over the years. *Business Week* editors commission articles on the subject of customer service because managers are – or should be – concerned about this topic.

Beyond question is the fact that customers *themselves* are concerned about customer service. For proof, one need look no further than the '*Letters to the Editor'* pages of newspapers wordwide, where a multitude of comments regarding, primarily bad, customer service may be found.

Academia is following suit. Using the scholarly business database, *Business Source® Complete*, a search of academic journals for articles with "*customer service*" in the title reveals a total of 589 articles published between 1960 and 2009. Finally, Google Trends, which aggregates websearch keywords on a daily basis, reveals a significant increase in the number of searches containing the keywords, "*customer service*," since the beginning of 2008. Google Trends logged the greatest number of searches on this topic in the US, followed by Canada. From this, it can be hypothesized that customer service is a contentious and widely-scrutinized issue. Despite this vast body of knowledge and retail management focus on customer service, why is it so hard to deliver? One can only theorize, but could it be that a cost-cutting – rather than a customer investment – approach to customer service has become the prevailing strategy employed by service managers today?

According to the user-contributed online encyclopedia, Wikipedia, customer service is defined as, "*…The provision of service to customers before, during, and after a purchase…*" While this definition does not provide much more clarity on the subject, it does, however, elucidate that customer service can be offered at different stages within the purchase cycle. A more insightful definition of customer service is offered by Turban et al. (2002): "*Customer service is a series of activities designed to enhance the level of customer satisfaction – that is, the feeling that a product or service has met the customer expectation.*" Finally, Lovelock and Wright define customer service as, "*…creating and delivering the service in the customer's presence, providing information, taking reservations and receiving payment…*" (Lovelock and Wright 1999, p. 252).

The crux of these definitions is that customer service pertains to companies taking care of customers before, during, and after a sale. While customers want interaction with a firm at every phase of buying and using a service (i.e., pre-purchase, purchase, and post-purchase), companies tend to respond to their customers' needs in different ways, from customer avoidance to resource integration, "i.e, using customer service to maintain an ongoing connection with the consumer". For example, a number of companies appear to have adopted a policy of what many customers experience as customer avoidance, i.e., once the purchase has been made, a customer's only recourse is to communicate with the firm via its website. For example, Apple – the company behind iPad, iPod, iPhone, and Quicktime – is notorious for its poor standard of customer technical support once the electronic purchase and download of a software product is complete. Their customer service approach can be best described as keeping consumers "*at arm's length*" and hinges primarily on its Frequently Asked Questions (FAQ) web pages and user forums. Apple can persist with this practice, because their products are so attractive to consumers. Other firms with more ordinary products would find such a practice problematic in a competitive market.

Zappos.com (the Amazon-owned online shoe retailer) and Bed Bath and Beyond (the North American chain selling domestic merchandise and home furnishings), are two examples of companies that operate at the other end of the scale, by absolutely showering customers with service. Accessing information and customer service from these firms' websites is easy. While Zappos.com offers free shipping both ways and customer service $365 \times 7 \times 24$, Bed Bath and Beyond offers 100% satisfaction guaranteed and free return shipping. Positioned somewhere between these two extremes is Dell Computers, which, appearing unsure of how to approach customer service, offers a hybrid solution. Over the last 2–3 years, Dell has been criticized for its poor customer service. Only when Dell's revenues and share price started to drop did its management respond to customer demand for more service and support. Finally, there is DHL, the package courier company. This firm is looking to distinguish itself in a highly-competitive industry by courting consumers with the theme, "*Customer service is back at DHL*".

Judging from these business examples, it is clear that the way different companies approach customer service is far from consistent.This raises an interesting point, as most lay people would argue that good customer service is good for business. But then again: theory and practice do not always coincide.

The service dominant logic on marketing (Lusch et al. 2006; Vargo and Lusch 2004), emphasizes resource integration as a prerequisite to co-create value with the customer. In this context, the implication is that firms should use customer service to connect with customers throughout the lifecycle of the customer relationship. However, not all companies see it this way. This begs the question: What is the impact of customer perception of varying levels of customer service on the key drivers of business performance in existing customer relationships?

A review of contemporary marketing literature reveals a lack of systematic research on the impact that customer service has on customer evaluations of a firm's service, with two distinct exceptions. Merrilees et al. (2007), investigated the brand formation process across two countries and found that personal service is a key contributor to this process, carrying more weight than both price and store organization. Similarly, Swoboda et al. (2007), found that service is the most important attribute in building a strong retail brand across retail settings, when compared to attributes such as value/price, assortment, advertising, and store design. These studies underline the importance and relevance of linking customer service to key performance measures. It is the authors' aim, with this paper, to contribute to the closing of this gap in contemporary marketing literature.

This paper's point of departure is a study by Rust et al. (2002), who concluded that firms focusing primarily on market investment (i.e., customer service) have a higher return on investment than firms who focus primarily on cost reduction. The authors of this paper aim to demonstrate that customer service has a significant impact on those key business variables that lie beyond brand building: variables that in extant literature, have been linked to customer lifetime value, customer value, and firm value. From this study, service managers will determine that customer service is a revenue generator, rather than a cost generator. This chapter begins with a description of the model that forms the basis for this study, then a number of managerial questions are raised and answered based on sampled data, before findings are noted and discussed. The chapter concludes with a discussion of managerial implications and possible future avenues of research.

The Customer Service Model

As stated in contemporary service quality-customer satisfaction literature, customer service is an antecedent to customer satisfaction judgment. Customer service is where a firm integrates its resources with its customers' resources. However, not all customers want to be fully integrated with a firm's resources. While some customers may want a company to relieve them from the responsibility of co-production of value, others may want a firm to enable co-production (Wickström and Normann 1994).

This chapter's first argument is based on how well the firm has made this alternative resource integration possible for its customers. The essence of this argument is that good or bad customer service will inevitably have an impact on customer satisfaction, perceived relative attractiveness, and commitment.

The second argument, made by Johnson et al. (2001), states that cumulative satisfaction is linked to commitment, i.e., "*…an implicit or explicit pledge of relational continuity between exchange partners…*" (Dwyer et al. 1987). Contemporary literature reports three dimensions of commitment: affective, calculative, and normative commitment. Affective commitment is based on emotions and affective attachments to the commitment object (Porter et al. 1974). In short, it is contingent upon a customer's liking and positive feelings for the other party. Calculative commitment is derived from switching costs, (i.e., real or perceived barriers to exit), or a lack of real alternatives and rests on a customer's cost–benefit evaluation of staying in or leaving the current relationship (Geyskens and Steenkampk 1995). Normative commitment is the third and less common dimension that refers to a customer's normative belief that they ought to continue doing business with a company (Meyer and Allen 1991). In this study, the authors focus on affective and calculative commitment, an approach that is in line with recent research.

As few companies operate in a non-competitive context, the third argument introduces the idea that changes in cumulative satisfaction, caused by good or bad customer service, will update customer perception of the service provider's relative attractiveness in the marketplace (Andreassen and Lervik 1999). A change in a customer's perceived relative attractiveness of the supplier may be triggered by action taken by the latter or by a change in a competitor's market offering (e.g., a change in customer service approach). It is important to note that customers perceive comparable, available offers as representing different value in use. Comparison by customers of alternative suppliers is in keeping with current customer equity management literature (Rust et al. 2000), which argues that a customer's future choice is a function of their past choice, present experience, and perceived value of alternative options. Finally, a change of patronage, which is not connected to customer dissatisfaction, can be explained by buyer's remorse or regret. Both remorse and regret occur when alternative outcomes were likely but the consumer makes a different choice due to a lack of information about better alternatives elsewhere, e.g., better customer service (Oliver 1997). Zeelenberg and Pieters (1999), for instance, found that regret is more closely associated with switching behavior than disappointment, and less closely associated with word-of-mouth and complaining than disappointment.

It is well established that strong attitudes are predictive of behavior, while weak ones are not (e.g., Miller and Peterson 2004). Furthermore, the cognitive processes by which an attitude is formed constitute one of the key strength-related attributes (see for example, Petty and Krosnick 1995). Customers who experience variations or changes in customer service will alter their attitudes toward the supplier accordingly. This change in the customer's evaluation of the company may weaken or strengthen the customer's perception of the firm's relative attractiveness in the marketplace. An erosion of perceived relative attractiveness, for example due to bad customer service, will reduce the customer's affective commitment. Depending on the amount of switching costs involved, a change in commitment will cause an immediate or delayed change of patronage. In keeping with regret theory (Inman et al. 1997), the authors predict that just as a change in customer satisfaction is linked to behavioral intent, a change in perceived relative attractiveness is similarly linked to behavioral intent through changes in commitment (both affective and calculative).

The Customer Service Model is illustrated in Fig. 3.1.

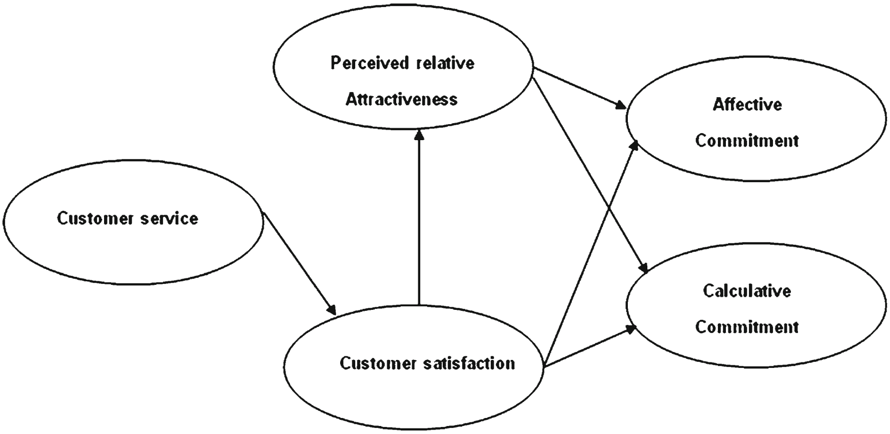

Fig. 3.1 The customer service model

The Relationships in the Model

Whereas firms evidently relate to customer service differently in ongoing customer relationships in competitive markets (e.g., Apple and Zappos.com), the impact of variations in customer service on key customer variables may not be so clear-cut. Despite this observation, a review of current literature and previous research findings indicates that customer service is an important means of creating competitive advantage and fiscal health in service companies. In fact, in light of the new service-dominant logic emerging in marketing, this model should also be generalizable to companies that primarily sell tangible services. Consequently, the first question service managers should ask is:

> Does customer service, as perceived by customers, have a direct effect on customer satisfaction and an indirect effect, through customer satisfaction, on relative attractiveness and commitment across groups experiencing good versus bad customer service?

Whereas the model is the same across both groups, there is strong evidence to suggest that the ways in which these two customer groups think, and subsequently, act, are different. In keeping with Kahneman and Tversky's 1979 study, "*losses loom larger than gains*" argument, contemporary service research (see for example, Zeithaml et al. 2002), and "*the Elaboration Likelihood Model* F*ramework*" (ELM) (Petty and Wegener 1998), it is anticipated that customers who experience bad customer service go through a different evaluation process than customers who experience good customer service. Although drawing on the same arguments (e.g., constructs, such as customer service, satisfaction, relative attractiveness, and commitment), the process followed by customers receiving bad customer service is likely to be based on complex but systematic rules. Following the logic of ELM, these customers will, due to a higher degree of involvement, follow the central route to cognition. Customers who experience good customer service, on the other hand, elaborate less. As the latter do not have to find as many reasons for continuing their behavior in the future, fewer information cues are required to confirm that their choice to stay with a firm is the correct one. Building on ELM, the elaboration of customers experiencing good customer service is referred to as the peripheral route to cognition and is less demanding and more holistic. Integrating these observations with theory on testing differences across groups, in line with Bollen's work (1989), it can be deduced that different elaboration routes should be reflected in differences in correlation coefficients across groups. More specifically, because customers experiencing bad customer service elaborate more, the authors anticipate that the correlation coefficients will be stronger in that group than in the group experiencing good customer service. The latter group does not process the experience in the same complex way. The second question service managers should thus ask is:

> Are the correlations between constructs stronger for the customers reporting bad customer service than for customers reporting good customer service?

Consistent with Selnes and Hansen (2001), who concluded that a transformation from personal service to self-service had a negative impact on social bonds even in low-complexity relationships, the authors believe that customers who report bad customer service will have a somewhat less affectionate relationship with the supplier. The third relevant management question is therefore:

> Are customers who report bad customer service experiences less affectionately committed and more calculatively committed to a firm than customers reporting good customer service experiences?

From Questions to Answers

In order to answer the above questions, the authors conducted the following study. Data was collected through the annual data collection procedure for the Norwegian Customer Satisfaction Barometer (NCSB). The NCSB follows the same procedures as the Swedish and the American Customer Satisfaction Index (Fornell 1992; Fornell et al. 1996). Data collection was conducted by a professional marketing research bureau that interviewed the respondents by telephone. Prospective respondents who were not available at the time of the first attempt were called back three times before an alternate was selected. Each interview lasted approximately 15 min.

The personal banking sector was chosen as the context of investigation. There are several reasons why the banking industry was selected. First, banking is one of today's most advanced industries with regard to service delivery. Customers can choose how they want to interact with the bank or its employees, e.g., via telephone, person-to-person interactions, Automatic Teller Machines, pay-by-phone or pay-over-the-Internet, etc. Second, the banking industry, on a global scale, is under reorganization, transitioning from smaller to larger units, in addition to constantly seeking out new and more efficient business models. Through mergers and acquisitions and the intensive use of technology in both upstream activities (i.e., producing the service) and downstream activities (i.e., delivering the service), numerous employees have been laid off over the years. The quest for increased efficiency in this industry has taken a toll on customer satisfaction. In fact, data gathered by the NCSB from 2000 to 2007 confirms that customer satisfaction in the banking industry remained near enough unchanged during that period. This is consistent with the Pan European Customer Satisfaction Index, which shows that banking customer satisfaction in Europe increased slightly, on average, in the period from 2001 to 2007. Today, the average is approximately 73 points on a 0–100 scale, which indicates that customers are generally satisfied with, yet indifferent to, the industry. A similar pattern can be observed in the US, where the average customer satisfaction score has been increasing since 2,000 and is slightly higher than that of Europe, averaging at 78/100 in 2007. As the same scale is applied in the US, this indicates that customers are satisfied, but by no means delighted, with the levels of banking customer service they receive. Although this study pertains solely to the banking industry, the authors have strong grounds to believe that the findings should be generalizeable to other industries as well. First of all, competition is increasing across industries. Second, due to competitive forces, the characteristics of development noted in the banking industry can also be found in several other service and manufacturing industries.

Sample Descriptives: Good Versus Bad Customer Service

The total sample consisted of 899 respondents. Of these respondents, 378 reported a low score (<8 on a 10-point Likert scale) with regard to customer service and 521 reported a high score (=or >8 on a 10-point Likert scale). The cut-off point was defined as a function of sample size and variation needed to compare means. This practice is in line with Jones and Sasser (1995).

There were no particular demographic characteristics distinctive to either group. In the bad customer service sample, 52% of the respondents were men and 48% were women. In the good customer service sample, 48% were men and 52% were women. The average length of the customer-bank relationship was 15 years in the sample receiving bad customer service and 17 years in the good customer service sample. In the bad customer service sample, 53% had a university degree, while only 37% had a university degree in the good service sample.

Measuring Performance Variables

Customer satisfaction is operationalized in accordance with the national customer satisfaction indices (see, for example, Johnson et al. 2001), and by three indicators. Building on Andreassen and Lervik's (1999) operationalization of relative attractiveness, the construct is extended by three indicators. In Andreassen and Lervik's study (1999), attractiveness is conceptualized and measured by eliciting an assessment of a customer's insurance company relative to a comparative standard or reference point – specifically, "*…compared to other insurance companies*" (p. 20), consistent with regret theory, e.g., Loomes and Sudgen (1986). In this current study, perceived relative attractiveness is expanded to contain two dimensions, i.e., value attractiveness and image attractiveness. Unlike Grönroos (1984), where image is the result of customer perception of technical service quality (absolute evaluation), image attractiveness in this study is a relative factor, i.e., as compared with other companies. This expansion is inspired by the work of Dancin and Brown (1997), who found that a consumer's knowledge about a firm can influence their beliefs about and attitudes toward new products manufactured by the firm, and that corporate ability and corporate social responsibility associations may have different effects on consumer response to products.

Affective and calculative commitment were operationalized, as suggested by Kumar and his colleagues (1994), and Samuelsen and Sandvik (1997). The authors of this study made minor adaptations to context and measured each construct against three items. A 10-point Likert-type scale was applied when measuring the construct, including exclusively positive values ranging from 1 to 10. The questionnaire consisted of two scales, anchored by "*disagree*" and "*agree*", and "*dissatisfied*" and "*satisfied*". Respondents were also provided with "*don't know*" and "*cannot answer*" options to allow for cases of indifference or lack of knowledge.

Measuring Customer Service

Since measuring customer service, in itself, was not the focus of this study, the construct was computed as a composite index made up of eight items. The authors' goal was to define factors that: (1) are not phase-specific and (2) reflect various factors associated with customer perceptions of a frontline employee (e.g., employee appearance, problem-solving skills, and ability to create an atmosphere of assurance, behave in a respectful manner, show courtesy, provide personal attention, and anticipate customer needs). This operationalization is in line with several other studies, for example, that of Olorunniwo and Hsu (2006), which was also conducted within the banking industry, and that of Swoboda et al. (2007), which was an intersectorial study. Items were anchored by good/bad service opinions and to what degree the respondents would agree with the statements provided. Communalities extracted ranged from 0.503 to 0.814. Again, as this paper was not concerned with measuring customer service in itself, a principal component for customer service was used. The authors identified this factor by running a principal component analysis (using IBM's® SPSS® analytical software program) on all customer service measures. The program saved the factor as another variable in the data set. Consequently, customer service is a standardized variable, with a standard deviation of 1 and a mean of 0.

Answering the Research Questions

Based on the findings of this study, the answer to the first management question is "*Yes*". Customer service, as perceived by customers, has a direct effect on customer satisfaction and an indirect effect, through customer satisfaction, on perceived relative attractiveness.

To answer the second management question, a detailed step-by-step, two-group analysis was executed. First, 378 of the 521 respondents reporting good customer service were selected at random to make the samples of equal size. Second, the authors followed the same procedures outlined in Bollen's study (1989), which recommends two hierarchies of tests. The purpose of running these tests was to reveal whether the measurement model holds across customers reporting good and bad customer service and to identify potential differences in their evaluations. When testing the measurement model, the authors examined the invariance of parameters across the two samples and found that the matrices were identical for customers reporting good and bad customer service. Next, indications were found that the factor pattern was similar across the two groups. That is, the five factors shown in Fig. 3.1 fit the data satisfactorily for both samples reporting good and bad customer service. It was identified that error variances were equal across groups but that correlations among factors were different between the groups.

In order to answer the second management question, the authors tested for differences in the causal model across the two groups. When computing these analyses, it was noted that all paths in the model were different across the groups, except for the path between relative attractiveness and calculative commitment, and the path between customer service and satisfaction. This study's results also indicate that the paths in the model were typically stronger in the group reporting bad customer service than in the group reporting good customer service. In other words, the customers who received good customer service had significantly weaker correlations among the constructs in the model. In summary, the answer to the second management question is also "*Yes*": the correlations between the factors are strongest in the sample that experienced bad customer service. More specifically, the authors found that customer service is a strong driver of satisfaction across both groups and has a major impact on both relative attractiveness and affective commitment. Customer satisfaction was also found to have a powerful effect on calculative commitment in the group reporting bad customer service, but had no effect on calculative commitment in the group reporting good customer service. In contrast, relative attractiveness had a stronger influence on calculative commitment than on affective commitment in both groups. The effect seemed more significant in the group reporting good customer service than in the group reporting bad customer service. Relative attractiveness had a stronger influence on affective commitment in the bad customer service group than in the good customer service group.

Finally, different T-tests (statistical hypothesis tests) were conducted to answer the third management question. Initially, independent T-tests were run, revealing that customers who reported good customer service were significantly more affectively committed than those who reported bad customer service. Second, by running one-sample T-tests, the authors found that, in both groups, customers were significantly more affectively, than calculatively, committed to the service provider. This finding contradicts the assumption that customers who had experienced bad customer service would be more calculatively and less affectionately committed to the service provider. Thus, the answer to the third management question is, "*No*": customers who report bad customer service experiences are not less affectionately committed and more calculatively committed to a firm than customers reporting good customer service.

Summary

In this study, the authors challenged service companies' ambiguous standpoint on and practice in the area of customer service, i.e., its perception as either a cost generator or a revenue generator. The intention was to test the impact of customer perception of varying degrees of customer service on key customer variables, such as commitment and perceived relative attractiveness. Two samples of customers were compared: those who received good customer service and those who received bad customer service. Based on a review of the extant literature, three questions were identified. It was ascertained that the causal model, in which customer service is an important direct and indirect driver of key performance variables, was supported in both groups. Consequently, for both samples, customer service had a direct impact on customer satisfaction, and an indirect effect on relative attractiveness and commitment through satisfaction. Although the evaluation variables used by customers were the same across both the bad and good customer service groups, the strength of the relationships between the variables differed from one group to the other. Customers who experienced bad customer service seemed more likely to go through a more complex elaboration process than customers who experienced good customer service. Finally, differences were discovered with regard to affective commitment across the groups; customers who experienced good customer service were more affectively committed than those who experienced bad customer service. Still, regardless of the level of customer service received, customers revealed themselves to be more affectively than calculatively committed to the firms serving them.

Conclusions

In this paper, it has been documented that the type of customer service that brings about satisfied and committed customers is an important variable in creating competitive advantage and fiscal health in a corporate context, and within the banking industry in particular. The authors focused on established customer relationships, as customer service practices seem to vary more in this phase of the customer lifecycle than in earlier phases. It was observed that in a business context, some companies put a higher priority on customer service after the sale, while others do not.

Based on this study, it can be concluded that customer service is an important driver of key customer variables and ultimately, customer equity. As such, customer service should be made a high priority if a company is aiming to attract and keep the right type of profitable customer.

The authors observed that customers experiencing bad customer service take into account the same variables in their evaluation as customers experiencing good customer service. Regardless of whether customers received bad or good customer service, the results of this study prove that customers weigh every variable factor differently and that the strength of the relationships between the variables differs. Typically, this study's analyses revealed that customers experiencing bad customer service tend to consider more thoroughly all aspects of the service than those experiencing good service. Moreover, among the respondents experiencing bad service, the relationships between the variables were stronger and the explained variance of each construct higher, when compared with those who received good service. However, two areas of consistency were discovered across both customer groups. While customer service seemed to be a strong and clear driver of satisfaction, perceived relative attractiveness had the same positive effect on calculative commitment in both groups. This finding highlights the importance of customer service and illustrates that relative attractiveness may be a more rational construct and should therefore be included in customer satisfaction modeling. All other correlations reflecting the relationship between the constructs in the model varied across the two sampled groups.

Those customers who think more have a tendency to form stronger attitudes and opinions (Petty and Wegener 1998). That is not to say that customers who report having received good customer service do not form strong opinions. On the contrary, receiving good customer service makes it easier for them to feel validated in having made the correct choice and demonstrates that the firm they chose to buy from actually has a relative advantage over other companies. These customers do become more easily affectively committed and their relationship with the firm may endure.

In this study, customers experiencing good customer service were found to have longer relationships (17 years) than those experiencing bad customer service (15 years). However, as this study was conducted within the banking industry, even the relationships of customers reporting bad customer service may outlive those of dissatisfied customers in other industries. This may be due to a lack of better alternatives, or to the powerful switching barriers – both perceived and/or real – that are normally associated with calculative commitment. Still, if these customers continue to experience bad customer service over and over, their negative opinion will become stronger and, as "*losses loom larger than gains*" (Kahneman and Tversky 1979), they may ultimately end up taking their business elsewhere. The customers experiencing good customer service, as the more entrenched of the two groups, constitute a reliable source of income. However, one should proceed with caution… Customers with strong affective commitment, if left disappointed by bad customer service, may turn into "*terrorists*" with an equally affective commitment to harm the service company (Hart and Johnson 1999). Although customers experiencing good customer service were significantly more affectively committed to the firm than those experiencing bad customer service, both groups of customers were more affective than calculative in their commitment.

Managerial Implications for Retailers

This study has several managerial implications. First, customer service is a key driver of customer satisfaction, perceived relative attractiveness and a customer's affective and calculative commitment. For this reason, paring back customer service is not a straightforward decision. While the short-term effect will be an improved bottom line, the long-term effect will be a reduced top line – triggering the firm's death spiral (Rust et al. 1996). From this finding, managers can determine that customer service is linked to customer equity (Blattberg and Deighton 1996), through customer commitment to the firm. Customers reporting bad customer service are more inclined to have a balanced commitment of both an affective and calculative form. Such customers are easier for competing firms to recruit. Customers reporting good customer service, on the other hand, seem to be solely affectively committed. Such customers are harder for competing firms to recruit. From this, it can be concluded that good customer service is critical to every business relationship. Second, as customer service drives perceived relative attractiveness, saving the bottom line by cutting back on the human aspect of customer interaction may harm the firm's competitive position in the marketplace. From this finding, managers can conclude that variations in customer service due to, for example, quality or availability, have an impact on customer perception of the firm's relative attractiveness in the marketplace. Customers reporting good customer service systematically see the firm as more attractive than other real alternatives in the marketplace. Third, this study illustrates the duality of service productivity (Parasuraman 2002). While good customer service reduces firm productivity in the short term, it increases customer productivity. Improved customer productivity is found to improve convenience (Berry et al. 2002). Improved convenience due to better customer service is associated with an increase in customer-perceived service quality and, as this study concludes, is also associated with increased customer satisfaction, perceived relative attractiveness and affective commitment. Finally, in both simulation studies (Gupta and Lehman 2005), and empirical studies (Fornell et al. 2006), a marginal change in customer satisfaction is found to have a strong impact on firm value through customer retention and Tobin's Q Theory (i.e., share capital replacement cost) respectively. This study identifies that customer service is linked to commitment (a proxy for loyalty), both directly through customer satisfaction and indirectly through perceived relative attractiveness. Based on this finding, the authors conclude that customer service is a driver of firm value.

Questions for Discussion

1. Why is customer service important in retailing?
2. How do different levels of customer service affect customer evaluation processes?
3. What is perceived relative attractiveness? Why is it important in retailing?
4. Describe the relationship between customer service, perceived relative attractiveness, and commitment.
5. Discuss what kind of strategies retail companies can apply to balance customers' affective and calculative commitment.

Case example

Customer Service in a Virtual World

Like any busy academic, Professor NN, a visiting professor at a world famous university, was looking for ways to improve his productivity. In preparing for lectures, he found it useful to develop lecture notes which could be distributed after class. As a regular user of the voice recognition software, Dragon Natural Speech, developed by Nuance, he became aware of a newer academic version at a heavily discounted price. All he had to do was to document his academic status. While purchasing and downloading the software from Amazon.com was simple, providing proper documentation of his academic status proved to be a challenge. Nuance had outsourced this task to a third party vendor, who followed procedures defined by Nuance to the letter. The frustration of spending too much unproductive time obtaining access to the software resulted in Professor NN cancelling his order. Later, when Amazon followed up with an invitation to rate and write a recommendation for the product, he wrote the following recommendation (one star) and published it on Amazon.com.

> While Dragon Natural Speech is probably the best product on the market in this category, I find Nuance's customer service to be among the worst. As customers, we relate to the firm through their products and services. My experience stems from trying to install the Dragon 10 Preferred academic version on my computer. My advice to you is: Don't do it!
>
> The procedures and requirements for documenting your academic status (student or faculty) is nothing but a criminal view of the customer, i.e., he/she isn't to be trusted. Not only that, a third company comes between you and Nuance in order to verify your status. This company operates by the book - no deviation from procedures as defined by Nuance. No common sense is permitted. When you try to contact Nuance directly e.g., via e-mail, you discover that their customer service policy is to keep customers at arm's length. I couldn't even find an email address to lodge a complaint.
>
> Long story short, I cancelled the order and returned the product, having wasted about three hours trying to communicate with fortress-like Nuance
>
> While Amazon.com offers excellent customer service (best in class to my mind) it is sad that they have to struggle with third-ratecustomer service suppliers like Nuance.

Shortly after this message was posted, the following response was received by Professor NN from Nuance.

> "I'm sorry to hear about the experience that you had. If you would be willing to provide your email address or phone number, I'd like to have someone from our education team contact you directly. You could send your contact details to dragon DOT stories AT nuance DOT com."
>
> NN
>
> Corporate Communications, Dragon NaturallySpeaking
>
> Nuance

The bottom line of this contact was that a new version was sent free of charge directly to Professor NN's home address. After some usage of the software, Professor NN posted an update on Amazon's recommendation of the product (four stars).

An update

> After my above comment, Nuance intervened and contacted me and we had adialog. From then on everything went smooth and I am happy to say that behind the walls of Nuance are true service oriented people who want to provide excellent service to their customers (at least to me). I have now Dragon installed on my computer. A happy trooper = excellent product + excellent service. My only comment is: This should not have happened.

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Chapter 4
A Framework for Applying Customer Insight and Context to the Development of a Shopping Experience Strategy

James G. Barnes and Jordan W. Wright

Learning Objectives

1. To communicate the fact that the "customer experience" is a complex and multidimensional concept, worthy of deep study by students of marketing and retailing and by practitioners.
2. To introduce the concept of the "customer context" and to stress the importance of retailers and other marketing practitioners understanding the role of customer context in influencing consumer behaviour; also to introduce the notion of "contextual intelligence."
3. To illustrate the potential of enhanced customer experiences to allow retailers to create emotional value for their customers.
4. To show that the context in which the retail customer is operating significantly influences the experience that he or she will find attractive.
5. To reveal the many different shopping scenarios or contexts in which retail customers engage.
6. To demonstrate what customers wish to happen or to be provided during a retail shopping trip so as to make the retail experience more successful or enjoyable.
7. To show retailers and other marketing practitioners the benefits to be realised if they are able to create a context-appropriate shopping experience, leading to customer satisfaction, the creation of emotional loyalty, and solid customer relationships.
8. To illustrate the co-dependence of retailers and shopping centres in creating a co-delivered retail customer experience.

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The concept of the customer experience has entered the marketing lexicon in recent years and has now been accepted by many executives as an integral component of the firm's value proposition. There is widespread acceptance also of the fact that solid technical performance of the conventionally defined components of the marketing mix is no longer sufficient to ensure long-term customer loyalty and that creating a positive customer experience leads to high levels of customer satisfaction and is an important step towards the establishment of customer relationships and lasting customer loyalty (Mascarenhas et al. 2006). This paper argues that the important concept of the customer experience is not sufficiently well understood, especially by retail executives, with the result that its potential is not fully realised. The paper draws on the results of proprietary qualitative research on retail shopping to illustrate the importance of gathering insight into the notion of the customer experience and into the context in which that experience is taking place if a retail firm or shopping centre is to create an experience that is meaningful to its customers.

Customer Experience

There is little agreement on how the concept of *customer experience* should be viewed within businesses and other organisations. As a result, we see fairly holistic definitions of the concept, such as that of Meyer and Schwager (2007), who observe that "customer experience encompasses every aspect of a company's offering – the quality of customer care, of course, but also advertising, packaging, product and service features, ease of use, and reliability." Others define customer experience more narrowly as the flawless performance of service delivery, or as the quality of service processes, viewing the experience as transactional and episodic, and leading to customer satisfaction if executed effectively (Johnston 1999). Certain authors [most notably Pine and Gilmore (1999), Gilmore and Pine (2002), and LaSalle and Britton (2003)] have popularised the view of customer experience as entertainment, suggesting that literally every customer encounter represents an opportunity to impress and entertain, that customer experiences have the potential to become memorable and extraordinary.

These views of the customer experience are rather limited, as these definitions in the first instance examine principally the functional elements of the customer experience. As suggested by Zaltman (2003) and Martin (2005), there is indeed a tendency amongst practising managers to view the customer experience simplistically, gravitating towards the functional, reliable, and easily measured elements of the experience. If, on the other hand, businesses wish to truly capitalise on the concept and facilitate meaningful customer experiences, the customer experience must be viewed as a complex and multidimensional concept.

With respect to the view of customer experience as entertainment or the potential to turn rather mundane and ordinary experiences into something extraordinary, these authors are of the opinion that most customer experiences are exceedingly ordinary and that marketers and retailers should pay more attention to ensuring that these experiences do not go wrong and place less emphasis on turning them into something special as the potential to do so is in most instances quite limited. Often, as we will see later in this paper, customers just want to buy those groceries and get through the checkout line as quickly as possible. Carù and Cova (2003) have discussed at length the fact that most customer experiences have limited potential to be turned into something memorable or extraordinary.

As Barlow and Maul (2000) indicated, the more we understand the complexity of the customer experience, the greater the opportunity exists to add emotional value for customers. It is through the creation of emotional value that businesses are able to develop meaningful relationships with their customers. To do this, businesses must give serious consideration to all aspects of customer interaction and to the customer context. This implies that firms must not limit their understanding of the customer experience to the time spent in the physical space of the store or business or to the face-to-face interactions which occur at the point of sale. Customer experience is a much broader concept that incorporates every interaction with the brand. This can range from a customer's first inquiring phone call or visit to the website and extend to receiving after-sales support two years beyond the manufacturer's warranty period. Similarly, the relationship is impacted by the firm's communications, ranging from public relations to the annoying *spam* that crowds a customer's inbox. Each and every touch point with the customer represents an opportunity to define the brand, influence the customer's experience, and, ultimately, his or her relationship with the company.

Adding to the complexity of understanding the concept of a customer experience is the *context* in which the customer is interacting with the business. The circumstances of the customer interaction have the ability to influence the customer's perceived experience. The customer context may be viewed as the filter through which the customer interacts with the firm. It has the potential to influence goals and objectives, perception and reactions to gestures, environments, and overall atmosphere, and, as Puccinelli et al. (2009) suggest, the customer's satisfaction with the entire experience. For these reasons, executives must give careful and deliberate consideration to the customer experience and how to best facilitate a positive experience, often by reducing the probability of producing a negative experience. Such actions on the part of the business lead to repeat patronage and consumer advocacy for the brand.

Several authors have suggested a number of reasons why executives seem unable to grasp this more holistic and expansive view of the customer experience. Gagnon et al. (2005) suggest that retailers in particular are burdened by a variety of internal constraints that limit their ability to respond appropriately to the needs of customers. These include various cost-cutting measures, leading to longer queues, poorly trained employees, and ineffective management of customer data. The result is a less-than-optimal customer experience. Meyer and Schwager (2007) indicate that senior executives often fail to pursue closely the opportunities that are implicit in the notion of customer experience. They attribute this to three factors (1) firms have already spent too much money with little effect on CRM software installations; (2) they are simply out of tune with customers' needs; and (3) they are uncomfortable with acting on data or information on customer experience simply because they are dealing with ambiguous concepts and literally do not know how to respond.

The customer experience is viewed both in academic research and intuitively as an opportunity for the firm to differentiate itself from competitors on some basis other than product quality and price. The notion of experience in and of itself broadens the definition of what is on offer to include the customer's interaction with the firm and its employees, either face to face or increasingly through technology in a multichannel environment.

The Retail Customer Experience

Verhoef et al. (1999) relate the concept of customer experience to the retail environment by observing that it "involves the customer's cognitive, affective, emotional, social and physical responses to the retailer" (p. 32). They further elaborate on the concept, indicating that it is co-created by the retailer and the consumer, and implying that there are elements that impact the customer experience that lie both within and beyond the retailer's control, thereby suggesting that the customer's frame of mind, the context in which he or she is shopping, and other extraneous factors have the potential to influence the customer's reaction to the experience or interaction with the firm. Jones (1999) furthers this line of thinking by indicating that "many shoppers attribute entertaining shopping experiences to factors *they* [emphasis added] control such as the people with whom they shop and the amount of time available" (p. 135).

Turley and Milliman's (2000) review of the notion of the shopping experience presents five general categories of atmospheric variables: external, interior, layout and design, point of purchase and decoration, and human that have the potential to influence the outcome of the experience. As this review indicates, research to date on the subject of the retail experience has primarily examined the role of the servicescape (internal, layout and design, and decoration) and customer service (human) as they relate to the customer experience, while external variables (i.e. those beyond the direct control or influence of the retailer or the shopping centre) still warrant further investigation and research.

For instance, Beverland et al. (2006) focus on the atmospheric element of music, and the music–brand relationship. The authors explain that music selection has the ability to reinforce or dilute brand perceptions, act as a signalling cue to new customers or aid in a repositioning process. Jones (1999) states, however, that "many of the retailer factors go unnoticed when consumers have entertaining experiences. It seems as if consumers are not aware of the importance of these factors until they fall below a certain minimum" (p. 136). This suggests that, while atmospherics do indeed contribute to the overall customer experience, at times they are a subconscious element of the experience which is only recognised when service failures occur or when they exceed or fall short of reasonable standards or levels.

As Turley and Milliman (2000) indicate, in general, the concept of the retail customer experience has been considered solely a responsibility of the retailer in question, addressed through the aforementioned five atmospheric variables.

Those authors consider the external environment, composed of the storefront, marquee, entrances, surrounding area, parking, etc., to be "the first set of cues normally seen by a customer. If these variables are not managed well, the rest of the atmosphere may not matter" (p. 195). These considerations indicate that the retail customer experience is also co-created by the shopping centre as a whole and is, therefore, not the sole responsibility of the retailer. This view of "external" factors influencing the shopping experience also reflects a literal and functional interpretation of what is external, suggesting that there are important factors relating to the exterior of the facility or retail store.

This discussion suggests a need to think more broadly of the notion of the retail experience so as to incorporate the fact that these experiences cannot be orchestrated solely by the retailer, or, indeed, by the retailer acting in concert with the shopping centre, in those cases where the retail store is part of a larger shopping mall or precinct. Also, it must be acknowledged that the extent to which the retailer can make the experience more or less enjoyable is limited to those factors over which the retail partners – retail store and shopping centre – have some degree of control, namely the atmospherics and the more functional elements of the retail environment and service delivery. In fact, the enjoyment of the experience and its outcomes for any individual customer is influenced to a great extent by factors over which the retailer and centre have little or no influence, namely those personal elements that the customer himself or herself brings to the interaction. Exploration of those factors represents a central focus of this paper.

Before proceeding, it is worth noting that a customer experience is not something that can be scripted or entirely controlled. While retailers or other service providers can certainly position themselves to facilitate a range of customer experiences, the encounter will ultimately be perceived by the customer, and will be influenced largely by the customer's context, as previously indicated. Puccinelli et al. (2009) echo this fact, "the same retail environment may produce very different outcomes and feelings, depending on the consumer's goals" (p. 16).

This paper will investigate, by drawing on the results of qualitative research involving shoppers of a variety of retail locations, including shopping centres and department stores, how companies might deliver a more appropriate and satisfying experience for customers. The purpose of this proprietary research was not to examine satisfaction with operational details, but to explore more deeply the factors that motivate a shopping trip and that make for a satisfying shopping experience.

The Research

More than 30 focus group interviews were conducted with the customers of major shopping centres and department stores with the goal of gaining a deeper understanding of what makes for a successful, enjoyable, or even meaningful shopping experience. The research follows from the work of Miller (1998) and others who have sought to better understand the meaning of shopping. The research is exploratory in the sense that it set out to provide insight into the circumstances that would lead shoppers to conclude that their experience was a positive one.

The retail client in this case had already available large volumes of transactional data that revealed that satisfied customers will return more frequently, will stay longer on each visit, and will ultimately spend more. The principal objective of the research, therefore, was to better understand those factors that lead to more frequent and longer visits. The client also understood the role of the mix of stores in the shopping centre, the quality and range of merchandise on offer, the operational aspects of the shopping experience (availability of parking, store opening hours, number of tills open, etc.), and price in contributing to a decision to shop in a certain store. These were viewed as rather obvious components of the value proposition. What was less well understood was the nature of the experience that would bring customers back.

Understanding that shopping is a potentially emotional experience, ranging from stimulating and exciting to dull and boring, from an adventure to a chore, the research examined the customer's view of shopping, the emotions associated with shopping, and what shopping means to the customer. To get at these deeply held views, the topics discussed in the focus groups addressed for the most part how a customer categorises a retail visit as "shopping" or not, what makes for a successful shopping trip, what factors can ruin a shopping trip, what is the connection between shopping and buying, and what causes shoppers to return to certain stores and shopping centres. Scenarios were explored such as what might cause a customer to leave a store or shopping centre earlier than she had planned, what would cause her to drive across town to shop at a particular store despite having to drive past several stores that stock the same merchandise at lower prices, and what factors contribute to the general success or enjoyment of a shopping trip.

Insight into the Shopping Experience

In essence, the research was intended to provide the kind of insight that would transcend conventional market research and would offer a more holistic interpretation of the customer experience than is provided by analysis of transactional data and by conventional approaches to survey research. It allows management to move beyond the behavioural and attitudinal data contained in customer databases and gathered in intercept or satisfaction research, neither of which is sufficient to provide a holistic view of what the retail experience entails.

It is not possible to describe in detail in this paper the results of the qualitative research, owing to the proprietary nature of the data. Rather, selected findings will be presented, principally to illustrate the kind of insight that was obtained and how this was used by the retail company to develop a customer experience strategy. A portion of the focus group discussion addressed questions relating to the kind of experience that customers want and the factors that contribute to those experiences. The need for deeper customer insight and intelligence is obvious if executives are to understand how to deliver superior customer value (Slater and Narver 2000) and the kinds of value that will lead to a meaningful experience and ultimately to the emotional connection that loyalty implies.

Managers in many companies have their own view of the world that is often incompatible with that of their customers – they are quite simply incapable of "thinking like the customer" and of a holistic understanding of the customer experience. Zaltman (2003) observed that "managers operate in a paradigm that prevents them from understanding and serving customers effectively." They focus more on reason than emotions and explore the latter only superficially. Martin (2005) has commented that managers tend to be more wedded to reliable, consistent, hard data than to the soft, touchy–feely task of creating emotional value. Quite simply, managers tend to be more comfortable with numbers and data than with the kind of insight that projects such as this generate.

There is also a reluctance or inability on the part of practising managers to think deeply enough about complex concepts such as customer experience. Consequently, the research that is intended to inform decision making in management often falls short of delivering the kind of insight needed for managers to truly understand the concepts with which they are increasingly asked to work. In quoting the work of Zaltman and Zaltman (2008), Heskett (2008) has observed "while nearly all research techniques commonly used today probe humans only at the conscious level, the subconscious really determines behaviour."

The complexity of concepts commonly applied in marketing and other management disciplines is reflected in the following, suggesting that shopping is not a simple concept, but is clearly multidimensional. While some people will consider the purchase of groceries to be "shopping," others will not, simply because it is something one must do. For many, what they describe as "real" shopping is a social activity, best undertaken with friends, and one that involves time to browse. Hemp (2006) describes this view by stating that "when we say I'm going shopping, that usually is an incomplete sentence, you're going shopping with whom? With friends, with family, it's a social as well as commercial experience." Considering another example, shopping with children is a different experience than shopping alone or with friends. Shopping may or may not lead to buying.

A detailed analysis of the discussion in the focus groups led the researchers involved to conclude that there are several different contexts or scenarios that the customer will refer to as "shopping." These scenarios are presented in Table 4.1.

When asked what can ruin a shopping trip, what they would dread happening while they are shopping, or what might cause them to cut short their shopping trip, focus group participants provided numerous examples. Particularly when shopping with friends, certain customers insist on stopping for a meal at a nice restaurant. Such occasions are considered special and demand more than fast food in a food court setting. Young parents in particular will cut short a shopping trip when their children get bored and start acting up. Women are concerned about the cleanliness of public toilets and will leave a store early rather than use the facilities. The kind of shopping experience the customer will find appealing in each of these situations and the factors that will contribute to a shopping trip being

Table 4.1 Shopping scenarios

Shopping scenario	Characteristic
Recreational shopping	For example, parents often taken their children shopping to get out of the house; visiting family members are often taken to a large regional shopping centre; it is seen as entertainment or an outing
Purposive shopping	This is planned shopping for something that is needed; the customer knows what he or she wants and where to find it; the main objective is often to "get in and get out quickly"
Social shopping	This involves meeting friends for a shopping trip; almost certainly involves stopping for coffee or a meal; the actual buying of things is often secondary to the social experience
Reconnaissance shopping	Customers often go shopping just to "see what's out there," to find out what's new in the shops to gather information
Shopping as a treat	The prevailing attitude is "I deserve something" and I'm going to treat myself
Shopping as a quest	Some customers speak of the thrill of the chase – looking principally for great deals, viewing shopping as an adventure or expedition
Shopping as entertainment	This is the sport of people-watching; for example, some younger women want to know what others are wearing; others are fascinated by the array of people who frequent malls; this also includes window shopping
Word-of-mouth shopping	The shopping trip is driven by information obtained by others; the result of asking a friend, family member or complete stranger, where they bought a certain item
Event-based shopping	This is also a purpose-drive form of shopping, such as when I need a dress for my cousin's wedding or a gift for my sister's birthday
"Going to the mall"	Friends will gather for a coffee or just walk and talk; sometimes an individual will go to these places alone in anticipation of meeting others – the mall becomes a "third place" (see Rosenbaum 2006)

enjoyable or successful will depend on what the shopper wishes to accomplish, the purpose of the shopping trip, and the context in which the shopping trip is taking place.

Typology of Shopping Contexts

As discussed earlier, the customer context plays an integral role in defining the customer experience. This filter will influence how the customer perceives and experiences interactions with both the company and its representatives. For this reason, it is important for executives to understand the various classifications of retail customer context to be better able to position their sales associates, store service, and environment to enable positive customer experiences for the appropriate classification of customer situation.

Table 4.2 Shopping contexts

Shopping context	Description	Shopping scenario
Task	Customers engaged in task oriented shopping are doing so with a goal in mind, these shopping trips are purposive and usually will result in buying. Typically, customers will want to be able to find what they wish to purchase, obtain the service they need, complete the purchase and leave	Purposive shopping Shopping as a quest Event-based shopping
Social	Social shopping outings involve other people and buying may be a secondary or incidental motivation. Typically, the environment in which the shopping trip takes place is important and must be conducive to conversation and to browsing; time is of lesser importance	Social shopping Shopping as entertainment "Going to the mall"
Self	The self-based shopping context is oriented toward addressing personal needs and may or may not result in buying. The focus is on the individual customer herself and the benefits that flow to her	Shopping as a treat Recreational shopping Reconnaissance shopping Word-of-mouth shopping

The shopping scenarios presented in Table 4.1 may be collapsed into three higher-level shopping contexts: task, social, and self, as presented in Table 4.2.

Having an understanding of the range of customer contexts is important if one wishes to facilitate and deliver positive customer experiences. How a retail store responds to a task-oriented customer should be entirely different from how it would respond to a social customer who is "going to the mall" or a self-oriented customer who is on a reconnaissance trip. In each circumstance, understanding the customer context enables the retailer to increase the chances of a favourable customer experience. This may be accomplished through better preparing staff to identify customer context or matching the store atmospherics and service delivery to the shopping context.

It is important to note, however, that these contexts do not necessarily occur in isolation from one another. It is conceivable that a single shopper may exhibit multiple goals and behaviours both within and across shopping contexts, or shoppers operating under differing contexts may be shopping in the same store at the same time. Jones (1999) suggests that a potential strategy for retailers would involve creating divergent forms of shopping experiences concurrently. This may be achievable; however, in doing so, it is possible that the retailer may negatively impact a customer whose shopping motives differ from the selling technique being presented.

We will next turn our attention to the shopping experience and to the types of shopping experiences that may be most appropriate for customers operating within different contexts.

An Insightful View of the Shopping Experience

An analysis of the focus group discussions suggests that the concept of the customer experience should be explored at four levels, which involve a progression along a continuum characterised by, amongst other things, the addition of emotional value (Barlow and Maul 2000) (Fig. 4.1).

Making it easy: At this level, the company is expected to perform well what it has explicitly or implicitly promised to do. Stores are open for reasonable hours, are well laid out, there is ample parking, and shopping trolleys are readily available. Impediments to the efficient delivery of service are removed. At this level, the customer experience is largely about the addition of quality, access, and convenience. Customers are pleased when things go well, but performing well at this level really involves meeting obvious customer expectations. By making the shopping experience as "painless" as possible, the retailer is not setting out to impress customers. There is, however, an important risk associated with failing to deliver these basic elements of the customer experience. Avoiding negatives is important at this stage.

Providing a comfortable environment: At a second level, customers expect a shopping environment that is pleasant and enjoyable. Their experience is enhanced to the extent that the store or mall is easy to navigate, comfortable, safe, and welcoming. The various ambient characteristics of the physical facility come into play at this stage – temperature, furnishings, décor, odours, noise, and lighting. Shoppers talk about their comfort level with the retail environment, relating to both physical and emotional comfort, with the latter relating to whether they feel safe and that they fit in there.

Meeting people: The customer experience might also be viewed in much more of an interpersonal context. The shopping experience invariably involves meeting and speaking with employees, principally salespeople in the case of the retail store. The experience is improved at this level when employees are available, pleasant, knowledgeable, helpful, caring, and courteous. The opportunity is presented for employees to demonstrate awareness, sensitivity, and creativity in responding to customers. Again, there is considerable potential to ruin a shopping experience if the shopper is unable to find personnel in the store or encounters rude, unhelpful, or discourteous staff.

Enabling wider experiences: Finally, we might consider the concept of the customer experience to extend beyond the actual shopping trip to the "experience" to which

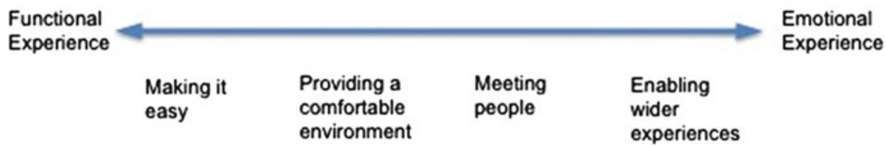

Fig. 4.1 Shopping experience continuum

the purchased product or service contributes. It has been acknowledged that products and services do not convey value in and of themselves, but only insofar as they make things possible. Simply put, they are a means to an end (Christensen et al. 2005). Retailers can contribute to a meaningful experience for their customers to the extent that they can be seen to be contributing to or enabling that experience. The retailer can become an active contributor to this wider experience insofar as the store or mall makes it possible for a customer to find that perfect dress or exactly the right birthday gift for her sister, thereby enabling her to look good or to feel good in the wider context.

By considering this expanded and multidimensional view of the customer experience, we reveal considerable potential for the customer experience to become an important strategic tool for retailers and other practitioners. Rather than view the retail shopping experience, for example, as something that can always be made into an impressive, entertaining, meaningful, and extraordinary event, it is far more realistic to accept the fact that, in many if not most cases, shopping is something that simply just has to get done. The customer does not always want to be entertained; she often just wants to pick up a few groceries so she can get home and prepare dinner for the family. The business traveller, eating dinner alone in yet another restaurant in a strange city, may not want to encounter singing and story-telling waiters; she may just want to read her book. The over-the-top customer experience may work and be welcomed in certain situations, but in others it may actually be viewed as a negative and detract from the retail experience.

Retailers and other businesses may indeed have opportunities to enhance customer experiences and thereby impress customers, as is typically the case where well-informed employees understand exactly what the customer needs and offer extremely helpful advice. However, in many cases, a satisfying and successful customer experience would have been created simply by virtue of the fact that nothing particularly negative occurred so as to cause customer distress. The best advice, particularly in the task-oriented customer context, may simply be to make sure there are employees available to assist, sufficient tills open to keep wait time to a minimum, and inventory in stock to make sure the customer can find what she needs.

Connecting Context and Experience: Fitting Trip Purpose to Experience

Now that we have a better understanding of the concepts of customer context and the shopping experience, we can attempt to map out the application for both retailers and the shopping centre. The implications suggested in Table 4.3 are intended to reflect what retailers and shopping centres need to consider in order to deliver a successful retail experience at each level and to address customer needs as defined by the context in which the customer is operating.

The elements proposed in each cell of this experience–context matrix are intended to represent examples of the components of the value proposition that retailers and

Table 4.3 Matching customer experience with customer context

	Customer context		
Experience level	Task	Social	Self
Making it easy	• Products available • Many tills open • Parking available close to entrances	• Central meeting place • Sufficient merchandise displayed for browsing • Nice restaurant/ coffee shop	• Variety of current merchandise • Convenient opening hours • Children's play area/daycare
Providing a comfortable environment	• Not cluttered or crowded • Easy to navigate • Well-lit store	• A place to meet and socialize • Appropriate seating and noise levels • Wide variety of stores	• Relaxed; not rushed • Bright, cheerful lighting and colour • Observe what others are doing/wearing
Meeting people	• Sales staff available • Knowledgeable employees • Responsive employees	• Sensitive, not pushy, employees • opportunities for conversation/ storytelling • Appropriate, valued advice	• Providing valued advice on style and fashion • Personal shopping • Opportunity to meet other shoppers
Enabling wider experiences	• Find exactly what's needed • Minimize interruptions and distractions • Make it easy to get in and out quickly	• Facilitating social interactions • Surprising in-mall events • High-energy; lots going on	• Feeling better about self • Keeping current and up-to-date • Maintaining life balance

shopping centres might consider offering or the outcomes they might try to deliver in order to contribute to the likelihood of a shopping experience being successful from the perspective of the customer. It is suggested, for example, that a customer on a task-oriented shopping trip will want to find employees readily available when needed, and will want these employees to be knowledgeable about the merchandise and responsive to questions. The same customer when on a social shopping trip with friends will want employees to be sensitive to the fact that they are "only browsing," will welcome appropriate advice, and will look for retail settings that will be conducive to conversation.

Applying Contextual Intelligence to the Shopping Experience

This brief overview of some of the insight garnered through qualitative research illustrates the importance of customer context in determining the most appropriate kind of experience to provide to customers. All experiences cannot be the same simply because all customers are not the same, and the experience desired by a particular customer will depend on the context in which he or she is operating. The retailer needs to know what the shopper wishes to accomplish, what kind of shopping trip she is on, what caused her to visit this store or mall, and what she will consider to be a successful shopping trip.

The shopping trip is not, in and of itself, the principal motivation that drives the customer. She is trying to accomplish many different things in the context of the shopping trip or experience. The kind of experience that she needs or desires will depend on what she is trying to accomplish. In their historical research on the factors that contributed to the great CEOs who led American corporations during the twentieth century, Mayo and Nohria (2005) concluded that the defining characteristic of these leaders was their *contextual intelligence*, their ability to understand the context in which they lived, and to seize the opportunities that their times presented.

The notion of contextual intelligence is typically applied at a *macro*-level to examine the role of demography, the economy, technology, global competition, and other forces on the firm and its customers. However, it is essential to the success of the individual firm that contextual intelligence also be applied at the *micro*-level, to allow the firm to better understand the customer context so as to be able to respond to that context with appropriate experiences. We suggest that the notion of *contextual intelligence* can be applied in the retail setting to differentiate those who understand and associate with the context of their customers and who are able to make strategic business decisions with the customer context in mind. The successful retail strategist should be able to demonstrate contextual intelligence.

To come to occupy a special place in the hearts and minds of customers, to cultivate emotional loyalty, companies must appreciate the role that they might play in facilitating the customer's enjoyment, not only of its products and services but also of the broader experience that involves all forms of interaction with the firm and its brands. To achieve this status, companies must not only have a collective view that understands the role that the firm might play but also have in place a means by which its employees can understand the context in which the customer is operating. Firms need a broader perspective of why the customer is buying a product or service, why she is in the retail store, what she wants to accomplish, and what success will entail. This requires more than available customer data; it requires the gathering of customer insight, information that provides often surprising revelations about why customers behave as they do. Firms that are sensitive to the information needed can customise a response that will represent a meaningful experience and will impress customers.

The Multichannel Challenge

As retailers and researchers pay increasing attention to the role of customer experience in contributing to customer satisfaction, relationships, and loyalty, certain authors have begun to address more closely the delivery of the customer experience across a multichannel retail environment. The need for consistency of the customer experience across various outlets of a chain retailer is obvious. Customers should be exposed to the same range and quality of service, the same ambience and "feel" of the store, and the same level of customer service regardless if he or she is shopping at H&M in Stockholm, London, or Toronto. Multi-outlet retailers strive for this consistency in the interest of protecting and preserving their brand and typically employ standards of design, layout, merchandising, advertising, and training in an attempt to deliver a consistent experience. This striving for consistency is especially obvious in the case of international franchisors such as McDonald's, Baskin-Robbins, and KFC who impose strict standards on store design, product, and service quality.

Within the multichannel retail context, some researchers [for example, Collier and Beinstock (2006) and Grewal et al. (2008)] have focussed on the delivery of customer service as an essential component of the customer experience across various retail formats, including physical stores, online retailing, and a combination of physical and online. These researchers see customer service as a central component of the customer experience and an important contributor to store and brand loyalty. Although Grewal et al. (2008) provide a useful review of approaches to the definition of service quality in an online environment, research on a service-based definition of the online customer experience tends to focus largely on functional and operational definitions of service, including being able to find the website easily, ease of ordering, product selection, website performance, processing speed, and response time. This view is equivalent to the "making it easy" level of the customer experience in the framework presented earlier in this chapter.

Davey's (2007) guide to creating a great online customer experience reflects the tendency of web developers and e-retailers to focus on usability and functionality. He observes that "visitors expect text they can read, content that answers their questions and easy to use navigation that helps them find what they want." He points to a common failing of developers, namely a tendency to focus too much on the way they are building a site and not enough on how somebody would actually use it. He quotes the vice-president of marketing of the online customer experience consultancy, Tealeaf, to suggest that companies lack commitment when it comes to providing the best possible Internet experience.

> The reality is that customers don't 'compartmentalise' the customer experience. For a High Street retailer, the customer views every channel (whether storefront, telephone or web) as part of their overall brand. Retailers would never tolerate the levels of frustration and failure customers experience online in their stores or over the phone. The most critical decision is to recognise that the online experience should be as good (or better) than [sic] the storefront experience, and to address the need for 'visibility' into every customer's online experience just as they observe their customers' experience in store.

Chen and Dibb (2010) have explored the impact of website quality on perceived trust of the retailer. Their definition of "website quality" reflects the tendency referenced by Davey (2007) to emphasise the functional aspects of usability, including provision for security and privacy, speed of download, and information quality. Even their inclusion of "aesthetic" aspects implies a technical definition of aesthetics, including use of colour, graphics, pictures, background patterns, and screen layouts.

Bridges and Florsheim (2008), on the other hand, argue for incorporating into the design of online shopping sites an appreciation for and acknowledgement of hedonic as well as functional shopping goals in the online context. Their research suggests, however, that online shoppers are more interested in addressing utilitarian goals rather than in sites that offer hedonic value (p. 313), supporting earlier research findings of Wolfinbarger and Gilly (2001) who suggest that online customers are more likely to buy when "they can find a selection they want, make the transaction easily and have it delivered in a timely fashion."

This review suggests that much work remains to be done to encourage a more holistic view of the online customer shopping experience. Research results suggest that the approach of many companies in addressing the online experience is following a path similar to that which has been followed in recent years in addressing the customer experience in retail stores and shopping centres. The emphasis on usability and functionality of online shopping sites is reflective of the tendency on the part of managers to first address the "making it easy" level of the customer experience as discussed earlier. This makes considerable sense in that an online retailer who is incapable of providing a website that is easy to navigate and makes ordering and payment easy can hold little hope of cultivating customer satisfaction and repeat business, in much the same way that a "bricks and mortar" retailer will fail to develop customer loyalty if the in-store customer experience fails to provide adequate merchandise, available customer service, and efficient checkouts.

Online retailers focussed on creating successful online customer experiences should, however, also address the other three levels of the customer experience that we have presented if they are to add emotional value to the customer's online interaction with their brand. The online equivalent of providing a "comfortable shopping environment" would, for example, require that attention be paid to the aesthetics of the Web experience, including the use of colours, appropriate use of photos and graphics, and the general online "decor." The objective would be to create a "comfort level" that would make customers feel safe and welcome, and would reduce annoyances. Offering privacy and secure checkout would be important in this regard. The website must be consistent with the character and values of the retail brand, in much the same way that the retail store environment should provide both physical and emotional comfort.

The "meeting people" level of the customer experience can be provided for by enabling customers to interact with employees of the company through live chat or blogs. Allowing customers to submit questions or to request information facilitates interaction and simulates interpersonal contact when a prompt reply is received, particularly if the employee who responds provides his or her name and contact information, thereby enabling ongoing conversation.

Finally, e-retailers can move to the fourth level of the customer shopping experience by making it possible for online customers to achieve certain goals and to facilitate broader experiences. Retailers do this to the extent that they customise their websites to allow for the provision to customers of suggestions and recommendations which might introduce them to products in which they may be interested. Enhanced online experiences are created as e-retailers allow customers to "sample" products before buying as when booksellers allow customers to read a selection from a book online or when clothing retailers make it possible for online shoppers to "try on" their products before buying. Online retailers can also facilitate the creation of customer communities by allowing online shoppers to share information and experiences through the retailer's website.

By focussing on the usability and functionality of their websites, e-retailers are essentially assuming that customers will engage in online shopping principally to accomplish specific tasks. Unwittingly, therefore, many are limiting their online customers to what we have described as a "task-oriented" shopping context. By expanding their perspective on the online shopping experience, retailers can also allow customers to engage in self-based and social shopping by facilitating a comfortable online shopping environment, enabling online interaction between customers and employees, and by allowing customers to share comments and conversation with others through online communities.

Strategic Direction and Implications

This paper has provided a brief introduction to the important connection between customer insight, leading to an understanding of customer context, and the development of an effective customer experience strategy. All strategies, if they are to be effective, must be based on information that is valid and pertinent to the subject at hand. The importance of offering customers a pleasant, satisfying, and (ideally) meaningful shopping experience has been well accepted by retailing executives. What is less clear is the understanding of what experiences are appropriate; hence, the need for insight into what contributes to a customer's finding the experience to his or her liking. Armed with that insight, it becomes obvious to the retailer that the experience that the customer desires and will find acceptable is very much dependent on the context in which the shopping trip is taking place.

The implications of this insight-driven view of customer context and customer experience are many for both shopping centres and individual retailers. The challenge for both the centre and the retailer is to appreciate that there are widely divergent shopping goals and that customer objectives are not always obvious, but that cues do exist. For example, this perspective, coupled with the information that possibly the most important contributor to the customer's evaluation of the overall shopping experience is his or her interaction with retail employees (Gagnon et al 2005), leads to the conclusion that employees should be trained to ask questions that will reveal information about the customer's context and to identify customer "tells," a term Seldman et al. (2007) use to describe "any aspect of communication style, body language, behaviour, or reaction that reveals a customer's personality, values, needs, and expectations" (p. xiv). The hiring of employees who are intuitive, sensitive, and naturally curious will further assist in providing a deeper understanding of context. Once retail employees know more about what the customer is trying to accomplish on the shopping trip, they will be able to determine the level and type of service that are required and the greater will be the likelihood that they will be able to tailor the experience so as to help the customer accomplish her goals.

Managers and owners of shopping centres must also realise that they have a role to play in the customer experience. We propose that the best shopping experiences are those that represent a partnership between the retailer and the shopping centre. Such a situation results in a customer experience that is co-created and co-delivered. Shopping centres, therefore, must give careful consideration to the concepts of customer experience and customer context and what fit exists between the centre and its retailers. Both parties in the retail shopping centre – the retailers and the centre itself – must appreciate the fact that their own attempts to create positive customer experiences may be thwarted by the actions or lack of attention of the other partner, or indeed by other retailers.

These concepts will, for example, lead the shopping centre to make conscious decisions pertaining to its floor plan, furnishings, and traffic flow. For example, the shopping centre will ideally have a shopping experience strategy that can be shared with its retailers to determine the type of shopping experience to be delivered throughout the mall and types of customer that the centre and its retailers wish to attract. With this knowledge, the centre will be better able to strategically allocate floor space, perhaps positioning the mall by shopping context rather than by price range – some centres are, for example, better suited for task-oriented, convenience shopping, whilst others are better positioned for social- and self-oriented shopping and browsing. The centre must also consciously select which retailers it wishes to attract to the centre, as there could exist a conflict in goals between the centre and retailers. Additionally, if the shopping centre as a whole is positioned so as to be attractive for social shopping occasions, it will have to make allowances for this in the furnishings it provides and the viewing areas and angles available to customers. Finally, if, for example, the centre is likely to attract task-oriented shoppers in a particular section of the centre, it should consider this in terms of parking space availability and proximity to entrances. Similarly, if the centre wishes to attract those social shoppers who enjoy browsing and window-shopping, providing retailers with large window space would be necessary.

As illustrated, many strategic decisions can be made at both the shopping centre and retailer level depending on what type of shopping experiences and which shopping contexts the retailer and centre wish to accommodate. Thus, this information presents a segmentation option as well, as, for example, the centre and its retailers may decide they do not wish to be a place where social shopping occurs. This will cause retailers to lay out their stores in a particular fashion and centres may not provide a food court or make lounging furniture available.

This paper has set out to propose that the concept of the shopping experience should be appreciated as a complex and multidimensional concept that is deserving of consideration at the macro- and micro-level within retail businesses and shopping centres. The concept should not be narrowly viewed to include only the functional elements of shopping outings, but instead should also include the emotional elements with a view to embracing the notion of what retailers make possible for customers to accomplish, giving true consideration to the customer context.

Conclusion

Retailers cannot begin to capitalise on the important concept of customer experience unless they understand what customers want and need to accomplish during a shopping trip, in other words, understanding the context in which customers are operating. The research discussed in this chapter reveals several different shopping contexts, each of which involves different goals, different things to get done, and different factors that would lead to a satisfying and successful shopping trip. Retailers must be sensitive to the shopping context in which the customer is engaged and should attempt to tailor the retail experience so as to meet the customer's shopping needs associated with that context. This view lends itself to an opportunity to segment customers by shopping purpose or context, rather than by more conventional approaches to segmentation. Retailers who have an appreciation for the customer context and who practise "contextual intelligence" will be at an advantage in terms of delivering positive retail experiences by anticipating customer needs, tailoring their response, and delivering surprisingly good service. Retailers operating in a multichannel environment can apply the principles outlined in this chapter in much the same way as conventional bricks-and-mortar retailers.

Points for Discussion

1. Consider some retail stores with which you are familiar and discuss whether you feel they are targeting customers who operate in mainly a "task," "social," or "self" context. What evidence is there that these retailers are focussed mainly on one of these shopping contexts? How do they deliver service and a retail experience that is conducive to this context?
2. Consider some retailers with which you are familiar and that operate within a shopping centre. Discuss how the retailer and the shopping centre co-deliver the retail experience for customers. Provide examples of situations where the shopping centre experience and the retailer experience may be inconsistent and discuss possible outcomes of such a situation.
3. Select a large retailer that operates in your city, preferably within a shopping centre, and identify how that retail store delivers a satisfying customer experience

at each of the four experience levels presented in Table 4.3. When you shop at this store, are you mainly a “task,” “social,” or “self” shopper? How does this store contribute to a positive experience for you? Select a friend or family member who typically operates in a different shopping context and discuss how this same store might deliver a positive experience for him or her.

Case Examples[1]

Running Room

Elena Lee is a senior account executive at a Toronto advertising agency. She and her husband, Peter, have been married for almost six years and have two children. Elena is finding that with increasing responsibilities at work, her life is extremely busy and complex.

Elena finds that there is little time in her life for herself. Everything revolves around either her children or her job. She and Peter rarely socialize with friends anymore, and she cannot remember the last time she went shopping on her own. In addition, Elena simply feels out of shape. Once an avid runner, she now realises that it has been four years since she found time for running. Elena decided it was time for action; she was going to get back into running, even if she could only get out a couple of times a week.

The following Saturday, pushing 16-month-old Emily in her stroller, Elena walked a few blocks to the Running Room. She was immediately impressed with the level of service and the fact that the salesperson, Todd, looked like a runner. He asked how much running she planned to do and whether she planned to train for any races.

After Elena explained that she was just getting back into running after a layoff of a few years, Todd suggested that she might want to attend one of the clinics offered by the Running Room or to train with the group that runs Wednesday evenings and Sunday mornings. He also indicated that she could check out the details on the retailer’s website (http://www.runningroom.com). Elena thanked him, but said that it would be some time before she was ready to run a race.

Elena tried a couple of runs on her own, but was still having trouble fitting it into her schedule. She decided she needed some discipline if she was to succeed with her return to running. Following up on Todd’s advice, she decided to try a women’s running clinic at the Running Room. After attending the first clinic and learning a lot, Elena decided to continue. After a few weeks, she had met many other women runners and had formed a close friendship with Beth, who lived just a couple of blocks away and also had a young family.

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[1] These cases are based on material originally published in *Marketing: a customer-centric approach*, 11th edition, by Montrose Sommers and Jim Barnes, Toronto: McGraw-Hill Ryerson, 2007.

Eventually, Elena and Beth decided to participate in some of the group runs that started from the Running Room store on Wednesday evenings and Sunday mornings. Elena was really enjoying the company of the other runners and was already feeling healthier. The group had become so close-knit that, on one Wednesday evening after the group run, they all went back to the store for a potluck dinner.

As she and Beth began to feel more comfortable running, they started to run more frequently and for longer distances. They progressed to 5 km and 7 km runs, and eventually they decided to run a 10 km race at the end of the summer.

As she crossed the finish line, met by Peter and the kids, Elena had such a great feeling of accomplishment. She thought, "If anyone had asked me in March whether I'd be running a 10 km race by the end of August, I would have laughed at them."

Commentary

This case study illustrates the Running Room's ability to deliver a customised customer experience based on the identified customer context. By hiring personnel who share a common interest with their customers, and who are able to decipher customer cues and apply contextual intelligence, the customer in this case walked away not only with the product she was looking for, but with a connection to a running network.

In this manner, the Running Room was providing a service which enabled a wider experience for its customers. The Running Room, through its running clinics and running groups, was facilitating social interactions amongst its customers, and was thereby delivering value for those customers operating within a social context. Through these programmes, the Running Room was also responding to customers in the context of "self," as it was helping them maintain life balance, and to feel better about themselves, just as Elena experienced in this case.

IKEA

IKEA Canada, with 11 stores countrywide, is now being run by Kerri Molinari, the first woman to run IKEA's 14 superstores in its home country of Sweden. She had worked in IKEA stores in Toronto and Chicago prior to going to Sweden to head the home store chain. In Toronto, she had overseen a 20% expansion of the North York store. In Chicago, she brought the first IKEA store to the US Midwest – a unique three-storey octagonal open concept with a restaurant in the centre amongst the sofas. With Canadian and US store design and operations management experience, she moved to Sweden where her 5-year job was to remodel and expand the chain to appeal to a market and maintain relationships where almost everyone in the country had already been an IKEA customer.

In Canada, Kerri's job is to see that the right stock was on the shelves, improve store displays, and get customers into the stores and out smoothly – particularly on heavy shopping weekends. Strong merchandising, attractive and appealing product presentation, and constant change to catch customers' attention was her focus.

IKEA stores are continually being shrewdly engineered and re-configured to appeal to customers. Consider the ambiance in the newest Toronto store. Mike Baker, the manager, fusses about the music as someone has messed up the music list. “The tunes are supposed to be upbeat in this area,” he says, as a melancholy country song drifts overhead. “The point is to give people a lift, make them feel like opening their wallets. This is a hurtin’ song.”

The store is so big, it has its own radio station used to transmit a stream of IKEA messages. Customers file past 9,500 products, ranging from particleboard shelves to leather sofas and stainless-steel-clad appliances. The music, from 300 speakers, changes as customers move between areas of the store: Moroccan Kasbah-sounding in the carpet area, happy tunes in the children’s area, and acoustic guitar in the cash lanes.

“You shop with more than your eyes,” explains Hilde Abbleloos, the store’s project manager. “If I could have introduced smells to the store, I would have. Cookies baking in the kitchen area, that sort of thing.”

The company studies all of its markets with anthropological zeal – it knows many couples argue when buying furniture, so the staff is trained in conflict resolution. Also, Vancouverites are obsessed with storage space, so displays are set up accordingly. Quebec residents demand a superior selection of cookware. Torontonians are more likely to work from home, so the emphasis is on home offices. Room settings have been painstakingly designed to reflect local tastes, such as an emphasis on lofts. Gone are cardboard electronics and TV sets – real ones are used for authenticity. In addition, in some stores, IKEA offers a child-minding service for their customers.

Commentary

This case example illustrates IKEA’s ability to cater to various customer contexts and to deliver a range of customer experiences. IKEA clearly excels at “making it easy” for customers by ensuring that shelves are well stocked, constantly improving store displays, and managing the flow of customers. IKEA also makes it easy for its customers by having a children’s play area, allowing customers to focus on shopping. All of these elements are catered for the task shopper who is interested in a functional experience to satisfy basic needs.

Additional efforts are also evident in this case, as IKEA provides a variety of customer experiences. For instance, IKEA is very conscious of its in-store music, which even varies by location in the store. In addition, staff are not only knowledgeable but also trained to manage conflict. In-store restaurants, although simple in design and menu, provide a fair and reasonable dining option. Such a venue also allows an opportunity for the social shopper to engage with others. All these features clearly reflect a company that is in tune with customers’ needs, and is agile enough to facilitate a range of customer experiences. Finally, the experience of most customers in actually assembling their furniture when they get it home contributes to a sense of involvement and an IKEA experience that extends beyond the store to product-in-use.

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Chapter 5
Why Loyalty Matters in Retailing

Timothy L. Keiningham, Lerzan Aksoy, Luke Williams, and Alexander Buoye

Learning Objectives

- Demonstrate why customer loyalty does not always translate to profitability
- Explain how employee loyalty and customer loyalty are inextricably linked
- Define dimensions of profitable loyalty and suggest ways to classify profitable loyal customers
- Explain how a company's current (in-place) segmentation approaches can be combined with profitable loyalty
- Show how retailers can ensure that employee loyalty and customer loyalty link to the bottom line

Retailers have long known that their long-term success depends upon customer loyalty. In fact, legendary retailers were the first businesses to champion customer satisfaction as a source of competitive differentiation. In 1875, Montgomery Ward differentiated his mail order catalog by promising "satisfaction guaranteed or your money back." By the early 1900s, Chicago's Marshall Field's department store and London's Selfridges department store were championing "the customer is always right" (although it is not clear whether Mr. Field or Mr. Selfridge was first to coin the phrase). Today, these catchphrases and the ideals that they convey are ubiquitous throughout the business world (although some might question the degree to which most businesses actually adhere to these principles).

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What Montgomery Ward, Marshall Field, and Harry Gordon Selfridge inherently understood was that creating and keeping a customer was the primary reason for the existence of their companies. The logic is straightforward – customer loyalty equals profits. Customers pay all of the bills.

Without question, the basic premise behind this truism is correct. No firm can survive for long without loyal customers. But like most big ideas, the devil is in the details. The reality is that translating a loyalty strategy into improved financial performance has proven extremely difficult. It is not difficult, however, to find news stories like these:

- "Loyal Following Couldn't Keep Jacksonville, Mich.-Based Jacobson's Going"
- "The Sun had soul" – the little restaurant on West James Street attracted a loyal clientele from the neighborhood, as well as the rich and famous. After 71 years, its doors are closed.
- "Loyal Following Not Enough to Keep Restaurant Open in Nashua, N.H."
- "Loyal Public Gathers to Mourn Richmond, Va., Clothier's End"

Given the difficultly translating loyalty into profits, it is tempting to consider tossing a "loyalty" strategy onto the trash heap of discredited management fads as some have done. To quote Randy Susan Wagner, the former CMO of Orbitz, "If you want loyalty, get a dog. Loyalty marketing is a myth." This, however, is a mistake.

Loyalty is the *right* strategy in all aspects of our economic lives: as business owners, managers, employees, and even customers. Moreover, by right, we mean that it tangibly maximizes value – emotional and economic. But maximizing value through loyalty requires that we know how to do it, and what the upside is. Fortunately, it is possible to do exactly that.

Complimentary Loyalties: Employee and Customer

If companies are going to grow their way out of difficult times (and excel in good times), they need two things: (1) for their customers to stick with them, and (2) to improve their productivity. These are fundamental corollaries to the typical management objectives of (1) grow revenues and (2) lower costs.

"Sticking around" is one of the most important demonstrations of behavioral loyalty that customers give to a firm. But it is also one of the most important behavioral demonstrations of loyalty by employees, and both are important to the long-term viability of any loyalty strategy.

Furthermore, both customer and employee impact financial outcomes. Customer loyalty directly relates to a firm's revenue and market share. Clearly, the lower a firm's defection rates, the less pressure there is on new customer acquisition to maintain revenue. The most direct way that employee loyalty links to financial outcomes is through lower costs. Employee turnover directly impacts the bottom line through increased employee acquisition and training costs. But employee loyalty can also contribute to revenue creation, as it is an integral component to an organization's overall climate for service. It is the organization's climate for service that strongly links to customer satisfaction and loyalty.

The Why of Employee Loyalty

Making employee loyalty pay begins with creating a service climate in the organization. So, what exactly is a "climate for service"? Benjamin Schneider, professor emeritus at the University of Maryland, defines it as "the shared employee perceptions of the policies, practice, and procedures and the behaviors that get rewarded, supported, and expected with regard to customer service and customer service quality." In other words, a service climate is the employees' perceptions of (1) how the business actually runs and (2) the goals that the company appears to be pursuing based upon its policies, practices, and procedures (Schneider et al. 1998). Those behaviors that are rewarded, supported, and expected tell employees what the company really believes is important. All too often, this is vastly different from what is printed in the mission statement and recruiting brochures.

Companies succeed by meeting customers' needs, and they meet customer needs, in part, through the creation of a set of business processes that provide value for customers, and the creation of a culture that supports these processes. Creating these processes and this culture is infinitely easier with happy and loyal employees, whose needs and rewards are aligned with fulfilling customer needs. Professors James Heskett, W. Earl Sasser, and Leonard Schlesinger of the Harvard Business School observe that loyal employees are more willing to suppress short-term demands for the long-term benefit of the organization. As such, they may, themselves, place a priority on good customer service. Loyal employees also stay with their organizations longer, reducing the cost of turnover and its negative effect on service quality.

Schneider and colleagues have shown conclusively that the employees' loyalty-related attitudes precede a firm's financial and market performance. There is a much greater payoff in working on improving the human factor than people think. Researchers at the University of Pennsylvania found that spending 10% of a company's revenue on capital improvements increased productivity by 3.9%. Investing that same amount in developing the employee capital more than doubles that amount to a whopping 8.5%.

Making the Employee Link

It is one thing to believe that employee loyalty results in positive financial outcomes, it is quite another to quantify those outcomes. But if we are going to be able to resist our natural inclinations to focus exclusively on the short term in difficult times, then we need to become very good at understanding what the real implications to the long-term health of our business is of employee loyalty.

The place to begin is by asking, “Where am I”? By that we mean, what kind of service climate does the company have? How loyal are our employees really? Doing this requires that we meaningfully solicit feedback from all employees (management included), and we have to be willing to ask tough questions. For example:

- How do our managers’ relationship styles impact the organization’s service climate and employee loyalty?
- Does the company provide the necessary tools and training for employees to perform their jobs well?
- Is a commitment to serve customers rewarded and encouraged by the organization?
- Does the company demonstrate that it deserves the loyalty of its employees?

There will of course be other dimensions that are of concern for our particular organization or industry. The key is to identify those few, vital dimensions that are most essential for our success! Once these dimensions are identified, they must be measured in a clear, objective, and rigorous manner.

Once we know where we are, next we must tie this information to the performance drivers of our business. Typically, these come down to four things: productivity, employee turnover, customer loyalty, and revenue.

Each of these measures is tracked in some form in virtually every organization. The ability to statistically link each of these measures to employee loyalty is relatively straightforward. The key is to aggregate employee data into groups that meaningfully link to turnover, customer loyalty, and revenue. For example, retail chains will often find store-level analysis to be the most relevant unit, since customer loyalty and revenue are tracked at this level, and stores typically have semi-independent management.

The correlation between employee loyalty-related attitudes and business outcomes is always meaningful from a practical, managerially relevant perspective, so it is worth the effort. In fact, a large-scale study conducted by researchers Harter, Schmidt, and Hayes (2002) presented compelling meta-analytic evidence that employee loyalty-related attitudes were positively linked to each of these performance drivers. Furthermore, managers can learn a great deal by studying the performance of their most loyal business units, and how this is influenced by managers’ own relationship styles.

Despite the ability to pull this information together to gain invaluable managerial insight, most companies do nothing (or next to nothing) in this regard. The number one problem in making the link is not that this information does not exist. It is simply a lack of management will to pull the data contained in various departments together.

Why? The problem here is often a lack of desire to hear bad news. Moreover, without question, this kind of company internal examination always yields bad news. The reality is that employees are only as loyal to the company as they believe the company is loyal to them. This is true almost everywhere in the world! Therefore, in the end, building an organization of committed, loyalty employees ultimately comes down to demonstrating to employees that the company deserves their loyalty.

The Why of Customer Loyalty

When it comes to customer loyalty in today's business environment, there is both good news and bad news.

The good news is that managers have gotten the message that loyalty is good business. CEOs worldwide consistently cite customer loyalty as one of (if not the) most important strategic objectives of their firms. Billions of dollars are spent each year by firms to improve customer loyalty. Over 40,000 books and hundreds of thousands (perhaps millions) of articles have been written espousing the profit-healing benefits of customer loyalty.

The bad news is that most firms' customer loyalty initiatives are not living up to their promise. The reality is that most customer loyalty initiatives have not proven to be good investment decisions. In fact, a look at the relationship between common loyalty metrics and the financial metrics managers actually use to run their businesses often appears completely unconnected (Fig. 5.1).

A host of loyalty consultants have introduced a variety of metrics designed to link loyalty to the bottom line. Thus far, however, none have lived up to their billing (Keiningham et al. 2008). No metrics have proven universally effective across all competitive environments. In fact, research consistently finds that the most commonly used loyalty metrics are at best modestly correlated with firm financial performance – and, at worst, they are negatively correlated with business outcomes.

With the connection between standard loyalty metrics and business success so tenuous, it is tempting to discount the importance of loyalty – that is a mistake. Loyalty is requisite to the long-term success of any enterprise. A firm cannot survive without loyal customers.

But there is a huge difference between necessity and sufficiency. Companies must have loyal customers to be successful in the long term, but having loyal customers does not guarantee long-term success.

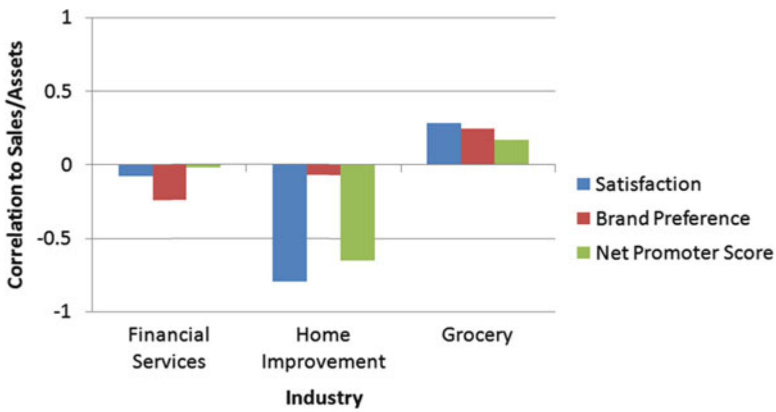

Fig. 5.1 Correlations of various attitudinal metrics with financial metrics across industries

What Is Customer Loyalty?

Loyalty at its most basic level is a feeling of attachment that causes us to stick with the object of our loyalty. It is essential to recognize that loyalty requires action. It is not enough simply to feel a bond, nor is it enough to simply stick with a relationship. Real loyalty demands both. This in part explains why common loyalty metrics perform so poorly in linking to business outcomes. Most report on only one aspect of loyalty, usually how customers feel.

Why is this the most common method of measuring loyalty? In a word: simplicity. Getting a measure of how customers feel is relatively straightforward. All it takes is a good survey process to get an objective gauge of customers' attitudes. To be fair, it is expected that there be a relationship between how customers feel and what they actually do. Logically, if customers prefer doing business with a company, then there should be an increased probability that they will remain customers, purchase more, and recommend the firm to others.

The problem is that while these things are technically true, the strength of the relationship between how customers feel and how they behave tends to be relatively weak. This problem is not solved by asking customers what they expect to do in the future, e.g., how likely are you to remain a customer, buy more, or recommend the firm? Measures of customer intentions are still based upon customers' feelings, and, as such, are inherently unreliable. Unreliable data often lead us astray.

The widespread problem is that most companies do not have a complete view of their customers. In some industries such as financial services and grocery retail, it is relatively common practice to record and store customers' behavioral data, but very few tie attitudinal information from their customer surveys to their behavioral data. For most companies, however, the hurdle is tracking customer behavior. Often, collecting information on the buying behavior of each customer is either impossible or cost prohibitive to obtain.

Waiting on "perfect" data, however, is a recipe for failure – that data will never come. The reality is that you do not need to know how every customer behaves to focus on profitable loyalty. You only need a representative sample of customers to develop products and services – and to create the necessary organizational climate for delivering them – to understand what holds the strongest appeal to profitably loyal customers. This can be done relatively easily by creating a panel from a representative sample of customers and monitoring their buying behavior and attitudinal loyalty. Validating and calibrating the data, however, are essential. Over time, the data can be refined and improved.

The first critical step in focusing on profitable loyalty is having data that provide coordinates for how customers feel and how they actually behave. This is the longitude and latitude of loyalty. Until you know where you are on the map, you are lost.

Does Loyalty Equal Profits?

Let us assume that we have a good understanding of our customers' attitudes and behaviors. Does this mean that customers we would classify as loyal based on their attitudes and behavior will generate profits for the company? The answer to this is a clear and resounding "no." Simply collecting behavioral and attitudinal data to measure loyalty has one major limitation. A very large percentage of loyal customers are not profitable for most firms. In fact, it turns out that very often greater than 50% of loyal customers are not profitable.

For example, one financial services firm with whom we worked had very satisfied and loyal customers. The only problem was that more than 75% of these customers were extraordinarily unprofitable! Why? Their loyalty was driven largely by expectations of exceptional deals on their products, and these deals were extraordinary, as the products purchased were frequently mispriced. When the company mispriced a product, these customers bought in large quantities. As a result, they were not only unprofitable they constituted some of the firm's largest customers.

The bottom line is that there is no substitute for understanding the profitability of your customers. Typically, the majority of customers do not generate an acceptable financial return. Simply put, there are three basic groups of customers in terms of profitability to the firm: those that make the company money, those that just break even, and those that lose the company money. While this sounds self-evident, the percentage of customers that fall into these three categories is not nearly so obvious. Research consistently finds that profitable customers tend to only be around 20% of all customers, break-even customers around 60%, and unprofitable customers around 20% in most businesses. The problem with this distribution is that loyal customers exist in each of these segments, and these segments are heavily weighted toward customers that do not generate an acceptable return for the firm.

This fact demonstrates why it is not just loyal customers, but profitable loyals (behaviorally and attitudinally loyal and profitable customers) that must be the target audience for any firm, whether to service them or to create them (Keiningham et al. 2009). They are a firm's ideal customers – their needs are met by the firm, they feel a connection to the brand, and they provide a fair exchange for the products and services they buy. If a firm cannot accurately delineate between profitable loyals and other customers, however, it is virtually impossible to determine what drives financially beneficial loyalty.

Step One: Identifying Profitable Loyals

The ultimate aim of any customer loyalty strategy is improved financial performance. While loyalty and profitability are not diametrically opposed, they do not have to be aligned either. To keep the two aligned, customer value must always be factored into any customer loyalty analysis. This, however, demands that we change

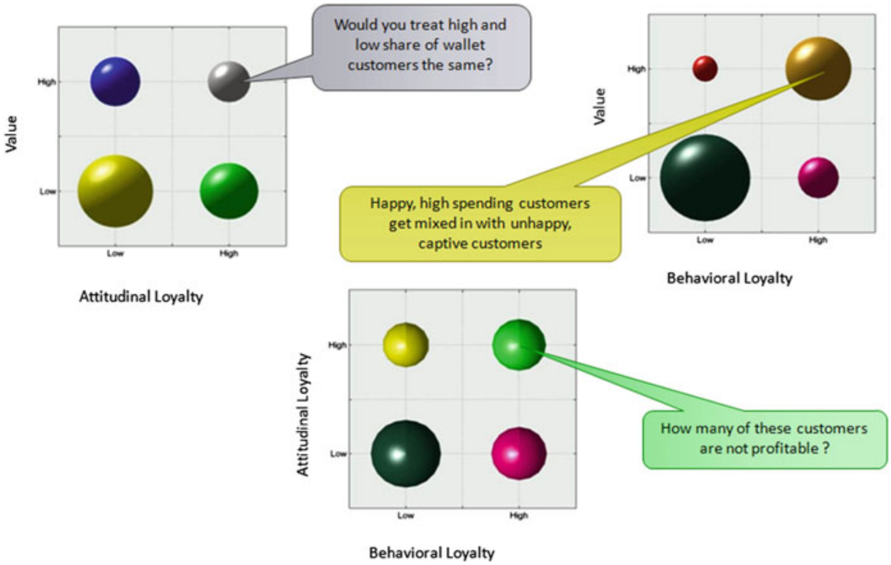

Fig. 5.2 Two-dimensional views of loyalty fail to account for critical differences

the way we view customer loyalty. Force fitting customer value into typical 2×2 strategic planning grids masks important considerations.

Consider, for example, a grid anchored solely on behavioral loyalty and value (see Fig. 5.2). The "ideal" customer in this view is someone high in behavioral loyalty and in value to the company. This, however, is not necessarily a loyal customer. How many of these customers feel held hostage? How many simply buy out of convenience or habit, but feel no loyalty?

Similar problems happen if we replace behavioral loyalty with attitudinal loyalty in such a grid. Here, the ideal customer is someone high in attitudinal loyalty and in value to the company. In this case, high "share of wallet" (i.e., customers who have a high percentage of their spending in the category with the firm) and low share of wallet customers are treated the same, which makes no sense strategically.

What is needed is a more realistic view of the world of customer loyalty. Managing for profitable loyalty requires a multidimensional view of customer loyalty. Attitudinal loyalty, behavioral loyalty, and customer value are three integral dimensions of customer loyalty management. Using this framework, it becomes clear which customers are profitable loyals (i.e., they are high on attitudinal loyalty, behavioral loyalty, and value). It also becomes clear which of the firm's profitable customers are at risk, which customers have the potential to become profitable loyals, and which customers do not (see Fig. 5.3).

Because customer value is built into the loyalty framework, focusing on measures to improve the number of profitable loyals keeps the goals of improving loyalty and financial performance synchronized. As such, tracking the percentage

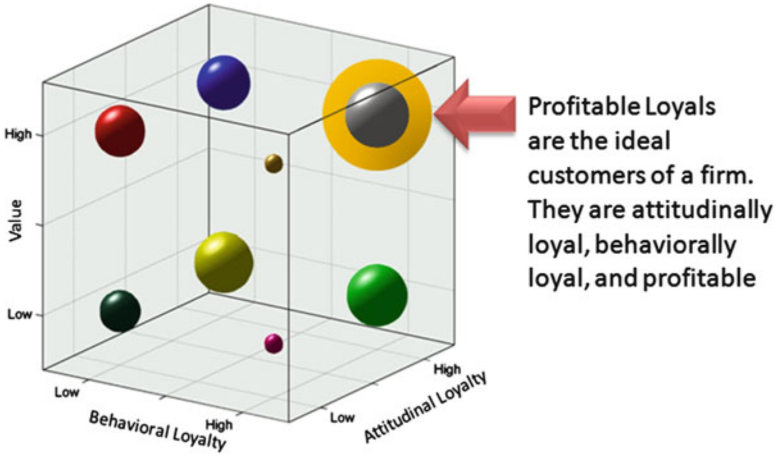

Fig. 5.3 A multidimensional perspective provides a more meaningful view on loyalty

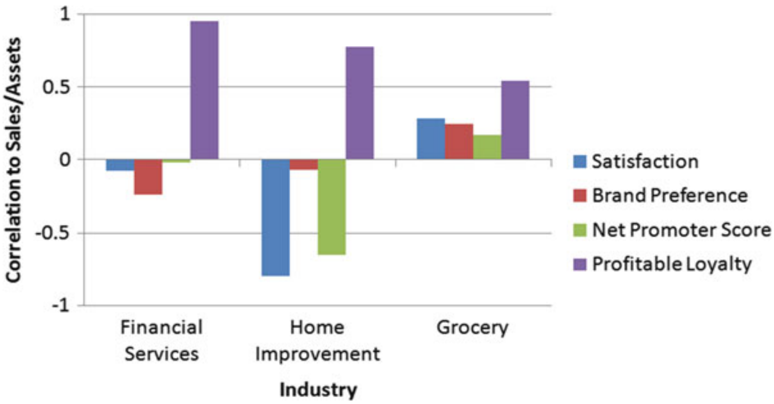

Fig. 5.4 Correlation of "profitable loyalty" metric and financial metric compared with correlations with other attitudinal metrics across industries

of profitable loyals a firm has among its customer base tends to be much more strongly correlated to the firm's financial performance than other commonly used loyalty metrics (see Fig. 5.4).

Step Two: Differentiating Profitable Loyals

Knowing your percentage of profitable loyals is a vital first step, but it is not the one and only number you need to know to manage your business. A focus on profitable loyalty also demands that managers recognize two fundamental truths about

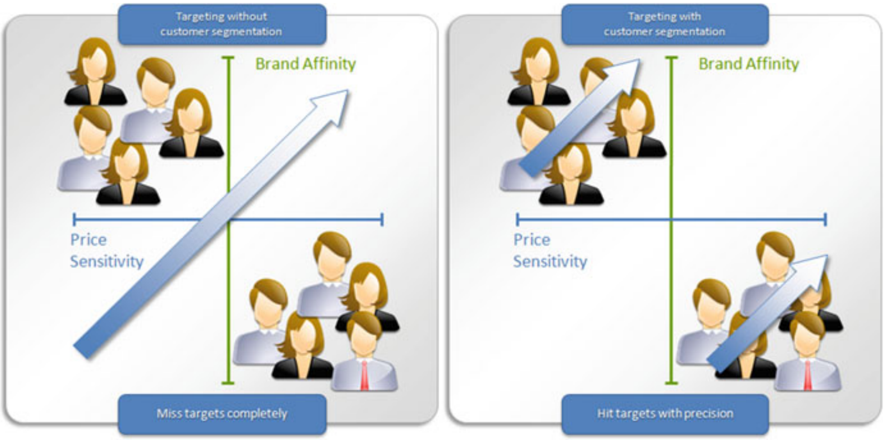

Fig. 5.5 How averages miss their mark in diverse-customer environments

customers. First, not every customer is capable of being a profitable loyal, nor does every customer want to be one. Some customers are only driven by price. Other customers make purchases so infrequently that unless this is the vast majority of the customer base, servicing and marketing to such customers yields too little in return. Another group of customers is extremely loyal, but demands so much service and attention that their costs significantly outpace their contribution.

Furthermore, profitable loyals are usually in the minority in terms of number of total customers. Strategies that neglect customer differentiation will inevitably tilt the scale toward break-even and unprofitable customers, as they represent the majority.

Second, profitable loyals are not a monolith. Rather, they are a mix of many different types of customers who are drawn to the company for different reasons. For example, we can easily imagine that young families and seniors could be drawn to the same financial institution, be profitable, yet have very different needs from the relationship.

Recognizing these distinctions in what drives profitable loyalty is vital. It points to the danger in making decisions based upon the "average" customer. Given the diversity within the population of profitable loyals, prioritizing efforts designed to attract and retain these customers based upon averages often results in no customers getting what they really want from the relationship (see Fig. 5.5).

While factoring customer segmentation into our understanding of profitable loyals would seem to add complexity, the truth is quite the contrary – it adds clarity. It is much easier to assess which customers are the best prospects for becoming profitable loyals, which customers contribute significantly to the firm's profits but are at risk because they feel no loyalty to the firm, and which customers are unlikely to ever become profitable loyals (see Fig. 5.6).

Once we know who has the greatest potential to become a profitable loyal, we can begin to identify what it will actually take to make that happen. For most firms,

Fig. 5.6 A holistic view of loyalty

improving profitable loyalty is largely driven by increasing the share of spending that low share customers provide to the firm. Here, the key is to understand why these low share customers are allocating the bulk of their spending elsewhere.

Inevitably, common themes will emerge among potential profitable loyals regarding what is restraining their spending. Armed with this information, it becomes relatively simple to prioritize efforts to improve loyalty based upon whether the issue is easy or difficult to address versus the expected impact.

Getting to the Destination

Creating and nurturing customer loyalty are at the core of business strategy. As Harvard Professor Theodore Levitt noted, "the purpose of business is to create and keep a customer; all else is derivative."

Doing this, however, requires satisfying customer needs and wants at a sustainable profit. Very often, customer loyalty experts have ignored the latter in the belief that loyalty and profitability are synonymous. Unfortunately, the reality of the marketplace has irrefutably shown that this is not true.

Loyal customers can be – and often are – unprofitable. As such, most common loyalty metrics have proven to be very poor gauges of financial performance, leaving managers with the equivalent of a divining rod to uncover a promised untapped stream of profits.

So what is a manager to do? How do you manage something that is multidimensional, and meaningfully simplify it in a way that everyone can easily grasp and rally around?

Remember the goal – improved profitability through customer loyalty. Make certain that what you measure and manage aligns with that goal. The path to sustained profitability through loyalty begins with creating more profitable loyals among your customers.

Profitable loyals are the foundation upon which all thriving companies are built. They are most aligned with the company's mission and offers. They are the customers who sustain the financial health of the firm.

Conclusions and Managerial Implications

So how can companies go about creating satisfied, loyal, and profitable customers? The process begins with establishing the appropriate service climate (Schneider et al. 2003). Instilling policies and procedures that enable, empower, and motivate employees to act in line with customers' benefit is the foundation of building loyal relationships with customers. This means that retailers will have to re-examine their current employee practices and employee recognition and reward policies and revise them to be aligned with the customer experience. This may mean changing hiring practices, instilling training programs, or even modifying job responsibilities and evaluation mechanisms. Having direct contact with the end consumer makes this all the more important for retailers to accomplish this goal.

That said, it is important to recognize that it is not as simple as creating happy employees will lead to happy customers, which will lead to firm growth and profits. Simply investing in improvement efforts without an understanding of their likely impact is a recipe for failure.

The first thing to recognize is that not everything that drives employee loyalty has an impact on customer loyalty, and not everything that drives customer loyalty has a positive impact on profitability (Cooil et al. 2009). Therefore, it is imperative to understand which elements of the employee and customer experience have measureable, positive downstream consequences.

This requires that we statistically link our all of the necessary data together in a meaningful way so that we can detect the linkage between service climate, customer loyalty, and profits. This involves the managers collecting, organizing, and analyzing the right data to guide them in the decision-making process. This is in reality much easier to do in the retail environment where the company has direct and many times frequent contact with the customer. Retailers can use each interaction as an opportunity to collect customer data and use that data to understand what makes each customer loyal and ensure that it is translated into profits. When conducting such a linkage analysis, however, it is important to recognize that the relationships are seldom straightforward. The research in this regard is clear – the relationships are nonlinear (Keiningham and Vavra 2001; Keiningham et al. 2006; Cooil et al. 2007). In other words, there are thresholds that need to be achieved before any real change is likely to occur.

For managers, this means that they must ensure that their efforts to improve profitability through employee and customer loyalty are done with sufficient force so as to achieve a level that corresponds to a higher share of category spending by customers. This cannot be an occasional level of achievement. The research is also clear that achieving these thresholds cannot be hit or miss – consistency of the customer experience is no less vital (Keiningham et al. 2006). Therefore, it is essential to have a realistic model of what ultimately enhances future financial performance if managers are to focus their scare resources appropriately. Managers need to ensure consistent service levels that are above thresholds since statistically shown to impact profitability.

A loyalty strategy pays big dividends if done with these issues in mind. Companies that create satisfied/loyal customers have been found to have higher financial performance (e.g., higher equity prices, higher valuation ratios such as Tobin's q, higher market-to-book ratios, higher future growth, reduced variability in cash flows, etc.). They have also been found to exhibit better stock market performance when compared to the S&P500 and DOW indices. In fact, the creation of customer satisfaction through the right service climate and employee loyalty leads to superior financial returns in the long run. Our research found that firms with high customer satisfaction had annual abnormal returns of 10.56% (Aksoy et al. 2008)!

Discussion, Questions and Further Reading

The central foundation of this chapter is to generate discussion about how to define, create, and manage profitable loyal customers and to provide a strategic road map on how to achieve this in the retail setting. The approach discussed in this chapter, however, can be applied to many other industries and contexts.

Creating profitable loyalty requires change on many different levels in an organization. Here are some discussion questions designed to stimulate debate on the issue:

- What do you think are some of the barriers to making such change in organizations?
- What other industries may benefit from the profitable loyalty approach described here?
- What characteristics of organizations make it easier or more difficult to create profitable loyalty?
- How can a company manage multiple channels to ensure profitable loyalty?
- How will future advances in information technology impact our ability to create and manage profitable loyalty?

Suggested Further Readings

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Case Example: Toys "R" Us

Toys "R" Us is the largest retailer of toys and children's products in the world. The company has over 700 stores in the USA and more than 450 international stores. In the early 1990s, Toys "R" Us faced strong competition, particularly from a new entrant into the category, Wal-Mart. As a result, over the course of the 1990s Toys "R" Us watched as its market share steadily declined.

As a first step to address the problem, Toys "R" Us focused on making its stores more attractive and appealing. The new store design and approach were referred to as "Concept 2000." The changes to the stores involved adjustments in lighting, floor structure, and making toy stocking much more efficient. Unfortunately, while updated stores are clearly preferable to outdated stores, the Concept 2000 concept failed to produce the desired financial return, and was discontinued. That same year Toys "R" Us announced a $475 million loss for the fiscal third quarter, the result mainly of downsizing efforts.

Concept 2000 failed in large part because Toys "R" Us customers, typically parents of small children, while receptive to a new store design, had more pressing issues regarding their encounters with the toy chain. Toys "R" Us had developed a well-publicized reputation for very bad service.

To combat the larger problem, Toys "R" Us management recognized that it needed not only to improve the store but also to improve the store experience. Then CEO John Eyler summarized the issue this way: "The challenge at Toys 'R' Us is to build an excitement level, a service level and a presentation level of product so that when there's no hot toy we have a good year, and when there is a hot toy, we have an outstanding year."

To accomplish this goal, Toys "R" Us implemented a new system for measuring and monitoring customers' level of satisfaction with the experience. The data from this system were used to prioritize improvement efforts, isolate product out-of-stock and in-store placement issues, and identify best practices (i.e., what's working) for stores throughout the chain. To ensure that these efforts aligned with improved financial performance, these data were linked to customer-level financial performance, and also aggregated to store-level financial performance.

Toys "R" Us also implemented a system for measuring the engagement of its store associates. This information was used to drive training programs for the organization. Employee-level data at the store level were linked to customer perceptions of their in-store experience and to the financial performance of the store to help ensure that the service climate and customer experience were aligned.

The result was a transformation in the way management viewed the business. Toys "R" Us had built its initial success by being the category killer of the toy industry. It did so by being able to stock a wide variety of toys at low prices, with very limited customer service. But the market had evolved. Big discount chains such as Wal-Mart have a similar operations model, but have the advantage that customers are already in these stores to purchase other types of products. Toys "R" Us had to give customers a reason to come.

What customers were demanding was a better shopping experience. They wanted knowledgeable employees who were able to answer questions regarding their toy purchases. This issue had greatly increased in importance since the inception of Toys "R" Us. Toys had become increasingly complex, and the variety of different toys within the same category had jumped dramatically. For example, while many of the customers' children could distinguish between different types of Pokémon, the parent actually purchasing the toy rarely could. Bringing home the wrong toy turns what is designed to be a happy experience into a frustrating one.

These new needs required a change in the way managers viewed how their stores should be run. No longer was it simply about having the widest selection of toys in stock at the lowest prices. It was about making certain that customers were delighted with the experience, from the time they came into the store to the time that they gave the toy to a child. This required changes regarding what the ideal store associate was expected to be and to do – from being primarily a stocker of shelves to being an informed toy advisor. Employee evaluations and reward and recognition systems had to be re-aligned to meet this goal.

Of course, all of these changes would have meant very little if they did not meaningfully translate into financial outcomes. So in the end did it pay off?

By ensuring that measures designed to improve the customer experience translated into improved profitability, Toys "R" Us was able to demonstrate the impact that delighting customers had on revenues. More interestingly, stores that had higher *employee* scores were stores that performed better, clearly reinforcing the link between employee and customer satisfaction. But the most telling success story came in the annual results that the company reported. The headline of the *Dow Jones News Wire* three years after implementation of this new strategy succinctly sums up the results, "Toys "R" Us CEO Sees Third Year of Market Share Gains." All of this occurred during one of the most difficult time periods in modern history for U.S. toy retailers – FAO Schwarz, Zany Brainy, K·B Toys all filed for bankruptcy protection in or around this same time period.

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Chapter 6
Strategic Service Innovation Management in Retailing

Allard C.R. van Riel

Learning Objectives

After reading this chapter, you should:

1. Understand what the challenges in the retailing environment are
2. Understand how service innovation helps retailers to deal with and neutralize these challenges by creating sustainable competitive advantage
3. Understand how process and product innovations may increase customer satisfaction and loyalty behavior
4. Understand how new services are developed and implemented

Opening Case

Culture and Customer Value: How to Compete with Amazon?

Amazon is the world's largest online entertainment retailer, positions itself as the world's most customer-centric company, and has generated very strong competition for most traditional retailers. Still, some traditional retailers succeed in maintaining, or even increasing, their competitive position – albeit at the expense of profitability. Fnac is a France-based pan-European book retailer, with currently one store outside Europe, in Brazil. They are active in many large European cities. The company entered the market with a relatively simple vision and mission: make culture available to the masses, offer more choice than local booksellers and, if possible, at a lower price. However, when Amazon entered the market, the competition was immediately noticeable. Amazon was offering an even larger choice at even lower prices. The company reluctantly entered the e-tailing channel, but never achieved sales numbers through that channel that were even close to Amazon's. Fnac realized that they apparently could not beat Amazon in a home match. They would need some rather innovative ideas to remain competitive. They focused on innovating and

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further improving the customer experience, which was what they esteemed to be good at. They organized live discussion forums with famous writers, invited live musicians into the stores, and added complementary services, such as a book café, where people could simultaneously enjoy drinks and browse a book. They increased the frequency of signing sessions, and tried to turn their stores into genuine temples of culture and the place to be for culture lovers.

Introduction

Innovation is key to the creation of sustainable competitive advantage in most industries. In this chapter, the reader will learn about the state of the art in retail service innovation. We will answer the following key questions: What are the role and scope of service innovation in a modern retailing environment? How may service innovation contribute to achieving sustainable competitive advantage in the current turbulent and hypercompetitive retail environment? How do modern firms organize the innovation process to get them smoothly from a promising new service idea to the introduction, implementation, or market launch of the innovation? How can the evaluation of the performance of the new or improved service be organized? Since costs and cost reductions play an important role in service management, the service innovation process will be discussed from a service operations point of view. An important objective of service, however, is to differentiate the firm by creating more value and satisfying the customer better than competitors. According to the service-dominant logic – the point of view that customers derive value from the service a product provides them with – much of the value obtained from the retailing experience is co-created by the customer. We therefore complement the operations perspective with a strong market orientation and pay ample attention to improving the retail experience of the customer. The chapter will build up to a checklist for organizing the service innovation process in a retailing context.

Competitive Advantage and the Strategic Importance of Retail Service Innovation

Creating an innovative retail organization is of outright strategic importance. Retailers suffer from substantial threats in their industrial environment (see the Intermezzo "Porter's Five Forces"). Suppliers – think of Unilever, Procter and Gamble, Sara Lee, Nestlé, etc. – are multinational players, concentrated and very powerful. The entry barriers to the retail industry and levels of differentiation are relatively low, while many substitutes – think of e-tailers, outlet stores, and single-brand outlets – exist. This situation leads usually to high levels of price competition – negatively affecting average profitability in an industry, which is indeed the case in many retail sectors. At the same time, customers have increasingly become better informed – they use the Information Superhighway, e.g., through apps for their tablets and smartphones, to look for special offers, and compare prices between retailers – and they have become ever more demanding in terms of price and service. Customers are also less and less loyal to specific outlets. This is partially due to the commoditization of products and services: as a result of technological developments, quality differences between products and services are becoming smaller, often even nonexistent.

Intermezzo: Porter's Five Forces

According to Harvard economist Michael Porter, the possibility of generating above-average profits in an industry, and therefore its attractiveness, can be determined by analyzing the industry according to the so-called five-forces framework. The attractiveness of the industry is proportional to the absence of rivalry, substitutes, and powerful suppliers and customers, and the presence of entry barriers to the industry. Companies can increase the probability that they will earn above-average returns by developing strategies that neutralize the five forces. Although the retailing industry suffers from low entry barriers, high rivalry, and powerful suppliers, several retail companies have successfully neutralized one or more of the threats.

The retail industry not only suffers from important competitive threats but also goes through a high level of change in the retail environment. Suppliers regularly launch new products and services, in response to customers who continuously develop new needs and wants. Furthermore, retail customers have come to expect fast, cheap, and customized solutions to their individual retailing needs. Finally, competitors compete with evermore sophisticated weapons, often in more than one distribution channel, for example, offering the possibility to order products online and pick them up at the store or at the gas station. To sustainably generate above-average profits in such a dynamic and competitive industry is only possible if a firm continuously invests sufficient human and financial resources in exploiting opportunities and neutralizing threats. Innovation allows differentiating the retailing offer by creating advantages that customers really appreciate and value.

Strategic innovation projects must be in line with the strategy of the company and are meant to actually realize or implement the corporate strategy. If the organization adheres to a low-cost strategy, strategic service innovation projects will likely be meant to lead to a further increase of the *efficiency* and a reduction of the costs of processes, without negatively affecting service quality (e.g., Aldi, Lidl, and Kmart). If the company adheres to a focus or niche strategy, e.g., by addressing relatively homogeneous segments of customers with specific needs, then service innovation

Intermezzo: What Is Competitive Advantage

Retailer A's competitive advantage, the reason why a customer chooses and prefers – and continues to choose and prefer – Retailer A's services over services offered by its competitors, depends on how well Retailer A succeeds in positively differentiating its services in the eye of the customer.

Strategic service innovation may help retailers to develop a clear competitive positioning, and to improve and differentiate their service offers substantially from competitors' offers on various dimensions. Focusing on constantly improving the overall customer experience in terms of process quality and value creates sustainable competitive advantage. Sometimes retail service innovation will lead to more efficient, lower cost processes, sometimes to more effective processes, or higher quality service, and sometimes simply to a better experience, but mostly to a combination of all three.

projects will be directed at better satisfying those special needs, e.g., by developing more *effective* services without increasing the costs (e.g., Giant Food). In the end, competitive advantage makes customers choose and prefer a brand, because it leads to higher levels of satisfaction. Competitive advantage is only sustainable, however, if the service innovation is not easily imitable. If the company differentiates its offer by means of low prices, the innovative cost reductions should by any means be hard to copy for competitors.

Satisfied and loyal customers are of great importance to the retailing business, since customer loyalty is associated with a number of behaviors that lead to lower marketing expenditure, and higher revenue per customer. Loyal customers are considered to develop a preference for the brand they patronize. This implies that when they have to choose between various retail outlets, after the identification of a need or want, they will most probably choose to make their purchases at the retail outlets of the brand of their preference. Satisfied and loyal customers often recommend or speak positively about the brand they patronize (positive word of mouth), repurchase the same or similar goods from their preferred store, and are even prepared to pay a price premium.

Different Categories of Service Innovation

How should we innovate? Now that we realize the strategic role service innovation plays in a highly competitive and dynamic industry such as retailing, we need to look more closely at the different categories of service innovation. Different categories of innovation projects address different strategic needs. Sometimes the environment changes fast – e.g., when a competitor introduces a radically new business model – and retailers need to fundamentally improve their offer to remain competitive.

Intermezzo: Customer Value

So what do customers really value in a retail experience? Value is a multidimensional concept. Customers often appreciate smooth processes, good accessibility, low prices, time savers, and a personalized advice, but they may also value the retailer's efforts to respect the environment, to treat their staff well, to contribute to society, charity, etc. Innovations are often focusing on improving value, by either reducing cost or effort or increasing the intrinsic value of the service.

Sometimes slower evolutions occur, and through innovation processes are just kept up to slowly evolving standards – for example, an increase in hygienic standards.

Depending on the relative newness of the innovation, and the relationship between the new service and previously existing versions, we can therefore distinguish between various types and categories of innovations.

In the first place, we can make a distinction between incremental and radical service innovations. The relative degree of newness of service innovations can help us to position service innovations on a continuum between incremental or minor changes to an existing service and radical or fundamental innovation. At one extreme of the continuum, we find incremental service innovations. Incremental innovations are minor, particular, changes made to the design of the service, the servicescape, or the service process. They have the purpose of either correcting minor faults in the process and improving the service experience (increasing service quality, raising the standards, or adapting the value created by the service), thereby increasing the efficiency (reducing the costs) of the process, or both. An example of an incremental servicescape innovation would be changing the colors used in signalization in a supermarket, using better readable fonts, or a slight change in the design of the furniture.

At the other extreme of the continuum we find radical service innovations. Radical or fundamental service innovation is often complex, and touches many aspects of the service at once. The so-called architectural innovations change the connection of parts of the process, the structure of the service (e.g., the order of activities, the distribution channel, etc.). In the case of radical service innovation, the new service is radically different, either in the perception of the customer (e.g., changing the interface of an electronic service) or with respect to operational aspects (e.g., changing the distribution of products). Radical innovation may also offer an entirely new bundle of benefits to both the company and the customer.

Advantages and Disadvantages of Radical Innovation

When are incremental and radical innovations appropriate? Radical innovations are more complex, more costly, and riskier and generally take much more time to develop and to realize. The advantage of radical service innovations is that generally the firm will create a more substantial competitive advantage – when the innovation is successful. Radical, complex innovations are often also more difficult to imitate, which makes the competitive advantages they create more sustainable. When customers do not perceive the changes as an improvement, or do not seek or value the new benefits the service may offer, or when costs have not been reduced, the innovation must be considered unsuccessful and a waste of resources. The more complex, the more radical a retail service innovation, the higher the potential return, and also the higher the risk of unsuccessfulness.

Imitability of Service Innovation

However, since most service innovations are fairly easy to copy, the duration of the competitive advantage will be limited in time. Only few mechanisms exist to protect intellectual property in service innovation. Patents do not exist, although they can be used for tangible aspects of the innovation. The more complex the service innovation is, the more difficult it will be for competitors to understand the service and to copy it. Incremental service innovations are generally less costly, and often require smaller investments to implement them than radical innovations.

A Portfolio of Service Innovation Projects

To make optimum use of available resources, and to limit the risks of failure, most companies try to balance incremental and radical service innovations. They try to constitute a portfolio of innovation projects that distributes risk and return over a limited number of projects. Retail innovation can, for example, focus on innovating the core services and introducing or developing complementary services.

While designing a competitive strategy and a portfolio of service innovation projects, senior management must take into account the developments in a number of dimensions of the general business environment and the retail industry in particular. In general, changes take place in the political, economic, social, technical, ecological, and legal dimensions of the retailing environment. We will quickly discuss the most influential dimensions and implications of changes in these dimensions for service innovation in a retail environment.

The Role of Technology

Technological developments are often seen as creating opportunities for retail service innovation. The use of new high-technology solutions, e.g., Internet technology, RFID (Radio Frequency IDentification) tags, etc., creates opportunities for entirely new services and substantial improvements in efficiency and effectiveness of existing services. Since few mechanisms exist to protect competitors from copying service innovations, much attention needs to be paid to this threat. The extensive use of technology can make service innovations more difficult to copy, especially

Intermezzo E-tailing Portals: Distinguishing Core and Complementary E-services

In an online e-tail service offer, for example, on a travel agency website, we can distinguish between the core services (e.g., ordering your holiday package or booking a car rental service) and complementary services (e.g., checking the weather forecast for your holiday destination). The complementary services add value for the customer, and will increase their satisfaction with the portal as a whole. The concept of complementary, added value services can be successfully applied not only in developing service innovations in e-tailing but also in retailing.

when new developments in information and communication technology are used in combination with other unique retailing competences and company resources. Especially self-service technologies (SSTs) have been very popular in attempts to improve service quality, while at the same time reducing costs. Many supermarkets in Europe, where labor costs are very high, have, for example, introduced forms of self-scanning the goods at the cash desks. This can speed up the checkout (creating time value for the customer), while staff costs are lowered.

The Role of the Competition

In the economic dimension, competitors exert an important influence. Competing retailers continuously make strategic decisions about repositioning their activities, refocusing their service offers, relocating or expanding their networks, etc. These are all aspects that need to be taken into account when designing a strategic portfolio of innovation projects. In many cases, retail service innovations are used to reduce or neutralize strategic threats. For example, while some supermarket chains – in an attempt to maximize economies of scale – have focused on the creation of mega-markets on the outskirts of towns, other supermarket chains have (re-) opened small city-stores, offering a basic assortment near populated areas, or areas where office buildings are located. By focusing on specific needs, although being more expensive in their operation, and therefore higher priced, they compete successfully with the mega-markets. In other cases, opportunities may be created as a result of strategic activities of competing retail chains. In that case, retail service innovation projects may be designed to capitalize on these opportunities.

The Changing Role of the Customer

Important changes are taking place in the domain of retail customer behavior. Customers increasingly value their time, are less and less willing to wait for service, and, as a result, have increasing preferences for fast self-service. Self-service has therefore taken an important position in retailing. Several aspects of the retailing service experience can be automated or create some sort of potential for self-service. Examples are selecting fruit, vegetables, cheese, meat and fish products. Another service is the return of empty and cautioned packaging, such as bottles or crates. Finally, activities such as pick-up of (mail- or Internet) ordered products and the automation of the checkout are often part of self-service initiatives.

The Role of Ecology

More than in any other business domain, the role of increased consumer awareness of ecological issues has become a source of inspiration, and of opportunities for retail service innovation. For various reasons, customers have become more aware of waste problems, and require retailers to take initiatives that help them to reduce waste in terms of packaging. Similarly, producers innovate the packaging of grocery products to reduce weight and size.

The Uniqueness of Retailing Services from an Innovation Point of View

Retailing services are unique in the sense that customers use them almost on a daily basis, and, therefore, notice changes (and faults) in the service system very rapidly. Some consumers consider shopping a necessary evil, while often being under time pressure. Since they use retailing services so frequently, small service failures can easily lead to irritations, complaints, and dissatisfaction, which makes it very important to keep a close eye on the customer experience.

The New Service Process

Since strategic innovation has taken such an important position in retailing, companies increasingly pay attention to the innovation process. It is well known that

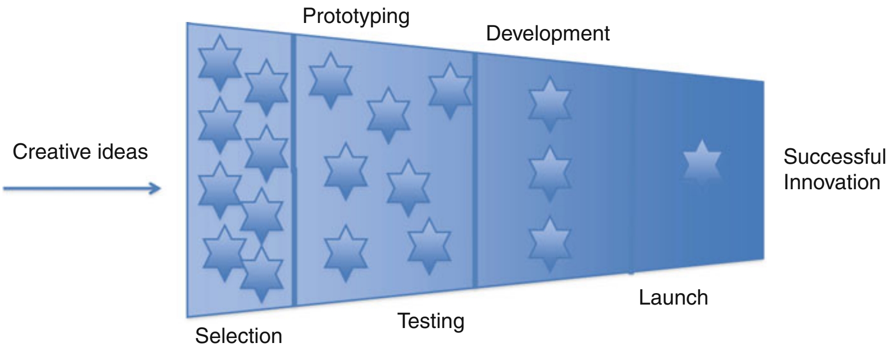

Fig. 6.1 The innovation funnel

innovation, and service innovation in particular, has a high failure rate. To reduce failure rates, companies have attempted to better organize and structure their innovation activities. Much knowledge has been gained over the past twenty years, and companies now often invest in their proficiency to innovate rapidly and successfully. A significant step forward in the improvement of the service innovation process was the introduction of the so-called stage-gate process model. This model was introduced in the 1980s by Booz, Allen, and Hamilton, and has been further developed by a range of innovation management researchers. The idea behind the model is to divide the innovation process into a number of separate stages, connected by decision gates (Fig. 6.1). After each stage, a management team decides whether the innovation project is worth continuing. A great advantage of this type of process model is the fact that innovation projects are all evaluated according to the same or similar criteria, and that the company can make these criteria explicit and measurable. The very first stage in the new service development process, the creativity stage, is often thought to lie outside the stage-gate process. Still, this is the point where all innovation starts; so, we consider this stage as being part of the new service development process.

Creativity in Retailing Services

An important source of creativity and ideas for innovation in retailing services is the customer. Customer feedback can serve as a relatively inexpensive source of inspiration, especially in cases where customers complain about service quality. Nowadays, this feedback can often be found on the Internet, on social media platforms such as Facebook or Twitter. Equally important is to anticipate customer complaints, by doing research. Research can be done in a structured way, guided by research questions, or in a more unstructured way by observation, or by organizing focus groups. Staff involved in service provision can also serve as an important source of feedback about efficiency and effectiveness of existing service processes. There is a rich literature about conducting valid marketing research.

The New Service Proposal

Once a potential new service, or service innovation, has been conceived, it becomes necessary to write down the idea. Ideas can materialize in the form of a new service or service innovation proposal. Although difficult at this early stage, it is crucial that as many details as possible are made explicit in the proposal. The proposal serves to further discuss, elaborate, and test the new service idea, and to convince a senior management team that investing in developing the new service, or the service innovation, makes sense from strategic, operational, and commercial points of view.

New Service Screening and Selection in Retailing

A senior management team, or screening committee, generally performs the evaluation of service innovation proposals. The first evaluation, eventually supported by a business case, may lead to a go–no-go decision. If the service proposal is approved, the management team generally assigns a project manager and a cross-functional team to the new service development project. They will also preliminarily assign a budget and free the necessary resources. The decision-making team is confronted with high levels of abstraction, complexity, and uncertainty at this stage, and various methods have been proposed to help them to make the decision-making process more effective and efficient. Recent research has shown that reflexivity, a "stop and think" attitude, and transactive memory systems can be useful cognitive tools in this phase of the process, while strong positive effects on decision-making effectiveness and efficiency have been demonstrated of transformational leadership, procedural rationality, and an open and innovative organizational climate.

Designing Retailing Services

During the so-called new service development (NSD) stage, the idea presented and approved in the screening stage is further elaborated, and developed into a service design. A service consists of a range of processes and a so-called servicescape, the physical environment and the physical aspects of service consumption. These aspects need to be further explored in light of the operationalization of the service. Service blueprinting is a technique often used to identify and clarify issues and responsibilities in the process. In service blueprinting, activities and processes that are necessary to perform the service, in terms of both interactions with the customer and all required activities behind the screens and back-office processes, are described and mutually adapted.

Organizing and Managing the New Service Development Process

The composition and the management of the so-called new service development teams are crucial to their success.

NSD Team Composition

Developing new services is often done by a cross-functional team of professionals, guided by a project manager. The team needs to be in touch with various service–operations interfaces, in order to develop a service that complies with the technological and operational standards of the organization (operations interface and legal interface), the expectations of the customer (marketing interface), the expectations of the service employees (human resources interface), and financial expectations in terms of costs and benefits (financial interface).

NSD Team Management

An NSD team project manager will have to deal with several issues that complicate coordination and communication between the cross-functional team members. The team leader, or project manager, should be able to facilitate communication between the various experts that are involved, and create a platform for exchange and collaboration. In many cases, the project manager person is also responsible for the elaboration of a launch plan. Success factors of NSD teams are an open and innovative organizational climate, and transformational management.

Launching and Implementing New Services

Once it is ready for commercialization, the new service is often first tested in a pilot project and further adapted to comply with the expectations of various stakeholders involved in the project. The project manager is generally responsible for the organization of these pilots. A pilot is an ideal situation, where small adaptations can be made, and where training needs for service staff can be detected and formalized. Only when the new service satisfies all requirements in terms of effectiveness and efficiency, the service can be deployed on a larger – sometimes company-wide – scale.

New Service Success Factors and Evaluation

Once a new service has been launched, it becomes crucial to continuously evaluate the service, and check whether it continues to satisfy the various requirements from all stakeholders. It becomes therefore indispensable to obtain feedback from both internal and external stakeholders.

New services must be evaluated on various criteria, to obtain a complete picture of their performance. These criteria need to be established at an early stage in the new service process, preferably before the launch of the service. Criteria that are often used are the commercial or financial success of the service, perceived service quality, the impact of the service on customer satisfaction and loyalty intentions, the impact of the service on employee satisfaction, the contribution of the new service to the knowledge base of the company, etc. To establish whether the new service is successful, a weighted average of the scores on the various criteria can be calculated. Which criteria are used, and with which weight, depends on the type of service. For a commercial service, the sales figures and sales growth are more important than for a new type of after sales service, where customer satisfaction may be a key indicator.

Summary

Retailing is a very dynamic and competitive industry. To survive and sustainably generate above-average profits in this industry, companies need to continuously improve and innovate their offerings: through creative thinking they can offer more and better value to their customers. They can do this by developing a portfolio of core and complementary service innovation and new service projects, and carefully manage these projects – thus mitigating the risk of failure. Equally important as the development and launch of the service innovations are the evaluation and control of the results.

Discussion Questions

1. Imagine that you are a small high-street toy store. Next door, a major chain opens their doors. They sell toys as well, and at a 30% discount. Is it possible to regain competitive advantage through innovation? What should you do?
2. E-tailers have taken an important position in the retailing sector. What would be the most important assets that brick-and-mortar retailers possess? In your opinion, can they use them to develop an advantage over their online competitors?
3. Service blueprinting is a technique that is used to visualize the largely intangible aspects of a service. The technique is often used in innovation projects. Can you think of advantages and disadvantages of this technique? Based on the identified disadvantages, could you come up with alternative ways of visualizing intangible aspects of service?
4. Imagine that you are the project manager of a service innovation project. You are developing a system that decreases perceived waiting times in queues at the cash desks. How would you ensure that your service innovation is effective?

Further Reading

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Chapter 7
Electronic Retailing and Service Quality

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Learning Objectives

Define e-commerce, e-retailing and e-service.
Discuss the importance of e-retailing and e-service quality.
Explore e-service in relation to e-satisfaction and e-loyalty.
Review various dimensions or measurements of e-service quality.

The organization of this chapter is as follows. In the first section, we define electronic commerce (hereafter, e-commerce), electronic retailing (hereafter, e-retailing), electronic service (hereafter, e-service), electronic service quality (hereafter, e-service quality) and discuss the importance of e-retailing and e-service quality. In the second section, we review literature on e-service in relation to customer satisfaction (hereafter, e-satisfaction) and electronic loyalty (hereafter, e-loyalty). In the third section, we describe and critique various scales developed to measure or assess e-service quality. Finally, we offer managerial implications.

With the fast growth of e-commerce, many physical retail stores have adopted online retailing as a means of approaching consumers and boosting sales. Consumer shopping patterns have changed, with the explosive growth of Internet usage (Yoo et al. 2010). Consumers can now access the Internet any time, from any place, due to advances in new technology, such as wireless Internet service and mobile devices. E-retailing has numerous advantages over off-line retailing. For example,

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retailing sites are accessible 24 hours a day, 7 days a week. Also, consumers can reduce search costs (Cristobal et al. 2007). However, unlike offline stores, where consumers can have direct interactions with salespersons, consumers in online stores interact with the retailer through a technical interface. Consumer interaction expectations towards offline stores seem to transfer to online stores. That is, consumers can expect to receive personalized attention, complete transactions correctly, have the product delivered on time, and have access to information (Cristobal et al. 2007). Therefore, to be successful in the current competitive e-business, e-retailers need to pay attention to e-service quality. How consumers perceive e-service quality can determine the success or failure of an e-business.

Generation Y seems to be the most influential generation for e-retailers. Generation Y, also referred to as Gen Y, Echo Baby Boomers or The Millennials, is defined as those born during the years 1977–1994 (Sullivan and Heitmeyer 2008). Generation Y is technologically advanced (Tyler 2007) and makes intensive use of electronic media (Foscht et al. 2009). Results of a survey of Generation Y consumers revealed that 77% access the Internet daily and 69% use the Internet for shopping and product information (Reisenwitz and Iyer 2009). Generation Y is revitalizing the American economy (Noble et al. 2009) and is a highly lucrative segment in the context of e-business. There are approximately 70 million Generation Y consumers in the United States, who represent nearly 26% of the population (Heaney 2007) and they have substantial discretionary buying power relative to their incomes (Foscht et al. 2009). Additionally, Generation Y consumers have been socialized to consider shopping as a form of leisure (Bakewell and Mitchell 2003). Thus, e-retailers need to be more cognizant of Generation Y, in relation to their perceptions of e-services, to be a success in the e-market place.

E-Commerce, E-Retailing, E-Service, and E-Service Quality

Electronic commerce has been defined narrowly as shopping electronically via the Internet (Walsh and Godfrey 2000). However, we take a broader view and use the definition provided by Ernst and Young: "transacting or enabling the marketing, buying, and selling of goods and/or information through electronic means, including the Internet and private networks" (cited in Van Vliet and Pota 2000). This definition includes more than shopping, use of more media than the Internet, and accessing the Internet in other ways than computer interface (i.e., although we typically think of accessing the Internet through a computer interface, it is increasingly accessed via cell phone and other devices like the iPad). This broader definition includes online banking (Internet or cell phone), use of ATM machines (non-Internet customer interface), online shopping (Internet or cell phone), TV shopping (TV, phone), mobile shopping (cell phone), making online reservations for hotels (Internet or cell phone), and catalog shopping (phone), all of which are examples of e-retailing. E-retailing is defined as business-to-consumer electronic retailing (Burt and Sparks 2003).

U.S. e-retailing continues to grow at double digit rates (US eCommerce 2008) even through the downturn in the economy. Given that 2008 was a terrible year for US retail, that growth is significant. US e-retail sales attained $175 billion in 2007 and were projected to reach $335 billion by 2012. A Forrester Research report found that retailers' online divisions grew by 18% in 2008 (Online retail thriving 2009). In addition, Forrester found that 87% of the 97 e-retailers surveyed reported that they were profitable in 2008. The majority of these e-retailers also reported that their overall level of profitably grew in 2008. Consumers may be starting to shop again. In another Forrester Research survey, 19% of consumers said they planned to spend more online in 2009 (Trends 2009).

As more people move online and fuel prices continue to fluctuate, consumers are likely to continue to favor e-retailing (Sharing knowledge 2009). Many types of e-retailing use the Internet, which "has flattened out price advantages, so service is a differentiator that delivers more value…" (Internet Retailer 2008). With increasing adoption of e-retailing, consumers' expectations for online services are changing and growing (Internet Retailer 2008). Gone are the days when providing good customer service meant posting an 800 number on a home page. Consumers expect to shop when they want, from wherever they want. Retailers are expected to offer 24/7 communication options and to respond in a timely manner to customer inquiries. Research has found that consumers expect improvements in service, support, and the purchase process (Singh 2002). In a recent survey (cited in Sharing knowledge 2009), participants mentioned anticipating such improvements, such as perpetual shopping carts, one-page checkout, and available live help – all service-related features. Retailers need to attend to the service needs of their customers to effectively tap these opportunities. But what exactly is e-service and e-service quality?

These questions are easier to ask than to answer, primarily because so many definitions of e-service exist and what service consists of may be vague and ambiguous. Grönroos (1984) defined service quality (consumer-perceived quality) in terms of (dis)confirmation of expectations, such that expectations for service quality were compared to perceptions of the quality of service received. Negative disconfirmation of expectations was associated with inferiority of service quality. SERVQUAL (Parasuraman et al. 1988) was developed and widely used to measure offline service quality and was also based on the discrepancy between perceptions of services and expectations for service. However, since definitions developed to assess service delivered by people (i.e., in a brick and mortar context) may not be applicable to services delivered without interpersonal contact (i.e., via electronic means), such definitions may be inappropriate in the context of e-service.

As a result, researchers have faced the task of developing definitions of e-service and e-service quality. However, the definitions vary from broad (Rust 2001; Santos 2003) to narrow (Francis 2007; Zeithaml et al. 2002) and tend not to specify exactly what constitutes e-service; often, the definitions of e-service are circular. See Table 7.1 for definitions of e-service and e-service quality found in the literature. Rust (2001) defined electronic service to be "the provision of service over electronic networks" (p. 283). This definition is very broad and includes media other than the

Table 7.1 Definitions of e-service and e-service quality

Authors[a]	Definition of e-service	Definition of e-service quality
Collier and Bienstock (2006)	11 1st order dimensions: privacy, design, information accuracy, order condition, interactive fairness, procedural fairness, outcome fairness	E-service quality relates to customers' perceptions of the outcome of the service along with recovery perceptions if a problem should occur (p. 260)
Fassnacht and Koese (2006)[b]	E-services are those delivered via information technologies, through which the consumer interacts with a user interface[c]	The degree to which an electronic service is able to effectively and efficiently fulfill relevant customer needs (p. 25)
Francis (2007)	Internet retailing is a service whereby consumers can purchase products	Internet retailing quality incorporates the functional aspects of the service process as well as the technical aspects of the service outcome (p. 342)
Rust (2001)	"the provision of service over electronic networks" (p. 283)	
Rust and Lemon (2001)	E-service is providing consumers with a superior experience with respect to the interactive flow of information (p. 86). Between the customer and firm	
Santos (2003)	E-service is the provision of consumers with a superior experience with respect to the interactive flow of information (p. 234)	Consumers' overall evaluation and judgment of the excellence and quality of e-service offerings in the virtual marketplace (p. 235)
Swaid and Wigand (2009)		E-service quality is superior service quality over the web
Zeithaml et al. (2002)	"all cues and encounters that occur before, during, and after the transactions" (p. 362)	"the extent to which a website facilitates efficient and effective shopping, purchasing, and delivery (p. 11)"

[a] Listed alphabetically by first author

[b] They say that most authors neither define the domain of the quality construct, nor provide a clear-cut definition of e-services

[c] Their definition of e-service does not include any type customer–employee interaction

Internet. However, it is somewhat circular (i.e., it defines e-service in terms of *service*) and does not specify what e-services include or how they might differ from non-electronic services. Fassnacht and Koese (2006) contend that a generally accepted definition of electronic services does not exist; therefore, they define e-services as those delivered, via information technologies, through which the consumer interacts with a user interface. This definition is similar to Rust's in its broadness and lack of specificity in what e-services include. However, Fassnacht and Koese do maintain that their definition of e-service does not include any type of customer–employee interaction (e.g., emails), which is an electronically mediated encounter. In their definition of e-service, Zeithaml et al. (2002) and Francis (2007) focus more narrowly on online shopping service. Zeithaml et al. (2002) define e-service as "all cues and encounters that occur before, during, and after the transactions" (p. 362). This definition is somewhat more specific than others. Since we have adopted the definition of e-retailing as business-to-consumer electronic retailing (Burt and Sparks 2003), we adapt the definitions of e-service of Fassnacht and Koese (2006), Rust (2001), and Zeithaml et al. (2002). We define e-service to be all cues and encounters that occur before, during, and after a consumer interacts with a user interface. This definition offers some specificity and can be applied to online banking, use of ATM machines, online shopping, TV shopping, mobile shopping, making online reservations for hotels, and catalog shopping. However, this definition does include product delivery issues and customer employee interactions, such as phone calls or email. Yet, the problem remains that we still have not specifically defined what *things* constitute e-service.

Just as definitions of e-service are varied, so too have definitions of e-service quality. See Table 7.1 for some selected definitions found in the research literature. Most definitions incorporate some notion of evaluations (i.e., superior, excellent, efficient, effective) of service delivery. Swaid and Wigand (2009) say that e-service quality is superior service quality over the web. Santos defines e-service quality as "consumers' overall evaluation and judgment of the excellence and quality of e-service offerings in the virtual marketplace" (p. 235). These and other definitions of e-service quality are circular because they use the term *quality* in their definitions (i.e., quality is quality). Swaid and Wigand's definition is limited to service over the web and would not include ATM transactions, or TV shopping. Francis and Zeithaml et al. present definitions of e-service quality that only apply to online shopping. To broaden the concept of e-service quality to other e-transactions, we adopt from Fassnacht and Koese (2006) the following definition: e-service quality is the extent "to which an electronic service is able to effectively and efficiently fulfill relevant customer needs" (p. 25). This definition is not circular, includes the concept of evaluation, and can be applied to various kinds of e-transactions.

Literature Review

E-Service Quality and E-Satisfaction

Probably the most replicated finding in the e-services literature is that e-service quality is positively related to e-satisfaction (e.g., Ba and Johansson 2008; Collier and Bienstock 2006; Cristobal et al. 2007; Evanschitzky et al. 2004; Ribbink et al. 2004; Trabold et al. 2006; Vilnai-Yavetz and Rafaeli 2006; Yang et al. 2004; Zhang and Prybutok 2005). Many of these studies are based on survey research that assessed undergraduate students' perceptions of e-service quality. *Survey research* consists of asking questions of (or responding to a series of statements by) a group of people. For example, Ba and Johansson surveyed 149 undergraduate and graduate students from operations and information management. Students' task was to pick one of six retail websites to visit and to select one of three products. After visiting the website, participants completed a self-administered survey, including perceptions of e-service quality (i.e., the e-service delivery system process). Collier and Bienstock surveyed 338 undergraduates who had completed an online transaction prior to completing the survey. Respondents were asked to recall the last e-retailer they had a transaction with as they answered the questionnaire items, including items that addressed e-process quality and e-outcome quality. Those who had a problem with the e-retailer also completed e-service recovery items.

There are advantages and disadvantages to survey research. Survey research relies on *self-reports* (i.e., we ask people to report on something), which have some disadvantages (Lennon et al. 1995). First, self-reports require that the respondent must recall past events (e.g., "respond to the following items based on your last e-shopping experience") and memories are not always accurate. Second, research (Nisbett and Wilson 1977) shows that people cannot accurately report what influences them (e.g., "what is the most important reason you are satisfied with XYZ?"), so they may provide inaccurate responses and even though they think they are reporting as accurately as possible. Third, in completing self-administered surveys, people may answer questions they do not understand. Advantages to survey research include that it may be relatively inexpensive, it allows the researcher to reach large numbers of respondents, and if based on probability samples it is *generalizable* to (i.e., representative of) the general population.

It can be argued that research relying on student participants is not as generalizable as more general research that relies on a broad range of consumers. Evanschitzky et al. (2004) surveyed 595 German online consumers; some were asked about their satisfaction with e-shopping and some about their satisfaction with e-banking. Aspects of e-service quality affected satisfaction with both e-shopping and e-banking, but not the same aspects across the two e-retailers. Cristobal et al. (2007) surveyed Internet users who had purchased/used Internet services at least once during previous 3 months. They found that perceived e-service quality (the evaluation of the excellence or superiority of service) was positively related to satisfaction. Because the respondents of these studies were from the general population, the results of the research are more likely to represent relationships in the general population (i.e., German online consumers, users/purchasers of Internet services).

Some studies that found research support for the effects of e-service quality on satisfaction used customer reviews as data, instead of relying on gathering data from students or other consumers. Trabold et al. (2006) used data that was publically available from an online customer rating site. What is especially interesting about this study is that the authors investigated several different e-retailing sectors (e.g., books, clothing, computers, electronics). Consumers had rated eight aspects of e-service quality (e.g., payment process, timely delivery, ease of returns/refunds) and their overall satisfaction. The results indicated that the e-service quality dimensions of payment process, timely delivery, and management accessibility were positively related to e-satisfaction across all e-retailing sectors and several other e-service quality dimensions were associated with e-satisfaction in some of the sectors. Yang et al. (2004) conducted a similar type of research using 848 customer reviews of online banking services as their data. These reviews were analyzed to determine dimensions of e-service quality mentioned in the reviews. Then, in another part of the research, an online survey was completed by 235 online customers. Results showed that dimensions of e-service quality identified from the customer reviews (reliability, responsiveness, ease of use, and product portfolio) were all positively related to overall e-satisfaction.

Few experimental studies have investigated the relationship between e-service and e-satisfaction (e.g., Vilnai-Yavetz and Rafaeli 2006). In experimental research, the researchers manipulate one variable (the *independent variable*) and measure its effect on some outcome (the *dependent variable*). Typically, the researcher controls the independent variable and the dependent variable is assessed as a result of the independent (manipulated) variable. In the context of e-service quality and e-satisfaction, we have seen that much survey research has reported that ratings of e-service quality are positively related to ratings of e-satisfaction. Using an experimental strategy, a researcher can actually show that ratings of e-service quality cause or determine ratings of e-satisfaction. Or, saying it a different way, e-satisfaction is a result of ratings of e-service quality.

Vilnai-Yavetz and Rafaeli (2006) devised an experiment to study how aspects of e-service might affect e-satisfaction. They were interested in learning how the design of e-commerce and e-service systems affect consumers. Participants (137 employee volunteers) were told that their task was to evaluate an Internet service delivery method (the e-service); they viewed an online video of a service provider who explained how to use a product. Each participant saw one of four online videos showing a service provider whose office varied in level of esthetics and level of professionalism. The researchers reasoned that the esthetics and professionalism conveyed by the online video would influence e-satisfaction. Although the actual e-service provided in the videos did not differ across videos, the e-service display did differ and these differences affected e-satisfaction. Both esthetics and professionalism affected e-satisfaction such that e-satisfaction was greater in the more professional condition and in the more esthetic condition.

E-Service Quality and Loyalty

A few researchers have investigated the relationship between e-service quality and e-loyalty (e.g., Chiu et al. 2005; Swaid and Wigand 2009; Yang and Peterson 2004). Swaid and Wigand surveyed 557 college students with web experience who completed an online questionnaire. Their measure of e-loyalty was called preference loyalty (i.e., I am likely to "do more business with XYZ in the next few years" or I am likely to consider XYZ my "first choice to buy services"). The researchers also defined price tolerance loyalty as a willingness to pay more to buy at XYZ. Complaining behavior was conceptualized as a kind of loyalty in negative form (i.e., likelihood of switching from and complaining about XYZ). E-service quality was conceptualized as having six dimensions (information quality, reliability, responsiveness, assurance, website usability, personalization) along which XYZ was rated. Results indicated that several aspects of e-service quality (reliability, information quality, website usability, responsiveness, and assurance) were positively related to preference loyalty. Reliability and assurance were related to price tolerance loyalty and responsiveness was related to complaining behavior.

Yang and Peterson (2004) called their study "Customer perceived value, satisfaction, and loyalty" and surveyed 235 consumers from 18 countries. What is interesting in this study is that what they define as e-satisfaction (i.e., order fulfillment, ease of use, product portfolio, and security/privacy), they defined as e-service quality in Yang et al. (2004). Furthermore, defining order fulfillment, ease of use, product portfolio, and security/privacy as e-service is more consistent with other researchers' definitions. So, it appears that this study is about e-service quality and e-loyalty. Accordingly, then their results demonstrate a positive relationship between e-service quality and e-loyalty. Likewise, Chiu et al. (2005) found a positive relationship between five e-service quality dimensions and a variable the authors named behavioral intent, which includes items that assess loyalty (e.g., "my first choice is to use…;" "I prefer to use…; "I praise the website of…"). While these three research studies find evidence of positive relationships between e-service quality and e-loyalty, the evidence is not overwhelming and, perhaps, can be explained by relationships with a third variable, e-satisfaction.

E-Satisfaction and E-Loyalty

Researchers have found a positive relationship between e-satisfaction and a variety of measures of e-loyalty (Collier and Bienstock 2006; Cristobal et al. 2007; Ha 2006; Ribbink et al. 2004; van Semeijn et al. 2005; Yen and Lu 2008). It is interesting to note that individual researchers *operationalize* or assess loyalty differently (see Table 7.2 for how e-loyalty has been assessed) and sometimes do not even define it as loyalty.

Keller (1993) defined offline loyalty as repeat purchasing behavior. In that tradition, e-loyalty has been assessed as repeat online purchasing. Cristobal et al. (2007) surveyed 461 Internet users who had purchased or used services of an Internet service at least once in the previous three months. They used a 1-item loyalty measure: "Over the next year, my purchases at (or visits to) the online shop that I currently use most will be" (more to less frequent).

Other researchers operationalized loyalty as positive word of mouth or at least included positive word of mouth items as part of their measure of loyalty (Collier and Bienstock 2006; Ribbink et al. 2004; van Semeijn et al. 2005; Yen and Lu 2008). Ha (2006) also assessed word of mouth, but did not call the variable loyalty. Items tapping preference for the site have also been included as part of researchers' measure of e-loyalty (Ha 2006; Ribbink et al. 2004; van Semeijn et al. 2005).

Another way e-loyalty has been assessed in these studies was by willingness to pay more (Ha 2006). A final way e-loyalty was assessed is with items about future purchase intent (sometimes called patronage intent) (Collier and Bienstock 2006; Cristobal et al. 2007; Yen and Lu 2008). An interesting point about Collier and Bienstock's (2006) research is that they did not describe their study as one examining

Table 7.2 Items used to measure loyalty

Authors[a]	Name of variable	Items used to measure variable
Collier and Bienstock (2006)	Behavioral intentions	*Positive word of mouth* (I will recommend this e-retailer to my friends) *Intent to continue visiting* (I intend to continue to visit this e-retailer's site in the future) *Intent to continue purchasing* (I intend to purchase from this e-retailer in the future)
Cristobal et al. (2007)	Loyalty	*Intent to continue purchasing* (Over the next year, my purchases at (or visits to) the online shop that I currently use most will be [more or less frequent])
Ha (2006)	Brand loyalty	*Switching* (I seldom consider switching to another website) *Willingness to pay more* (I can be willing to pay more at this website relative to the competition) *Preference for the site* (I prefer using this website to another website)
Ha (2006)	Word-of-Mouth	*Positive word of mouth* (I say positive things about the web store to other people; I have told more people about the web store's familiar customer services than I have told about most alternatives)
Ha (2006)	Repurchase	*Repurchase Intent* (Even if this web store would be more difficult to reach, I would still keep repurchasing there) *Repeat purchasing* (I often visit the website in order to buy another product or service)
Ribbink et al. (2004)	E-loyalty	*Positive word of mouth* (I would recommend this online company to other people; I would recommend this company's web site to others) *Intent to continue* (I intent to continue using this online company) *Preference for a site* (I prefer this online company above others)
van Semeijn et al. (2005)	E-loyalty	*Preference for the site* (Prefer this company) *Repeat usage* (Use same web site again) *Positive word of mouth* (Recommend to others)
Yen and Lu (2008)	Loyalty intentions	*Positive word of mouth* (I would recommend this online auction site to someone who seeks my advice; I say positive things about this online auction site) *Intent to continue purchasing* (I intend to continue purchasing in auctions; I will continue purchasing in auctions)

[a]Listed alphabetically by first author

e-loyalty; rather, their stated goal was to expand e-service quality beyond website interactivity to include process quality and recovery quality. They surveyed 338 college students to assess aspects of e-service, e-satisfaction, and behavioral intentions. However, the behavioral intentions measure included the following: "I will recommend this e-retailer to my friends," "I intend to continue to visit this e-retailer's site in the future," and "I intend to purchase from this e-retailer in the future," all of which have been used by other researchers to assess e-loyalty.

To summarize from these studies, strong positive relationships have been found by researchers studying satisfaction and e-loyalty. However, definitions of e-loyalty and operationalizations of e-loyalty are quite varied. The ways e-loyalty has been defined include positive word of mouth, preference for a site, willingness to pay more to shop at a site, future purchasing at a site, and intent to continue visiting and buying from a site.

Various E-Service Quality Scales

As competition in e-retailing becomes more aggressive, the mere presence of a site and low prices no longer guarantee the success of an e-business. E-service quality is a critical element in e-business. Service quality perception has a positive influence on purchase intention, word-of-mouth recommendations, and willingness to pay a higher price for the service (Cristobal et al. 2007). Thus, it is important to examine the key factors that affect consumers' e-satisfaction and e-loyalty.

With the increased interest in e-service quality, several researchers have developed scales to assess e-service quality and identified important dimensions of e-service quality which influence overall assessment of e-service quality. For instance, Zeithaml et al. (2000) developed e-SERVQUAL based on consumer experience of e-retailing services to measure e-service quality. The scale includes eleven dimensions: access, ease of navigation, efficiency, flexibility, reliability, personalization, security/privacy, responsiveness, assurance/trust, site AESTHETICS, and price knowledge. This scale has been applied in numerous studies (Cristobal et al. 2007). Madu and Madu (2002) proposed 15 dimensions of e-service quality based on a literature review: website performance, features, structure, AESTHETICS, reliability, storage capability, serviceability, security, trust, responsiveness, product differentiation, product customization, policies reputation, assurance, and empathy. Yoo and Donthu (2001) developed SITEQUAL to measure the perceived quality of e-retailers' websites. The scale has four dimensions: ease of use, AESTHETIC design, processing speed, and security. Wolfinbarger and Gilly (2003) developed eTailQ to measure e-service quality in relation to customer judgements of satisfaction using focus group interviews and an online survey. eTailQ is composed of four dimensions: website design, reliability, privacy/security, and customer service. Parasuraman et al. (2005) proposed e-SQ, which includes four dimensions of E-S-QUAL (efficiency, system availability, fulfillment, and privacy) and 3 dimensions of E-Rec-QUAL (responsiveness, compensation, and contact) by employing focus group interviews and an online survey administered to a random sample of Internet users. Table 7.3 summarizes the overall e-service quality dimensions investigated by previous researchers since 2000.

Table 7.3 Key dimensions of e-service quality in the context of e-retailing service

Authors[a]	Research strategy	Sample	Theory	Key dimensions	Dependant variables
Liu and Arnett (2000)	Survey methodology	Webmasters for *Fortune* 1,000 companies	None	Information/service quality, system use, playfulness, and system design	Website success
Loiacono et al. (2002) WebQual	Survey methodology	Undergraduate students	Theory of Reasoned Action/Technology Acceptance Model	Informational fit-to-task; interactivity; trust; response time; ease of understanding; intuitive operations; visual appeal/innovativeness; flow/emotional appeal/consistent image; online completeness; relative advantage	Usefulness, ease of use, entertainment, and reuse intention
Madu and Madu (2002)	Content analysis	Review of literature	None	Website performance; features; structure; AESTHETICS; reliability; storage capability; serviceability; security; trust; responsiveness; product differentiation; product customization; policies reputation; assurance; empathy	Customer satisfaction
Parasuraman et al. (2005) E-S-QUAL/E-RecS-QUAL	Survey methodology	Internet users with online shopping experience	Means-end framework	Efficiency; system availability; fulfillment; privacy	Perceived value, loyalty intentions
Szymanski and Hise (2000)	Survey methodology	Internet users who purchased items online	None	Convenience; site design; merchandising; financial security	E-satisfaction
Wolfinbarger and Gilly (2003) eTailQ	Survey methodology	Internet users	None	Website design; fulfillment/reliability; privacy/security; customer service	Quality, satisfaction, customer loyalty, attitude towards the website
Yoo and Donthu (2001) SITEQUAL	Survey methodology	College students	None	Ease of use; AESTHETIC design; Processing speed; security	Overall site quality, attitude toward site, site loyalty, site equity, site revisit intention
Zeithaml et al. (2000) e-SERVQUAL	Survey methodology	Internet users	None	Access; ease of navigation; efficiency; flexibility; reliability; personalization; security/privacy; responsiveness; assurance/trust; site AESTHETICS; price knowledge	E-service quality

[a] Listed alphabetically by first author

A few commonalities exist among the various dimensions identified as key determinants of e-service quality. Of the various dimensions identified, security, responsiveness, reliability and website design are the most frequently indicated key dimensions of e-service quality:

- *Security*: protecting users from the risk of fraud and financial loss for the use of their credit card or other financial information (e.g., Francis 2007; Wolfinbarger and Gilly 2003; Zeithaml et al. 2002).
- *Responsiveness*: the extent to which a customer perceives that the services provided by an online retailer are responsive and helpful; includes ease of contacting the online company, quick replies to requests, always willing to help customers (e.g., Lin 2007; Ribbink et al. 2004).
- *Reliability*: ability to perform the promised service dependably and accurately; includes on-time delivery, accurate order, and billing accuracy (e.g., Swaid and Wigand 2009; Yang and Jun 2002).
- *Website design*: the extent to which the customer perceives user friendliness while shopping at an online retailer; includes perceived ease of and effective navigation, speed, and ease of use (e.g., Cristobal et al. 2007; Lin 2007; Szymanski and Hise 2000).

Suggestions for Future Research

A great deal of e-service quality studies have been devoted to assess key dimensions of e-service quality, as shown in Table 7.3. However, considerable shortcomings remain. First, few research studies provide clear definitions of their quality construct (Fassnacht and Koese 2006) and there are no consistent definitions of some dimensions across studies. For example, the operational definitions of reliability/fulfillment vary from study to study. According to Zeithaml et al. (2000), reliability is associated with the technical functioning of the site. Fulfillment includes accuracy of service promises, having products in stock, and on-time delivery. Wolfinbarger and Gilly (2003) refer to reliability/fulfillment as accurate representation of the product, on-time delivery, and accurate orders. In many studies, reliability is related to the ability to perform the promised service dependably and accurately (e.g., Santos 2003; Swaid and Wigand 2009; Yang and Jun 2002). In a similar manner, in Srinivasan et al. (2002), overall website appearance such as text, style, graphics, colors, logos, and slogans, or themes on the website is referred to as "character" whereas Kim et al. (2006) defined the website appearance as "graphic styles." Zeithaml et al. (2002) divided website appearance into two sets, design appeal and visual appeal. Design appeal is associated with the AESTHETICS of the websites, such as information, organization, and navigability, while visual appeal is related to the presentation of graphics and text on the site. Collier and Bienstock (2006) referred to visually pleasing websites, including graphics and print size as design. Readers could be confused by or misinterpret the individually defined definitions and terms. To better understand and reduce misperceptions of dimensions, researchers need to provide clear operational definitions of each dimension and build on existing definitions instead of developing individual definitions of e-service.

Second, the key dimensions identified in most studies are investigated based on a type of e-service setting, such as e-retailing and e-banking and/or a single type of a product, such as books, apparel and travel. It is questionable if the key dimensions identified by a study can be applicable to a broad range of e-service settings and other types of products. To generalize the findings, researchers need to examine key dimensions of e-service quality across a broad range of e-service categories and in a variety of types of products.

Third, a limited number of e-service quality studies have applied a theory to explain the conceptual framework of the study. Kerlinger (1979) defined a theory as "a set of interrelated constructs, definitions, and propositions that presents a systematic view of phenomena by specifying relations among variables, with the purpose of explaining natural phenomena" (p. 64). By and large, a theory is employed to explain why an independent variable, X, affects a dependent variable, Y (Creswell 2009). Researchers need to conduct more theory-based research to provide a comprehensive understanding of the study.

Fourth, most studies identify key dimensions of e-service quality based on survey methodology with self-selected (non-random) samples. Self-selected samples cannot be generalized to the general population. To improve generalizability, researchers need to conduct surveys with a wider range of consumer populations.

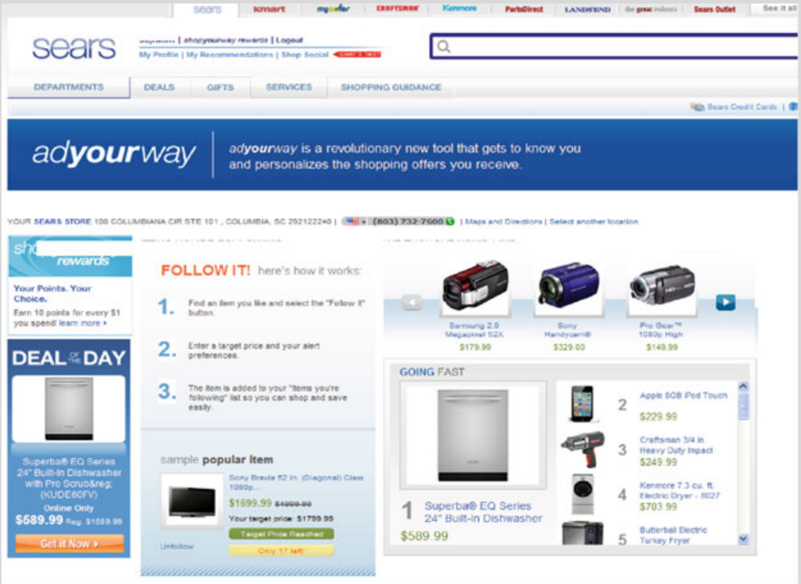
Managerial Implications

In today's severely competitive e-commerce markets, the competition is just one-click away and consumers are less willing to bear poor service quality (Fassnacht and Koese 2006). Negative performance on attributes has an immense impact on overall e-satisfaction (Wolfinbarger and Gilly 2003); a satisfied customer is more willing to stay with the same company (Zhang and Prybutok 2005). The maintenance of high service quality, thus, could be a key to survival in the current market place. Sears.com, one of the most successful e-tailers in relation to overall online sales (No.8 in the Internet Retailers Top 500 Guide) has constantly added new service attributes in order to provide a customer-centered retail environment and to satisfy customers' needs and wants. High e-service quality provided by Sears.com has made Sears.com a top player in the e-retailing market. See Case Study 7.1.

Case Study 7.1 Sears.com Gets Personal*

Sears.com is showing shoppers personalized pages with ads just for them.

A major mass merchant is making a play to get more personal with consumers. Sears.com today introduced a feature designed to personalize shopping on Sears.com and, soon, Kmart.com.



AdYourWay enables shoppers to get alerts about price drops.

To access the AdYourWay feature, customers log in to their accounts, where they can view a page customized for each individual based on her previous purchases and product searches on the site.

From that page, shoppers also can select items that interest them and set up e-mail alerts for price drops.

Consumers can enter the price they want to pay for the item, how often they want to be notified of price changes, view all the products they are following and manage alerts via the page, Sears says.

"We're living in a customer-controlled retail environment and it is imperative that we continue to reinvent the company through technology and innovation to improve our relevance with our customers," says David Friedman,

(continued)

Case Study 7.1 (continued)

senior vice president and president, marketing, Sears Holdings Corp. "AdYourWay is a unique shopping tool that puts control back into the hands of our customers, allowing them to manage and organize both the products and the offers that interest them."

Sears. No. 8 in the Internet Retailer Top 500 Guide, also is making changes in digital and mobile advertising.

The retailer soon will start delivering ads via Apple Inc.'s iPhone and iPod Touch through Apple's iAd mobile advertising network. It's also using AdKeeper, a service that gives consumers the ability to save online ads to view later. The service enables consumers who are busy doing something else, such as looking at the weather forecast or checking a flight, to click a button and send an ad to a private web page. Shoppers can then access, review, sort and share all their AdKeeper ads from one hub at their leisure.

Sears has been making significant changes to its web strategy lately. Earlier this month, both Sears.com and Kmart.com unveiled new logos for their web sites. Sears.com also made major changes to its site, adding more user-generated content. For example, the right column of every category page on Sears.com now features top-rated products for the category, related discussions from the MySears community and related services available from the Sears Blue Crew, which provides household and product repair services, and product manuals.

The new Sears site also enables shoppers to customize how they view products on category pages and how they view search results, such as by brand or rating. Shoppers can choose to shop from Kmart.com, Sears.com or outside merchants that sell through the Sears Marketplace.

In conjunction with site changes, Sears announced a beta version of Shop Social, a microsite where consumers can create a profile, follow other shoppers and access ratings and reviews.

*Internet Retailer (2010)

As indicated in the previous section, the most frequently identified key dimensions of e-service quality are security, responsiveness, reliability, and website design. E-retailers should make certain that they include adequate attributes that satisfy the four dimensions. Security has been emphasized in numerous studies in relation to e-shopping. If consumers sense that transactions are unsafe, they will exit the website before completion of the transaction. E-retailers need to provide adequate security related information, such as credit card fraud protection and security certification such as VeriSign and BBB, to make consumers feel secure when giving out credit card information. Since e-consumers cannot have direct interaction with the e-retailers, how effectively the e-retailers handle problems and provide prompt service is vital in the context of e-retailing. To handle consumer problems in a timely manner, providing 800 numbers and electronic interactivity, such as live chat, would be advantageous. Responsiveness improves when retailers offer satisfaction guarantee information, flexible return, and exchange policies. The information decreases consumers' perceived risk associated with e-shopping. According to Collier and Bienstock (2006), consumers' main concern in e-shopping is the delivery of the desired product or service. If e-retailers fail to deliver products in a timely manner, consumers might not be willing to revisit the site to purchase items. Emailing the consumer with estimated shipping and delivery dates and/or providing an order tracking process by joining with reputable shipping companies, such as FedEx and UPS, would ease consumer concern. By providing these services, consumers can more accurately estimate delivery times. According to Schaffer (2000), 30% of Internet shoppers exit a website without purchasing because the site does not make it easy to find what they need. A website should make it easy to find information, be simple to use, and facilitate speedy transactions. Difficulty in finding information and/or longer time taken to process orders would affect consumer shopping attitude and intention. Presenting a search engine, site map, and an express checkout are efficient tools to leverage website design by helping consumers find exactly what they want speedily and complete a transaction quickly.

According to Kim et al. (2007), online retailers have failed to provide enough information on their websites. Likewise, a report conducted by Forrester Research indicated that there is insufficient site design in relation to major online sites (Nusair and Kandampully 2008). Providing not only products consumers are interested in, but also high service quality to satisfy customer experiences is crucial. As indicated at the beginning of the chapter, a great deal of research has identified the influence of high e-service quality on customer satisfaction and e-loyalty. Various studies have also emphasized the positive effect of high e-service quality on a larger market share, the recovery of investment (e.g., Cristobal et al. 2007), purchase intent (e.g., Zhang and Prybutok 2005), and increased profitability (e.g., Cristobal et al. 2007; Srinivasan et al. 2002; Kim et al. 2007; Yang and Fang 2004). In times of economic insecurity, customer loyalty generates competitive advantage which, in turn, affects profitability (Zhang and Prybutok 2005). E-retailers would be wise to pay more attention to e-service quality from the perspective of their customers and then provide customized service. Failure to understand customer needs and provision of unsatisfactory service would have a detrimental effect on the success of the business (Zhang and Prybutok 2005). Therefore, to be successful in the current e-market, providing high e-service quality has become inevitable rather than optional.

Case Study 7.2 Consumers Hesitant to Buy Clothes Online, Gallup Says*

Despite the growth of e-commerce, most consumers still prefer to buy clothing and apparel in retail stores, according to a recent Gallup Poll. In a survey of more than 7,000 adults, Gallup found that only 9% prefer to buy apparel online while 77% prefer to make such purchases at stores.

OLDER shoppers were more hesitant to purchase clothes at Internet stores than younger consumers, Gallup found. 81% of those aged 50 years and older expressed reservations about buying clothing online, compared with 73% of those under age 50.

51% agreed that shopping on the Internet didn't fit their shopping style, including 37% who strongly agreed. OLDER consumers were more likely to agree that e-commerce isn't their style – 57% of those aged 50 and older compared with 43% of those ages 21–49, according to Gallup.

Shoppers' desire to try on clothing – 62% said they usually try on clothes before making a purchase – is one reason they prefer shopping in retail stores, Gallup says. "Shopping online cannot replace the experience of actually touching, trying on, and using the product before purchasing, which allows brick-and-mortar stores to continue to be the true retailing experience," said Kurt Deneen, Gallup retail industry consultant.

But fears of identity theft also play a role – 44% of respondents said they agree that shopping on the Internet produces more credit card theft.

*Internet Retailer (2005)

For Discussion and Review

1. Why is high service quality important in the context of e-commerce?
2. Read Case Study 7.2. What dimensions of e-services are of vital importance to consumer service quality assessment?
3. Think of your own e-shopping experience. What dimensions of e-service quality do you think are of vital importance?
4. Do you think consumers' perceptions of e-service quality of a retailer's website would affect their evaluation of the offline service of the retailer? Why?

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Chapter 8
Using Multichannel Marketing Activities to Build Customer Relationships: As Pertaining to the Consumer Electronics Retail Sector

Patrick Vesel, Patricija Filipič Orel, and Mitja Špende

By the end of this chapter, readers will

- Understand multichannel consumer behavior
- Have a conceptual understanding of the essential ingredients of a successful retail relationship between a buyer and a seller from a multichannel marketing perspective
- Recognize the importance of providing brand and service consistency to customers across all channels, i.e., comprehend the multichannel mindset
- Understand how customer trust, satisfaction, and commitment can be fostered through the complementary use of online and offline channels
- Be aware of the challenges of multichannel strategy implementation
- Be familiar with different kinds of multichannel marketing activities

Dependent as they are on repeat business from customers, the awareness of a potentially continuing relationship between a seller and a buyer is of paramount importance to retailers. For this reason, it is not just the quality of goods and services being sold, but also the quality of customer relationships that should be of great concern to retailers in order for them to prosper in a highly competitive arena. As such, the construct of relationship quality has emerged as a strategy for retaining customers. Over the past decade, retail industry research has consistently converged on the concepts of trust, satisfaction, and commitment as the building blocks of this

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phenomenon. Being also aware of the fact that multichannel retailing is now becoming the standard approach, a perspective from market leading consumer electronics retailer, Big Bang, in the Central European country of Slovenia, shows in what ways concrete multichannel activities might positively trigger the building blocks of the relationship quality phenomenon.

Importance of Relationships and the Power of the Internet Within the Retail Industry

Today, intangible resources, such as the co-creation of value and relationship building, have become the focus of marketing strategists (Vargo and Lusch 2004). As stated by Gummesson (2008, p. 5), "… *relationships are part of human nature. They are timeless. They are independent of culture. They are there in every type and size of business*." Naturally, this focus is shared by marketers in such retail sectors, where durable goods and aligned services are sold side-by-side and where customers are highly involved in the product category, yet often feel uncertainty regarding their buying decision. Such customers are also characterized by their willingness and ability to pay above market price for a commodity/product, by their need for product customization and training, and by their particular psychological needs, such as status-seeking or relationship-building (Christy et al. 1996). Relationships of this type demand a long-term view, mutual respect, and the acceptance of customers as co-producers of value, rather than mere passive recipients (Gummesson 1998).

The widespread use of customer relationship programs, sophisticated data mining, and market basket analysis techniques to target customers is testimony to the fact that retailers are increasingly cognizant of the importance of potentially continuing relationships between buyers and sellers (Grewal and Levy 2007). Reliant on repeat business, retailers have committed themselves, out of necessity, to cultivating enduring relationships with customers (Gable et al. 2008), particularly those in the highly-competitive retail area of non-contractual product–service mix, where low switching costs and high-comparison shopping behavior are commonplace. For this reason, the quality of relationships, and not just the quality of goods and services, belongs squarely in the domain of contemporary retailers. Many of them have become fully committed to building customer relationships (e.g., Best Buy Fiscal Year 2008 Annual Report, 2009 Sears Annual Report, 2009 Wal-Mart Annual Report).

However, retailers are also recognizing the increasing role and value that the online channel contributes in influencing in-store sales. In fact, cross-channel shopping behavior is becoming more and more prevalent in the retail industry, particularly in terms of pre-purchase online research (Deloitte 2009a). A retailer's ability to memorize such customer behavior, "… *is becoming a sine qua non for delivering high-quality customer experiences, service, and value*" (Weinberg et al. 2007, p. 393). Moreover, as Mangold and Faulds (2009) argue, the twenty-first century is witnessing an explosion of Internet-based messages transmitted via social media, which is becoming a major factor in influencing consumer behavior with regard to awareness, information acquisition, opinions, attitudes, purchase behavior, and post-purchase communication and evaluation. As such, social media are becoming an important retail trend, with the potential to revolutionize the industry altogether (Deloitte 2009b). This is by virtue of social media's ability to provide retailers with a one-to-hundreds form of word-of-mouth communication and to provide consumers with a level of power they have not previously experienced in the marketplace (Mangold and Faulds 2009). Such dramatic shifts in how consumers shop, consume media, and how they interact not just with each other, but also with retailers (Deloitte 2009a), emphasize the necessity for the retail industry to adopt a new *modus operandi*. With ramifications for every part of a retailer's operations (Deloitte 2008a), this new *modus operandi* will necessitate the adoption of a multichannel retail mindset, coupled with the effective use of a multichannel marketing program, as both have the capacity to enhance profitability and the customer experience (Weinberg et al. 2007).

More than Just the Quality of Goods and Services: The Concept of Relationship Quality

In today's highly-competitive business environment, customer retention strategies are becoming increasingly dependent upon relationship quality (Meng and Elliot 2008). This phenomenon, known as a meta construct, is comprised of several elements and characterizes the general quality of a company's relationship with its customers (Hennig-Thurau 2000; Hennig-Thurau et al. 2002). Relationship quality can, therefore, be considered as a prerequisite of long-term relationships and customer retention (Bejou et al. 1996; Crosby et al. 1990; Hennig-Thurau 2000; Hennig-Thurau and Klee 1997; Moliner et al. 2007a). Having a "*dynamic character*" (Moliner et al. 2007a, p. 196), relationship quality thus reflects, "… *the dynamics of long-term quality formation in ongoing customer relationships*" (Grönroos 2007, p. 91), meaning that the customer's perception of quality grows and develops over time in accordance with the relationship's duration and that a long-term view toward relationship quality should be adopted (Storbacka et al. 1994). Moreover, relationship quality presents organizations with, "… *an intangible asset, which cannot be easily duplicated by competitors*" (Wong et al. 2007, p. 582). Many authors define relationship quality as a higher-order construct with several, related first-order factors as reflective indicators[1] (Crosby et al. 1990; De Wulf et al. 2001; Hennig-Thurau et al. 2002; Lin and Ding 2005; Vesel and Zabkar 2010).

An historical overview of the phenomenon reveals that some of the first authors to describe the term "*relationship quality*" include Dwyer and Oh (1987) in a business-to-business context. As noted by Hutt and Speh (2001), certain knowledge, principles and theories apply equally to business-to-business and business-to-consumer

[1] For additional explanation about higher-order construct see Bollen (1989).

Fig. 8.1 Building blocks of relationship quality in B2C markets

marketing. However, these spheres of business clearly diverge in the areas of markets, market demand, buyer behavior, buyer-seller relationships, environmental influences, and market strategy. Thus, the key difference between these spheres lies in the degree of relationship need from the purchasing entity's point of view and the social and affective dimensions of such a relationship (Roberts et al. 2003). For this reason, business-to-customer studies, triggered by Crosby et al. (1990), developed different interpretations of the phenomenon. While research undertaken over the past decade has indentified some additional components of the phenomenon, it appears that the majority of business-to-customer studies converge on trust, commitment, and satisfaction as the primary dimensions of relationship quality. Whereas research carried out in business-to-business markets diverges considerably (Athanasopoulou 2009), a remarkable degree of consistency has been identified by studies focused specifically on the retail sector. In the past decade of retail research alone, (De Cannière et al. 2009; De Wulf et al. 2001, 2003; Moliner et al. 2007b; Qin et al. 2009; Vesel and Zabkar 2010), the concepts of trust, satisfaction, and commitment have been consistently and repeatedly identified as the building blocks of the relationship quality phenomenon.

All concepts signal a long-term orientation and connectivity with consumer markets (Farelly and Quester 2005; Garbarino and Johnson 1999; Lang and Colgate 2003; Morgan and Hunt 1994; Woo and Ennew 2004). Satisfaction has been one of the key global constructs predicting consumer behavior, while trust and commitment have garnered more attention with the shift of emphasis to relationship marketing (Garbarino and Johnson 1999), as they are both essential ingredients for successful relationships (Morgan and Hunt 1994). All proposed dimensions, "… *are believed to summarize consumers' knowledge and experience with a particular firm and guide subsequent actions of the consumer*" (Garbarino and Johnson 1999, p. 71). Taken en masse, this implies that better relationship quality in the retail environment should result in a higher level of customer trust, satisfaction, and commitment (Fig. 8.1).

Trust can be defined as being established, "… *when one party has confidence in an exchange partner's reliability and integrity*" (Morgan and Hunt 1994, p. 23). It describes, "… *one party's expectation that the other party will behave in a certain predictable way in a given situation*" (Grönroos 2007, p. 40). In the retail environment, trust is the "…*consumer's confidence in a retailer's reliability and integrity*"

(De Wulf et al. 2001, p. 36), with the tacit implication that one can trust an organization or firm (Doney and Cannon 1997; Garbarino and Johnson 1999; Gummesson 1999). Moreover, trust in organizations is founded on the customers' positive experiences (Berry 2000; Grönroos 2007) that motivate them to continue with the relationship (Berry 2000; Foster and Cadogan 2000).

Satisfaction "*… is a post-consumption evaluation of how well a store or product meets or exceeds customer expectations*" (Levy and Weitz 2009, p. 111). As Gwinner et al. (1998) point out, a firm cannot consider its relationship with a dissatisfied customer as one of high quality, as customers expect satisfaction to be intrinsic in the delivery of any product or service. Consequently, the higher the phase of the relationship, the more critical the role played by customer satisfaction will become in preventing other primary exchange partners from providing similar benefits (Dwyer and Oh 1987). As concluded by Storbacka et al. (1994), a stronger relationship is derived from improved satisfaction, thus putting satisfaction at the heart of the exchange relationship (Roberts et al. 2003).

Commitment is also recognized as an essential ingredient in the relationship marketing paradigm (Morgan and Hunt 1994; Garbarino and Johnson 1999; Hennig-Thurau et al. 2002). In general, it refers to an orientation typified by certain intentions and behaviors with the aim of long-term value-realization for both parties (Farelly and Quester 2005). Known as a "*complex construct*" (Fullerton 2005, p. 99), commitment can be described as "*a psychological force that links the customer to the organization*" (Fullerton 2005, p. 100).

Internet's Domination

Online purchasing has come to reign over traditional retail outlets in terms of sales growth rates (Bramall et al. 2004), and in some markets, has even corroded the market share of store retailers (Deloitte 2008b). As Burt and Sparks (2003, p. 276) state: "*The arrival of e-commerce causes at first shock, and defensive retreat (denial, etc.), which is in turn followed by phases of acknowledgement, and adaptation and change as the larger and more established traders bring forward a more considered strategic response*." Consequently, a pattern of "*bricks-and-clicks*" has emerged. The power of the Internet can be most notably viewed in terms of its ability to provide information to the customer, thereby reducing search costs. On the flipside, a traditional retail store offers customers not only instant access to the product, but also the ability to "*touch-and-feel*", try, and talk in person with a sales assistant (Agatz et al. 2008). As such, multichannel activities present retailers with a greater managerial challenge, since the systems are not only larger to run, but an entire portfolio of channels requires a higher level of integration and coordination (Weinberg et al. 2007) compared to individual channels (Agatz et al. 2008). As Lihra and Graf (2007) warn, to ensure successful customer-centric multichannel marketing, marketing campaigns also need to be integrated. When a well-integrated multichannel strategy is employed, consumers should perceive the retailer as a single entity

(Berman and Thelen 2004) and will, therefore, expect a consistent level of service and communication, regardless of the channel used (Datamonitor 2009).

However, due to reasons of so-called channel conflict and the online channel's potential to influence sales across other channels, many retailers have abandoned their online sales efforts in favor of information and sales support within the traditional channel only (Yan 2010, Retailer Merchandiser 2008). For example, Swedish home product group, IKEA, uses its online channel primarily to support its offline stores (McKinsey Quarterly 2009). Traditional retailers, thus, need to shift their perception of e-commerce as more of a complement to, rather than a replacement for, traditional retailing (Sethuraman and Parasuraman 2005). Conversely, "*pure-play*" Internet retailers should shift toward establishing "*bricks-and-mortar*" stores (Agatz et al. 2008), since contemporary customers still demand real-world presence within physical facilities (Aksen and Altinkemer 2008).

Nevertheless, many traditional retailers are now pursuing both online and traditional retail channels (Yan 2010), forming a sustainable and attractive blend of new and existing retail formats (McGoldrick and Collins 2007), now evident on a global scale (Choi and Park 2006). By doing this, they are able to cover "*understaffed*" areas and overcome customers' time restrictions (Schröder and Zaharia 2008). From a classic "*Wheel of Retailing*" perspective (Hollander 1960), it would seem that multichannel retailing is now becoming "*the standard approach*" (McGoldrick and Collins 2007, p. 139), despite the fact – ironically – that it is not a new phenomenon at all. Many retailers have historically offered multiple sales channels (e.g., telephone or mail order catalogs), yet it is only with the development of e-commerce that interest in the multichannel paradigm has grown significantly (Schröder and Zaharia 2008).

Multichannel Marketing as Pertaining to the Consumer Electronics Retail Sector

Multichannel Consumer Behavior

As Nicholson et al. (2002, p. 132) state, "*multichannel marketing strategies, by definition, seek to encourage multichannel consumer behavior*". Customers are using a plethora of channels in their shopping experience in order to research and select their purchases before committing to buy (McGoldrick and Collins 2007), suggesting that, "*retailers and consumers are interacting in more ways than ever before*" (Datamonitor 2009). Consequently, by being able to satisfy such complex customer needs (Schröder and Zaharia 2008; Wallace et al. 2004), multichannel marketing also enables firms to build lasting customer relationships by simultaneously offering information, products, services, and support through two or more synchronized channels (Rangaswamy and Van Bruggen 2005). A case study on the leading consumer electronics retailer in the Central European country of Slovenia shows, from a practical perspective, how the integration of a multichannel strategy can positively trigger the so-called building blocks of the relationship quality phenomenon, i.e., customer trust, satisfaction, and commitment.

Big Bang is the brand name of a market leading retailer in the Slovenian consumer electronics sector. Founded in 1991, the company was initially established as a wholesale company which, within two years, had successfully embraced also a retail philosophy. Today the company is recognized as the "*customer's first choice*" in many product categories, and has earned the market share leader position; in certain categories by more than 60%. The strong Big Bang corporate culture has always been a boon in the company's drive to successfully meet the needs of today's demanding customers. For many young people, enthusiastically intent on pursuing a dynamic career path, staying abreast of the latest technological trends is seen as a distinct advantage. Thanks to its engaged and motivated employee base, Big Bang is well placed to meet such challenges as the adoption of emerging retail trends and the successful promotion of an "*electronic consumer lifestyle*". Recognized additionally as an important e-commerce market player through its online sales channel – @ www.bigbang.si – Big Bang has also been able to institute a multichannel mindset within its everyday business processes in order to support its "*bricks-and-mortar*" electronics stores which are visited by customers exhibiting multichannel consumer behavior. A complex, contemporary form of consumer behavior is highlighted by the following customer activities, exposed by a Big Bang multichannel consumer study.

Internet as the Primary Information Source

As revealed in Fig. 8.2, consumers usually employ several information resources during the research phase of their electronic product purchase decisions. For most, the Internet (60%), "*bricks-and-mortar*" stores (41%), catalogs, and leaflets (29%) represent the most widely-used research tools. When prompted, an additional 15% of consumers recall having used the Internet as a source of information, making the Internet the dominant research tool for the vast majority (75%) of consumers.

Not surprisingly, the higher the involvement of a consumer in a product category, the more powerful the Internet becomes as a source of information gathering (see Fig. 8.3).

Online Power of Retailers

A closer look at Internet usage reveals that retailers' websites and online stores appear to be the most popular source of information, followed by product manufacturers' websites, and online social communities, forums, blogs, or similar sites (see Fig. 8.4).

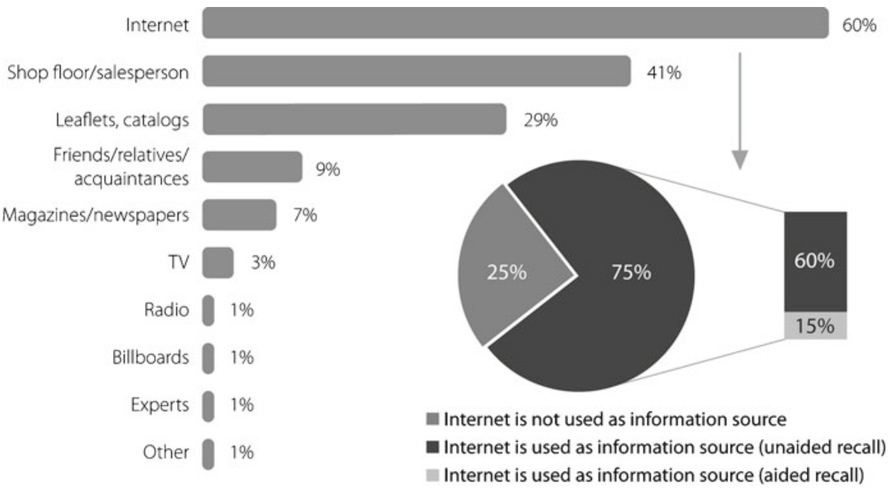
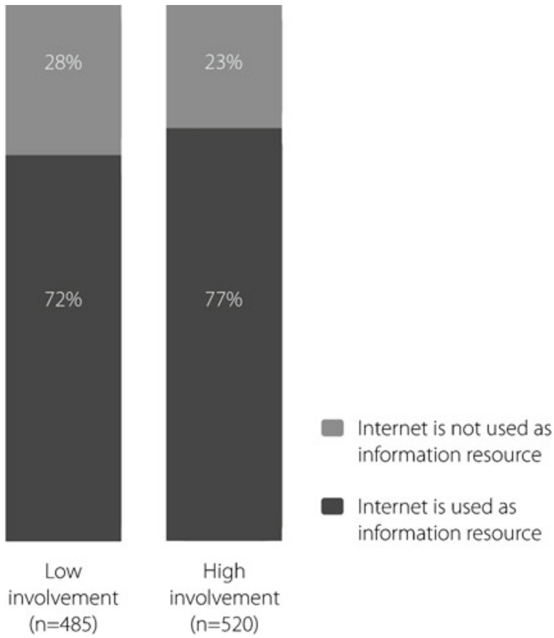


Fig. 8.2 Sources of electronic product information gathering (n = 1,005)

Fig. 8.3 Internet as a source of information according to product category involvement



Also interesting from a retail standpoint is the discovery that those online interaction points which can be directly developed and controlled from the retailer's side, have the same impact on actual electronic product buying decisions as the interaction points over which the retailer lacks control (see Fig. 8.5). This finding provides consumer electronics retailers with an incomparable opportunity to directly influence the shopping experience of their customers.

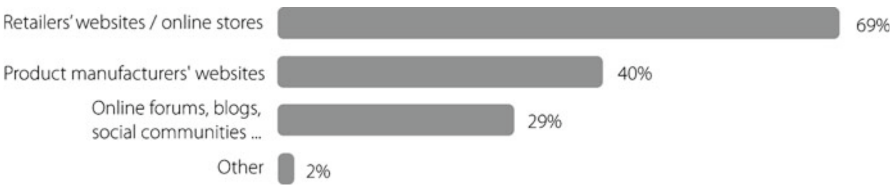


Fig. 8.4 Internet usage – sites used as a source of information ($n = 752$)

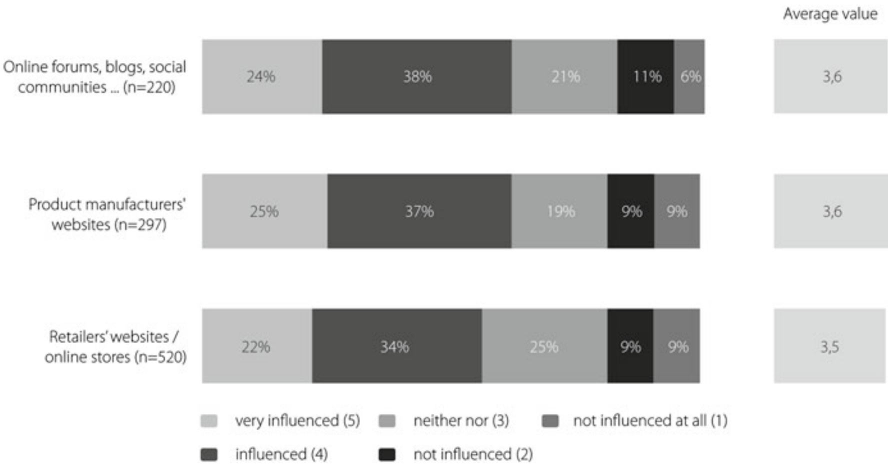


Fig. 8.5 Influence of websites on product buying decisions

Online Versus Offline Sales

For an aggregate view of multichannel consumer behavior, the existence of the converse should also be noted, i.e., where traditional "*bricks-and-mortar*" stores play the role of a complementary channel to e-commerce. As shown in Fig. 8.6, half of the consumers polled who had bought consumer electronics over the Internet had also checked out the same product in a physical store prior to making their online purchase.

However, the main conclusion from Fig. 8.7 is that "*brick-and-mortar*" stores still remain the most-preferred channel for buying electronic goods. Regardless of category, there remain a very significant number of purchases made offline, while the Internet, as a sales channel, remains very much in the background.

As is clearly evident from current research, different channels are used as integral parts of buying and informing in the purchase process of electronic goods. This obviously suggests that from a consumer's perspective, the Internet and point of sale are perceived as complementary channels, where the former acts as a powerful support of the latter. In order to successfully support

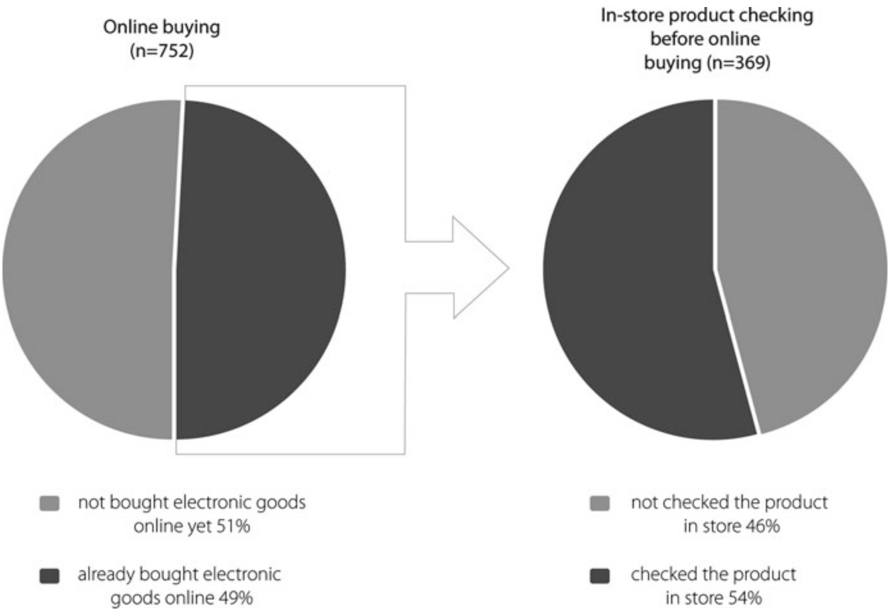


Fig. 8.6 Complementary role of "*bricks-and-mortar*" stores

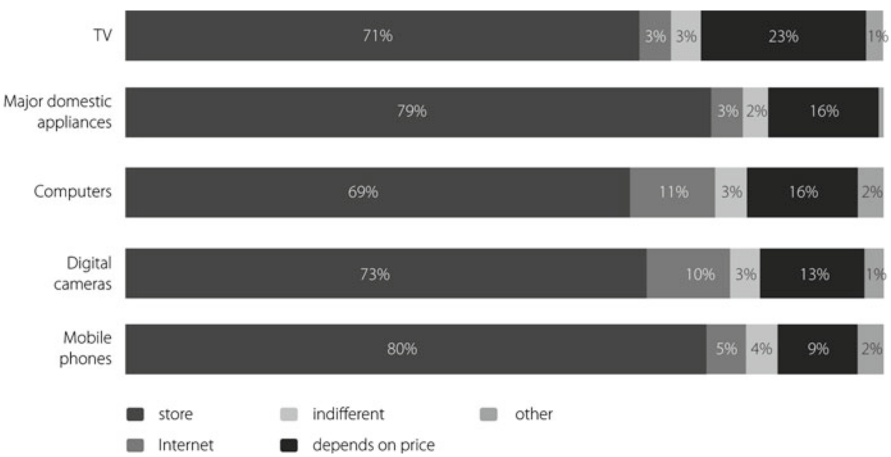


Fig. 8.7 Most likely used sales channel for buying electronic goods (n=1,069)

multichannel consumer behavior, as defined by the building blocks of the relationship quality phenomenon – i.e., customer commitment, satisfaction, and trust – the following mix of multichannel marketing activities have been implemented at Big Bang.

Multichannel Marketing Activities

Social Marketing Activities and the Building of Customer Commitment

"*Perhaps the most dangerous myth swirling around about social media is that it's just a fad*" (Overhulse-King 2010, p. 42). Since Internet usage took hold in the 1990s, a shift from a content management function to a more social platform has taken place (Squazzo 2010). As argued by Vemuri (2010, p. 20), "*the social media arena is no longer a niche curiosity. It is also not a trend that will simply go away*"; a fact also recognized by retailers (Internet Retailer 2010a) since, "… *social media is changing the manner in which consumers gather information about goods and services*" (Wetzel 2010, p. 90). Put more precisely, consumers tend to share and receive opinions, personal brand recommendations, and timely news on product prices and promotions, seller reliability, and post-sale customer experience (Internet Retailer 2010b). As such, social media is becoming a global consumer phenomenon with tremendous influence on communication tools and strategies, since it erodes marketing managers' control over the content, timing, and frequency of the information delivered to online users (Mangold and Faulds 2009). According to Nielsen (2009), two-thirds of the world's Internet population visit social networks or blogging sites. This puts the social media sector one step ahead of even personal email in fourth place (after web search, portals, and PC software applications). Even more astonishing is the over 80% increase in time that online users spend on social networking sites,[2] putting Facebook as the No. 1 global social networking destination[3] (NielsenWire 2010).

Facebook's tremendous power can be best described by the following comparison… If radio needed 38 years to reach 50 million users, TV needed only 13 years to reach the same audience of people. However, to reach 100 million users, Facebook, the world's most famous social media application, needed less than nine months (Patel 2010). Today, Facebook represents a network of more than 500 million active users, 50% of them logging on every day[4] and spending more and more time on the site. Moreover, between April 2008 and April 2009, Facebook reached nearly 700% year-over-year growth in total minutes spent by users on the site (NielsenWire 2009). With this in mind, Facebook offers retailers enormous potential when utilized as part of an integrated social marketing strategy to attract customers (Internet Retailer 2010c). However, social media is comprised of more than just Facebook. The social network phenomenon encompasses a wide range of online, word-of-mouth forums including: blogs, company-sponsored discussion boards and chat rooms, consumer-to-consumer e-mail, consumer product or service ratings websites and forums, Internet discussion boards and forums, moblogs (sites containing digital audio, images, movies, or photographs), and social networking websites (Mangold and Faulds 2009).

[2] From December 2008 to December 2009.

[3] In December 2009.

[4] http://www.facebook.com/press/info.php?statistics.

According to Solis (2010) social media is: "… *the democratization of information, transforming people from content readers into publishers. It is the shift from a broadcast mechanism, one-to-many, to a many-to-many model, rooted in conversations between authors, people, and peers*." The phenomenon represents an opportunity to generate awareness and relevance, establish relationships with consumers, and increase sales (Hammond 2009). Social media also provides a communication vehicle for companies and their consumers (Laduque 2010), facilitating not just promotion-related communication, i.e., companies talking to their customers, but also research-related communication, i.e., customers talking to companies (Mangold and Faulds 2009). With its continued growth and development, social media's marketing potential and opportunities are also increasing (Laduque 2010). When utilized effectively, the latter represent a valuable tool for any organization (Vemuri 2010). With this in mind, social media should be treated as a hybrid element of promotion mix, since it has become the *de facto modus operandi* for consumers disseminating information on products and services, which inherently demands that organizations shift their communication practices from talking *at* customers toward talking *with* them (Mangold and Faulds 2009).

Social media's effect on customer commitment – one of the three dimensions of relationship quality – can be better explained in light of customer participation in the virtual communities found embedded within social media. An explanation can be derived by applying social identity theory where social identification is defined as the "… *perception of belonging to a group with the result that a person identifies with that group (i.e. I am a member)*" (Bhattacharya et al. 1995, p. 47). According to Algesheimer et al. (2005), identification with a brand community represents the strength of the consumer relationship with the brand community. Membership in a community, thus, implies social identification on the part of consumers, whereby a consumer "… *comes to view him- or herself as a member of a particular social entity*" (Bergami and Bagozzi 2000, p. 557). Casaló et al. (2010, p. 359) translated this as "… *the degree to which an individual see[s] himself as a part of the [virtual] community*", which, in the words of Bagozzi and Dholakia (2006, p. 1104), manifests as "… *feelings of attachment and belongingness.*" With this in mind, identification is "*a consequence of the emotional involvement with the group*" (Casaló et al. 2010, p. 359), which can be characterized as affective commitment (Bergami and Bagozzi 2000).

As there are many social media applications popular among Slovenians, Big Bang decided to focus particularly on the one with the highest penetration among Internet users, i.e., Facebook. Big Bang uses Facebook for consumer education and two-way communication in order to trigger its customers' commitment. Such a holistic and customer-centric approach to the management of the Facebook application has resulted in Big Bang's Facebook site boasting the highest number of community members among retailers nationwide.[5] Facebook is also being used as a supporting tool for the other online marketing activities that Big Bang employs to build customer commitment, for example, advergames and creative web contests (see Fig. 8.8).

[5] 24 October 2010.

Fig. 8.8 Big Bang's advergame for LCD and Plasma TVs and creative web contest for household appliances

Svahn (2005, p.188) defines advergaming as: "… *a goal-directed and competitive activity concluded with a framework of agreed rules wholly or partially designed and produced with the intent of actively or passively assisting in the carrying and dissemination of a message designed to persuade the player to change a behavior in the world outside the magic circle of life*." To wit, an advergame is a game whose main purpose is to boost the sales of a product or service, whether through increased brand recognition or other methods (Smith and Just 2009), in an entertaining and engaging manner. As such, it can provide a fresh way to approach and engage a wide range of customers. In particular, advergaming seems to appeal to a broad web audience, which spans the gender divide and includes users from their late teens to their early 30s (Internet Retailer 2006a, b).

Big Bang has also utilized advergaming to great effect in the branding of LCD and Plasma TVs. The advergame employed the illustrative integration of certain LCD and Plasma TV brands into a game. Players were motivated to achieve the highest score by means of a weekly prize, in addition to a final prize awarded to the player with the highest overall score. By holding competitions over longer periods and selecting winners on a weekly basis, Big Bang, thus, succeeded in seducing players into maximizing their exposure to a particular brand. Advergames can also be easily integrated into social media applications in order to achieve even higher commitment and engagement on the part of a player. To this end, Big Bang's advergame offered special codes for bonus points that were published weekly on the company's Facebook site. Inherently, the Facebook application also allowed players to share and publish their results so other application users could see, comment on and, in turn, be drawn into the game themselves.

Creative web contests can be perceived as a subtype of advergames, where participants can create and/or publish their creation. Bearing in mind that self-persuasion is stronger than other-persuasion (Bogost 2007), a player's commitment to a certain process or task can be further heightened through creative web contests. For this reason, Big Bang used creative web contests to promote design as a competitive advantage of a particular household appliance brand. Players were challenged to design a sticker for a refrigerator door. As with advergaming, web creative contests were also supported with Facebook's application, in order to encourage users to publish and share their creations with their friends. In this way, other application users could see, comment, and feel motivated to test their own creativity on micro site with build-in creative web contest. The ability to tap into a social media application afforded some players a very large voting pool, which subsequently created a buzz that was highly beneficial from a branding perspective. At the end of the designated period, the designs that received the highest number of votes on micro site with build-in creative web contest advanced to the final round.

Simplifying Information Search in Order to Improve Customer Satisfaction

Generally, when people pay more for something, their involvement in the decision is higher since they are more concerned about making the right decision. For this reason, highly involved customers are inherently motivated to gain more detailed information about the product (Puccinelli et al. 2009). As illustrated by Big Bang's consumer behavior study, the complexity and/or higher monetary value of a consumer electronics product usually triggers an individual to launch a so-called *active information search*, i.e., the pursuit of reading material, the consultation of friends, online research, and visits to stores to acquire information about the product (Kotler and Keller 2009). Today's consumers obviously gravitate toward the Internet, due to its accessibility, a fact that should not go unnoticed by retailers, who can avail themselves of this ideal marketing channel, capable of transmitting vast amounts of information at a very low cost (Noble et al. 2005).

From a retailer's point of view, the need for retail marketing simplification is becoming more and more acute (Rubinson 2009). As a result, assisting customers by solving their problems quickly and easily should be of cardinal importance to retailers (Dixon et al. 2010), since post-recession consumers seek uncomplicated, user-friendly products and services that simplify their lives (Flatters and Willmott 2009). In accordance with this philosophy, Big Bang offers their multichannel consumers a useful and easy-to-navigate rich media microsite. According to IAB,[6] rich media is defined as: "*advertisements with which users can interact (as opposed to solely animation and excluding click-through functionality) in a web page format. These advertisements can be used either singularly or in combination with various technologies, including but not limited to sound, video, or Flash, and with programming languages such as Java, Javascript, and DHTML*". Rather than attempting to force customers to use a certain channel, as suggested by Lihra and Graf (2007), Big Bang considers the factors that attract customers to a particular channel in the first place and then addresses each one strategically.

Particularly popular among visitors to Big Bang's rich media microsites are the so-called product presentation video clips, which are very illustrative and easy to comprehend. Generally speaking, video is growing in popularity, as its production and presentation costs are low and it tends to bolster customer buying confidence (Internet Retailer 2010d). Moreover, as revealed in Spalding et al.'s (2009) study, rich media video technology is also associated with stronger purchase intent results. Cohen (2009) also suggests that retailers can benefit by using videos for better product illustration before purchase, especially with complex products which require training and how-to information. When they fulfil certain conditions, such as being entertaining or of particular interest to an audience, video clips can also be a powerful tool for viral marketing activities.

Big Bang inherently improves their customers' satisfaction by offering highly illustrative and informative rich media microsites to top sales products 24/7. It is vital for retailers to understand the consumer purchase process as a sequence of steps (Solomon 2009), within which the presented online activities play an important role, particularly in the phase of information search and, consequently, also in the phases of evaluation of alternatives and product choice. By providing information via a communication channel that is convenient and widely-accepted among customers, i.e., the Internet, as well as improving their technical competence by informing and educating them about certain product characteristics, with the help of rich media microsites in an uncomplicated and user-friendly way, Big Bang reduces the effort and time invested by customers in terms of their information search (Fig. 8.9).

In this sense, Big Bang can be said to simplify consumers' lives, i.e., the firm meets or even exceeds customer expectations by facilitating the information research phase. From this positive service experience, a judgment of a pleasurable level of consumption-related fulfillment may occur, resulting in a higher level of Big Bang customer satisfaction (Oliver 1997). Since consumers tend to employ one channel for browsing and another for purchasing (Noble et al. 2005), such customers are also better informed and equipped with the necessary technical information to make a final buying decision more quickly and easily once they are "*touching-and-feeling*" preferred product alternatives in the store. They will, consequently also experience a more pleasant and satisfactory total offline shopping experience.

[6] http://www.iab.net/media/file/GlossaryofInteractivAdvertisingTerms.pdf.

Fig. 8.9 Big Bang's product presentation video clip for a LCD TV with Internet access feature

Managing Offline Contacts to Build Customer Trust

As Grönroos (2007) argues, customer-contact employees either make or break the customer relationship. As such, salespeople often play an important role when interfacing with customers (Doney and Cannon 1997). The critical element of retail service encounters is the development of consumer trust in the sales assistant, since the presence of trust determines the quality of their relationship (Swan et al. 1999). When a sense of trust and closeness in a customer-salesperson retail relationship is built, such relationships tend to be more resistant to the occasional problems that might inevitably develop from time to time (Wong and Sohal 2002).

The importance of a customer's trust in a salesperson in the creation of long-lasting relationships is even more emphasized in the context of products or services characterized by high(er) level of risk-taking. Namely, risk-taking theory suggests that most consumers will experience at least some level of uncertainty in their purchasing decisions (Jagdish and Venkatesan 1968), when their decision is based on incomplete and imperfect information (Kim et al. 2008). In such uncertain situations, consumers may take additional steps to reduce the perceived risk by relying on another person (Jagdish and Venkatesan 1968) and that is where interpersonal relationships and trust consecutively come into play. This suggests also the importance of the so-called commercial information source (Kotler and Keller 2009), i.e., seeking out and relying on the opinion of a salesperson. This is especially true in complex buying decisions, when a consumer has insufficient experience and/or lacks product or service knowledge, all of which create a high level of uncertainty in the buying decision process, resulting in a greater need for personal interaction and additional information. Namely, as Guenzi and Georges (2010) argue, the higher the

Fig. 8.10 One of Big Bang's stores

perceived risk and the lower the consumer's technical competence, the more important interpersonal relationships become. In such circumstances, a salesperson's expertise reduces a customer's uncertainty and vulnerability during the encounter, thus enabling him/her to make a more confident purchasing decision (Fig. 8.10).

In the consumer electronics retail sector, customer trust is of overriding importance, since electronics purchasing decisions are recognized as inherently risky (Bhatnagar et al. 2000). Buying decisions in this sector demand from customers the so-called extended problem-solving purchase decision process (Levy and Weitz 2009). A high level of risk or uncertainty stems from the fact that most of the products on the market today frequently demand a very high level of technical competence and expertise on the part of the consumer. However, as a typical electronics customer still searches for a "*touch-and-feel*", try, and talk effect in a traditional sales channel, this would implicitly suggest that the average consumer possesses only a moderate level of technical competence and a lack of sufficient expertise. For this reason, consumers tend to seek stability at the point of sale and visit stores in order to physically inspect the product (quality) prior to purchase in order to reduce the level of uncertainty elicited when a product ordered online does not meet his/her expectations at the time of delivery (Liang and Huang 1998).

In such circumstances, when customers generally lack precise information and sufficient expertise, customer trust in a salesperson is a prerequisite (Guenzi and Georges 2010). To ensure a "*surprise-free*" product purchase, i.e., to reduce product risk (Schröder and Zaharia 2008), it is important that salespeople in traditional "*bricks-and-mortar*" channels provide demonstrable expertise and help consumers gain product understanding in a trustworthy manner, since: "… *trust is supported by salesperson competence, which includes skills, expertise, and ability such that information provided by the salesperson is valid and reliable*" (Swan et al. 1999, p. 94). As a retailer with a traditional sales infrastructure, supported by enthusiastic employees with high-tech expertise, Big Bang successfully manages thousands of customer contacts on a daily basis. By reducing customer-perceived risk in a trustworthy manner, particularly when customers interact with salespeople in order to enhance their product familiarity, Big Bang also successfully triggers the third building block of the relationship quality phenomenon, i.e., customer trust. After all, at the end of the day, "… *retailing is about direct customer contacts*" (Elg 2007, p. 569) – online and offline – as contemporary multichannel customers expect.

Concluding Remarks

The retail landscape is experiencing fundamental shifts in consumer behavior. Due to the Internet's apocalyptic power, consumers now utilize various available channels not just to purchase, but also to inform and interact with or about the retailer. With this in mind, multichannel consumer behavior is, thus, inherently becoming an unavoidable part of consumers' everyday life and a necessity for many traditional retailers. Since most retailers also depend on repeat business from customers, the awareness of a potentially continuing relationship between a seller and a buyer is likewise becoming of pivotal importance. In this chapter, we have examined how different multichannel marketing activities might influence a customer's level of trust, satisfaction, and commitment, i.e., the building blocks of relationship quality; a phenomenon that has recently emerged as a strategy for relationship development and customer retention in the highly competitive retail sector. However, due to the dynamic nature of the Internet, the list of presented multichannel activities in this chapter is naturally neither exclusive, nor exhaustive but rather industry- and market-specific. It follows that the multichannel business mindset should not be perceived as a "one-size-fits-all" solution. The multichannel business mindset should be interpreted rather as a synchronized business model, adapted to a specific area, and capable of providing brand and service consistency to customers across all channels. Yet, it is crucial that selected multichannel activities positively trigger customer trust, satisfaction, and commitment in order for a retailer to develop and maintain a closer and lasting relationship with the customer. Being aware that multichannel consumer behavior is becoming the *de facto* shopping and/or buying standard, some major, traditional retailers have already made necessary extensions into the online marketplace and begun to ramp up investment in multichannel retailing. This forces the entire retail community to raise their game. Ignoring this massive shift would inevitably lead to lost business opportunities. Instead, the wiser strategy would be to take the lead from those who have already embraced the new retail philosophy. "*We will continue to invest in our future by hiring talented leaders and improving our online and multichannel capabilities*," said Sears Holdings interim CEO and president W. Bruce Johnson (Internet Retailer 2008).

IKEA's Short-List of Multichannel Activities

IKEA, the Swedish home furnishing retailer, uses its easy-to-navigate website to facilitate marketing communication and their customers' shopping experience. In fact, from the multichannel retailing perspective, not only does it communicate a detailed product presentation to its online customers, it also approaches the challenge of multichannel retailing much more thoroughly and holistically. For example, an online tool that provides information about real-time store inventories enables its customers to better plan their local store visits. Moreover, providing online information about the product's exact aisle position also adds value for customers, as this information facilitates product location and retrieval within the store. Also, in the spirit of reducing overall customer effort, IKEA offers online planning tools. These enable customers to familiarize themselves with certain product categories before visiting the store, which, in turn, facilitates the offline shopping experience. Customers can thus educate themselves in advance on certain product category elements, upgrades, measurements, and possible peculiarities, and be better prepared to finalize planning in the store with the professional assistance of IKEA's sales personnel.

Best Buy's Short-List of Multichannel Activities

Best Buy, a specialty retailer of consumer electronics, uses its web site to create a seamless customer experience across channels. For this purpose, various kinds of multichannel activities have been implemented. For example, Best Buy offers a convenient multichannel retail solution, whereby a customer can pick up purchases directly from the store or, for certain large items, even from the nearest warehouse. This solution allows consumers to avoid shipping fees, eliminate concerns about package delivery, and receive products more quickly. Similarly, customers can also return their online orders to any Best Buy store, thus avoiding shipping charges and expediting refunds. To create a seamless customer experience, Best Buy also offers a loyalty program, where points can be earned regardless of which channel the purchase was made through. When the reward certificates are ready, the customer receives an email and can print the certificates out online. Reward certificates can be later redeemed either online or in store. In a similar vein, a convenient solution is also offered for gift card recipients, who can check their card balance online. Along the same lines, Best Buy's prominent computer technology support service is also available online for those customers who find it preferable to bringing their products into their local store.

Discussion Questions

1. Assume you have been hired as a consultant by your favorite retailer. Please comment on the firm's multichannel strategy. Do you think it has all the components necessary to build close and lasting relationships with its customers?
2. What kind of multichannel activities would you suggest to your local food retailer, if at all? What about a local apparel retailer? Try to offer suggestions concurrent with relationship building theory.

3. Compare the role of a salesperson in a multichannel environment to a traditional "*bricks-and-mortar*" one from a customer perspective. Describe in detail the competencies a salesperson must possess in order to be successful in a multichannel environment.
4. From a retailer's perspective, describe the benefits of store pick-up implementation? Are there any particular issues which need to be dealt with before implementation? Try to compare two different types of retailer in your discussion (e.g., consumer electronics retailer vs. book retailer).
5. Discuss technological influences on further multichannel development.
6. Despite its massive popularity, do you consider social media activities an appropriate element of every retailer's multichannel marketing strategy?
7. How would you advise the CEO of a successful, long-established catalogue retailer? Should the firm adopt a multichannel strategy in addition to an online sales channel?
8. What kind of pricing and assortment strategy would you advise to a retailer that is using online and offline sales channels? Find arguments using a multichannel mindset, i.e., aim to provide brand and service consistency to customers across both channels.
9. Think about the challenges of rewarding loyal customers for their purchases regardless of the channel through which purchases were made. Consider also how the rewards will be redeemed.
10. A camera retailer is thinking of closing its stores and selling its products solely through an online sales channel. What would be your advice to this retailer?
11. Despite its best efforts, the CEO of a multichannel retailer received the results of its annual customer research survey, which showed signs of a decrease in relationship quality, i.e., lower levels of customer trust, satisfaction, and commitment. The customers' main complaints centered on the ineffective synchronization of online and offline sales channels. You, as a marketing manager, have been invited to present a short action plan to the management team to improve the situation. Argue why a multichannel strategy is a must for the retailer and what could be done to resolve the issue identified by its customers.

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Chapter 9
Reinventing the Customer Experience: Technology and the Service Marketing Mix

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There is nothing disruptive per se about any new technology; rather disruption comes from the manner in which the industry leaders and players manage it.[1]

Learning Objectives

- To gain familiarity with new technologies that have the potential to dramatically change the customer retail experience.
- To better understand how each new technology will influence the elements of the service marketing mix (the Seven Ps).
- To understand the issues associated with the implementation of the various technologies.
- To gain a better understanding of the internal and external barriers to the implementation of new technologies.

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The Technology Challenge in the Retail Industry

Technology continues to advance at a rapid rate. The challenge for retailers is to determine which technologies are likely to have the biggest disruption on the retail experience and should, therefore, be adopted to remain competitive. Several new technologies are already having a major impact on the customer experience. For example, shoppers can take a picture of a QR (Quick Response) code in a magazine advertisement using their mobile devices and then be forwarded to a website where they can learn more about the product and even purchase it, if so desired. Additionally, mobile devices can accept customized coupons (Groupons) and product recommendations through a loyalty program such as the one provided by Shopkick. Opinions about potential purchases from friends/family in remote locations can be garnered through the utilization of social networking technology such as Magic Mirrors (Buechner et al. 2007). A common element in these examples is that technology has the capability to radically alter the retail experience.

For retailers, the first step is an awareness of the various technologies. From there, retailers must determine which, if any, of the new technologies would make sense to integrate into their service offering in order to remain competitive. One way to investigate how technology is impacting retailers is to view the new technologies relative to their impact on the service marketing mix (i.e., the seven Ps of marketing). The seven Ps of the service marketing mix represent the specific dimensions that businesses can use to strategically differentiate themselves from other retailers so as to produce mutually-satisfying exchanges with the target market.

One consideration is that the plethora of new technologies represents an array of technological choices, each with differing requirements. The sheer number of options can overwhelm organizations in the form of a paradox of choice. Companies may face so many technological options that choosing one (or a bundle) can present a situation where staying the current course may seem like a better strategy than opting to implement a technology that may not justify the resources necessary to recognize a positive return. Motivated by this array of technological choices, the framework presented herein is based on the seven Ps and provides a means of evaluating new or emerging technologies that have the potential to reshape customer experience in the retail setting. In this chapter, we first introduce our framework broken down into hardware or software-based technologies. Second, we analyze the technologies in terms of the seven Ps of marketing (price, product, place, promotion, people, process, and physical evidence). The chapter concludes with a brief discussion on the inherent challenges related to the adoption of technology in the retail setting.

Technology Opportunities

Retailers can begin to make sense of their technological options by understanding the various types or classifications of different technologies. Specifically, organizations need to make decisions about the selection and implementation of hardware or software-driven technologies, or a combination of both. As per this distinction in our framework, hardware-driven technologies are those that require some type of tangible, specialized equipment. In contrast, software-driven technologies refer to software applications that run on commonly available hardware platforms, such as PCs or mobile devices. As such, our framework organizes technologies into hardware and software-driven, with the common platform for the software-driven technologies evolving towards mobile-based applications. It should be noted that any hardware-based technology does require various software components in order to fully integrate the existing technological systems.

Hardware-based technologies are those that require adoption of some specific, tangible specialized equipment in order to implement the system. Of the seven technologies we are evaluating in our framework, three are hardware-driven: RFID, Magic Mirrors, and Shopkick. These technologies require investments in hardware-based components in order for the technology to deliver value to the customer experience.

In contrast, software-based technologies utilize commonly available hardware platforms, such as PCs and mobile phones, to run the applications, which are often Internet-based. Examples of mobile phone applications that have been applied in the retailing context are QR codes, AisleBuyer, Groupon, and Foursquare. Even though these software-based applications do not require retailers to invest in any new hardware, these options do require dedicated individuals to manage the use of these tools to reach the selected consumers of interest.

Changing the Customer Experience Through the Service Marketing Mix

Traditionally, marketing has viewed its role in terms of the core aspects that provide value to customers. The original dimensions of the value proposition were defined in terms of the "Four P" framework (i.e., product, promotion, price, and placement) (McCarthy and Perrault 1993). As the field progressed, the marketing mix was expanded to more effectively match the conditions under which a firm operates. The culmination of these efforts coupled with the move toward a service-oriented economy resulted in a marketing mix consisting of seven unique dimensions which expands on the original four, to include physical evidence, people, and process (Zeithaml et al. 2009).

Our framework is based on the service marketing mix (or the seven Ps) and is used to evaluate seven new or emerging technologies and their impact on the overall customer experience (Table 9.1). In this section, each of the Ps is described briefly and then example technologies are provided to illustrate how the P has been or can be impacted by the technology.

Physical Evidence and Process

When customers enter a retail establishment, they immediately interact with both the physical environment as well as the service process. In general, physical evidence is any tangible aspect of the store encounter such as the store atmospherics

Table 9.1 Technology and the service marketing mix

Technology examples	Service marketing mix dimensions						
	Physical evidence	Process	Place	Promotion	Price	People	Product
Hardware-driven							
RFID	X	X			X	X	X
Magic Mirrors	X	X				X	
Shopkick			X	X			
Software-driven							
Aislebuyer	X	X				X	
Groupons				X	X		
QR Codes		X	X	X			
Foursquare			X	X		X	

(colors, scents, sounds, furniture, equipment, and layout), signage, website design, and employee uniforms that can influence the consumer encounter. Similarly, the service process is the actual procedures, mechanisms, and flow of activities through which the service is delivered. In this case, the process refers to the specific steps through which a customer will go to initiate, participate in, and complete the entire service transaction. In the retail setting, there are actually overlapping, integrated processes that function within the physical facility to establish the customer experience.

The physical evidence and process components are of extreme importance to retailers as customers often form their respective perceptions about the organization (e.g., quality) based on their interaction with the service processes and the associated physical surroundings. In other words, consumers draw conclusions about a firm based on what they see and experience (Bitner 1992). Research has found that even something as mundane as the cleanliness (dirt and disorder) of a store can affect customer behavior (Vilnai-Yavetz and Gilboa 2010).

Given the overlap between the service process and physical facility, there are several areas where technology can be used to alter the customer experience. For example, an organization could decide to implement Magic Mirrors (developed by LBi Icon Nicholson, http://lbi.com). These mirrors are interactive devices that offer the opportunity to enrich the retail experience by combining mobile communication, online networking, and traditional merchandising (Mui 2007). The mirror, which was named one of Time Magazine's Best Inventions in 2007 (Grossman 2007), allows an individual to stream live the dressing room experience to friends or family in order to solicit input about the specific item of interest. According to Worley and Ferran (2008), "the mirror may be able to bridge the gap between fashion and the popular realm of social networking." The retailer Nanette Lepore has reported that sales have increased fourfold with the introduction of the mirror (LBI 2010).

This marketing innovation does come at a cost, however, as each mirror is priced at approximately $25,000. Despite the price, it can be seen that a technological advancement such as the mirror is a potential tool for enabling an organization to provide a more customized experience by altering the service process to accommodate the utilization of the tool, while also sending a signal to consumers about the trendiness of the physical facility.

Another technology that can be used to alter the physical facility and/or the process is radio frequency identification (RFID) tags. These tags are physical objects that are placed on the individual products sold by retail organizations, allowing the organization to more effectively control product locations. In this instance, RFID is a broad term that refers to an integrated system composed of RFID-specific hardware (i.e., tags and readers), a communications network, and software components. Typically, RFID tags have been placed on pallet-level applications in order to more efficiently track products as they travel throughout the supply chain (Angeles 2005) so as to enhance the visibility of products while also eliminating the need for manual, time-consuming inventory counts (Dunne and Lusch 2005; Jones et al. 2005). To date, the biggest proponent of RFID utilization has been Wal-Mart, as it has noted the potential for significant savings in the form of faster material movement, increased record accuracy, enhanced material location, and even more efficient product recalls (Cox 2003). Wal-Mart has projected that the potential financial contribution attributed to such a system would exceed $280 million (Nystedt 2007).

There is no doubt that implementing an RFID system can have significant effects on the materials management process. However, as retailers move toward the placement of tags on individual items, there are vast opportunities to alter the service offering. For example, the utilization of an RFID-enabled system can result in an organization relying completely on self-service, whereby the customer enters the store, selects products to purchase, then exits the store through a system reader which automatically recognizes all the products while charging the customer's credit card or store account. As can be seen, this could take the customer–employee interaction entirely out of the equation or it could enable the organization to utilize its employees in the form of roaming customer service representatives as opposed to having them stand stationary at the checkout counters. The organization could also integrate RFID technology with smart shopping carts in order to offer suggestions to customers based on what they currently have in their cart. An example can be seen in the German retail store Metro which is currently experimenting with these concepts in its Future Store initiative.

Beyond the hardware-driven technologies, there are other opportunities to alter the facility–process interface through software. One mobile phone application is AisleBuyer (http://aislebuyer.com) which was initially launched for Magic Bean toy stores (CNBC.com 2010). The AisleBuyer interface enables a customer to scan any UPC code, obtain the relevant product information, and then pay for the product directly through the phone. This is similar to the potential utilization for RFID discussed above in that it allows the customer to avoid checkout lines. Organizationally, this would enable the company to proactively use employees in different customer service areas or in product placement roles, instead of being reactive in the form of waiting for customers to enter checkout lines. Similar to RFID, smart phone applications like AisleBuyer have the potential for a retailer to significantly alter the physical facility and/or the process to make the shopping experience more enjoyable.

Fig. 9.1 Sample QR codes

A final example of an emerging technology that can alter the facility and process components is Quick Response (QR) or 2D codes which are also capable of linking cell phones with other media (Story 2007). Quick Response codes are similar to traditional bar codes except that they can hold additional information (e.g., web addresses, telephone numbers, etc.). Physically, these codes are two-dimensional, square-shaped mosaics of black and white images (Fig. 9.1). Whereas traditional barcodes typical have a capacity of about 20 digits, the two dimensional QR codes can store approximately 7,000 digits by using both vertical and horizontal directions (Gubitosi 2009). In essence, the 2D codes fall somewhere between traditional bar codes and RFID in terms of information, but they can also be integrated with mobile phones in order to provide customers with more information about products (e.g., price, location, details, etc.).

In summary, several technology options exist for retailers to reshape the delivery process and associated physical facility. The key for any retailer is to understand the direction of the intended change. For example, if an organization wants to focus more on speed or efficiency, then the implementation of RFID or AisleBuyer may be sound options as they can eliminate the entire checkout process so that the experience becomes one of complete self-service. In contrast, if the organization prefers to move toward more of a customization model, it could incorporate Magic Mirrors to heighten the experience while also employing one of the other technologies (RFID, QR codes, etc.) to free employees to service individual customer needs more effectively.

Place

Place refers to the location where a product is made available to a consumer. The place a product or service is sold can vary from a traditional "brick and mortar" location to an online website or to even an "app" on an iPhone. With technology, the kind of place where a retailer can interact with a consumer is increased. In some cases, technology can make previous locations of customer interactions obsolete. For example, Gameloft is a French game developer that withdrew from the boxed games market in January 2009. Instead of selling boxed games at physical retail locations, Gameloft focuses on selling mobile games that are distributed online through locations such as Apple's App Store website (Wauters 2010).

QR codes also have the potential to impact the "place" in which consumer interaction occurs by minimizing the need for transactions to take place strictly in brick and mortar locations. A consumer can see an advertisement, scan it with a cell phone, view the website associated with the QR code, and then purchase the item from the phone – all without entering a physical storefront.

Another technology that is influencing the "place" of the service offering is Foursquare, a location-based social media application launched in 2009, which helps people connect with friends using their mobile phones. Foursquare was named one of the top inventions of 2010 by Time Magazine (Fletcher 2010). The mobile phone application, which is part game, part social network, and part coupon provider, is designed to encourage consumers to visit various places of interest (Sutter 2010). When a customer goes to a particular venue and checks-in to Foursquare, the customer is immediately notified of special deals that are currently offered at that location, such as a discount on a particular item or any form of a special offer. To encourage an attitude of exploration and fun, Foursquare awards consumers points each time they enter a business and awards additional points for being adventuresome (i.e., exploring different parts of the city). The more you use Foursquare, the more points you accumulate. Users can earn special merit badges as their points accumulate, with the consumer paying the most visits to a particular business being deemed the "mayor" and becoming eligible for extra discounts (Oliver 2010). Users can follow their Foursquare point status with any firm, at any time. Additionally, the system has the ability to reveal a user's location to his or her friends, allowing friends to join each other at various locations.

Businesses joining Foursquare are provided with information about their customers, such as real time data relative to customer visits. The system tracks the number of people who visit the store, a histogram of check-ins per day, gender breakdown of customers, and the number of visitors who broadcast their visit on Twitter or Facebook. One of the negatives associated with Foursquare from the consumers' perspective, is the need to physically check-in to the system to register their location. From the retailer's perspective, this is problematic in that it makes it possible for consumers to fake their actual location, which reduces the accuracy of the check-ins (Ha 2010). Despite this limitation, the game-like environment provided by Foursquare is an innovative mechanism to encourage consumers to try new places.

Another new technology that has the potential to revolutionize loyalty card programs is called Shopkick. From the consumer end, Shopkick is available as a free iPhone app that allows users to earn 'kickbucks' for entering a participating store (http://shopkick.com). Kickbucks are points that accumulate for store discounts and special offers. The retailer can also provide specific rewards that are made visible on the device, such as a 10% discount on anything in the store. From the retailer's end, participation requires the installation of a specialized, shopkick signal hardware. Shopkick partnered with Best Buy to kick off the concept in the summer of 2009 (Mobile Marketing Watch 2010). To earn points, the consumer has to first open the

Shopkick application on their mobile phone. But unlike Foursquare, where the user has to initiate the check-in process, the Shopkick signal hardware automatically checks-in consumers as they physically enter the store. Points are awarded to the consumer's Shopkick account, and a message detailing any immediate product offers is made visible on the iPhone. The Shopkick application also has the ability to provide consumers with additional kickbucks by scanning in specific items using the built-in barcode scanner or by visiting specific store departments (Ask 2010). Similar to a typical loyalty card, kickbucks can be redeemed for discounts off on purchases. But, unlike a loyalty card which is used only upon purchase, the Shopkick application rewards consumers for just walking in through the door. According to http://shopkick.com, other retailers participating in Shopkick include Macy's, American Eagle, and Sports Authority. From a 'place' perspective, Shopkick has the ability to precisely reward actual visits to a store and reward physical movement within a store. Kickbuck points can be awarded as and when the customer moves to various parts of the store as guided by the software.

Price and Promotion

Price refers to that which is given in exchange for acquiring a product or a service. It is essentially a proxy for the value that a customer receives. In conjunction, promotion involves the manner in which retail firms communicate with their consumers about what they have to offer. Promotion is a combination of tools, such as advertising, public relations, personal selling, point-of-sale displays, and sales promotions (free samples, coupons, in-store events, etc.) that are used to reach the target market and fulfil the organization's overall goals. Promotional efforts strive to increase store traffic. They typically offer some sort of incentive to consumers for visiting a store or purchasing merchandise during a specific period of time (Levy and Weitz 2011, p. 448). In the context of retail, promotions are actively used to generate interest in the products and services that are offered by the firm at a given price point. As the two concepts are highly interrelated, the potential effect of technology on both is addressed simultaneously.

Quick Response codes are one example of how technology can be used to facilitate promotions, whereby special pricing options are offered. One of the earliest promotions of QR codes and promotions involved Dick's Sporting Goods. During the 3rd quarter of a football game at the Dallas Cowboys Stadium on September 5, 2009, the video billboard instructed fans to take a picture of the QR code displayed, in order to be connected to a website to receive an offer of $10 off on a purchase of $50 or more (Arnold 2009). Another example is a promotional effort by the National Basketball Association (NBA). During the 2010 All-Star Game, fans were invited to scan the QR code displayed on video screens throughout the stadium. Once an attendee scanned the QR code, a coupon was sent to the phone to receive a free gift at the main team store in the stadium. The campaign was completed during a 6-hour period, with more than 10% of the attendees at the game actually pointing and clicking the QR code and the stadium distributing all of the free gifts available (Pellow 2010).

Foursquare, discussed earlier as impacting the *place* of the marketing experience, is also a tool for *promotion*. With Foursquare, people are already talking about your establishment. Firms can offer discounts and freebies to Foursquare check-ins. As discussed earlier, this application encourages consumers to check-in often to earn points. Through such an application, special offers and staggered pricing can be offered to users achieving certain point thresholds. In a similar fashion, Shopkick rewards consumers for their presence in a store with kickbucks that are redeemable in the form of purchase discounts. The store can send various in-store special offers and coupons directly to the consumer's mobile phone for viewing as they enter the store (Ask 2010).

As technology advances, the opportunities to specifically target individuals or groups continue to expand. The examples noted above provide only a glimpse into some of the potential opportunities. In essence, retailers have an ever-expanding technological base to choose from. However, retailers need to temper their enthusiasm by being selective about how they integrate these technologies into existing promotional and pricing campaigns, so as to not overwhelm current operations or customers.

People

People represent all the individuals who participate in a specific shopping experience and who have an influencing role in the shopper's perceptions (Zeithaml et al. 2009, p. 352). By people, we mean all human participants, including the firm's frontline personnel, other customers in the environment at the time of the encounter, and the actual customer. The people aspect of the marketing mix suggests that employees can influence the satisfaction that consumers derive from the shopping experience (Lovelock and Wirtz 2011). The service failure literature is replete with studies that reveal how rude or slow employees negatively influence everything, from the customers overall satisfaction with the firm to their ultimate loyalty (Kelley et al. 1993; Hess et al. 2006). Likewise, good employees can have an overwhelmingly positive effect on customer satisfaction. Studies have shown that positive interactions with store employees can lead to high levels of satisfaction (Brown and Lam 2008).

While it may seem counterintuitive, the customer also has a role to play in the encounter. For example, not understanding how to use self-service checkouts or interactive mirrors can lead to frustration and dissatisfaction. This suggests that, to some extent, consumers are responsible for their own satisfaction. For example, did a customer ask for help from a sales associate when needed? The underlying concept is that the customer's actions or non-actions, to some degree, will influence their overall satisfaction (Zeithaml et al. 2009).

RFID is an example of a technology that impacts people in the marketing process. Although much of the adoption of RFID has focused on improvements in the retail supply chain, RFID also can impact the consumer. Whereas Wal-Mart's initial RFID strategy involved tagging at the pallet and case level, with no tags on the actual products themselves, the next phase of Wal-Mart's RFID strategy involves tagging the individual products in those pallets (Bustillo 2010). With this tagging of individual items, some consumers have raised privacy issues. At the heart of the issue is the fact that although the tags can be removed from clothing and packages, they can still remain active and be tracked. Bustillo (2010, p. A14) writes, "Some privacy advocates hypothesize that unscrupulous marketers or criminals will be able to drive by consumers' homes and scan their garbage to discover what they have recently bought."

The Magic Mirror addresses the social aspect of the retail experience by allowing friends and family to participate without being physically present. Because the mirror is located outside the actual dressing room, other people can view the customer via video cast and provide feedback on the clothing.

With Foursquare, customers are immediately rewarded for their presence. The application helps a participant to stay in contact with friends and facilitate meetings together at various locations. Participants have access to and can provide inside information about various establishments (e.g., "great deals"… "great food" … "avoid this"). This application is thought to socialize firm loyalty.

Finally, with the AisleBuyer application, the consumer can be more self-sufficient. By eliminating long check-out lines and contact with potentially negative check-out personnel, AisleBuyer can increase customer satisfaction by giving the consumer more control in the purchasing process.

Product

The product represents the offering that customers value and pay for in a marketplace (Ziethaml et al. 2009), be it physical, tangible items such as cars, or more intangible items such as information technology consulting services. In the retail context, the product is at the core of the total customer benefit package. Namely, customers patronize retail organizations (whether in person or via remote access) to purchase items they want or need, to continue their respective ways of life.

Technology is impacting products, from simply facilitating how consumers learn more about a product or service, to actually changing the physical product offering itself (Levy and Weitz 2011). An example of how technology is changing the product is evidenced by RFID. RFID has large applications in retail inventory management. With RFID, retailers are able to maintain more accurate inventory counts and replenish inventory more appropriately, thus reducing the occurrence of stock-outs (Swedburg 2010). In addition, a company's website can be set up to provide information only on merchandise that is actually available to be purchased. RFID would also provide value-added services relative to the location of products within the store (Uhrich et al. 2008). For example, although an inventory system can indicate a particular product is in stock, sometimes the item is not at the location where it is supposed to be. If the item has been tagged with RFID, a store employee can use a handheld scanner to quickly locate the item.

Inherent Challenges of Technology

From the above discussion of our technology framework, various new technologies have been shown to fundamentally change customer experience through the service marketing mix (i.e., people, place, physical evidence, process, product, price, and promotion). Although the analysis above describes how the customer experience is changing via technology, a limitation of the framework is that it does not address factors that promote or inhibit technology adoption.

In the information systems field, there is a tradition of studying technology implementation from a positive perspective. Namely, there is a rich history of theoretically-based models that investigate the specific factors that affect the successful adoption of a new technology. For example, there are multiple derivative models of technology adoption from the perspective of the technology acceptance model (TAM) and the theory of planned behavior (TPB) (e.g., Davis et al. 1989; Taylor and Todd 1995). In these studies, the goal is to investigate the factors that influence adoption (or planned adoption). What is missing, however, is any tangible mention of factors that potentially inhibit adoption. It is with this in mind that we offer a brief discussion of the factors (both internal and external) that may potentially impede the successful adoption and implementation of technologies mentioned in our framework.

During the investigation of the potential barriers to implementation, we divide the discussion into barriers that are internal to the organization and those that are external to the organization. In this division, the internal barriers address issues dealing with management, employees, and existing systems, while the external barriers address the multiple concerns faced by customers in terms of ultimately being willing to participate in the technology-altered service experience.

From the perspective of the retail organization, the initial challenges are internal barriers, primarily concerned with management. In this case, there has to be an awareness that the potential technology and subsequent alteration to the service system are positive moves for the firm. As management is frequently concerned with the potential for a sound return on investment, they sometimes fail to recognize the potential impact that may be possible even though it may not be directly recognizable in the firm's financials. As research has often noted, it is very difficult to delineate the return on technology investments in a concrete manner (e.g., Weill and Olson 1989; Mahmood and Mann 1993). This is not to say that the investment is unwise; instead it is simply a challenge that must be addressed when making the adoption decision.

Beyond the management level, there are issues associated with employees as well. It has been well-documented that even in cases where technologies were implemented and formally adopted by an organization, the firm's employees failed to fully utilize them (e.g., Davis et al. 1989). This can result from an "inertia effect", whereby individuals have grown accustomed to performing their respective jobs in a specific manner and will be slow to change to a new set of routines that may be required by a new technology, possibly due to their perceptions of the new technology (Agarwal and Prasad 1998). Additionally, if the retailer decides to incorporate specific technologies that expand the current scope of the job, there may be resistance, in terms of employees being unhappy with the increase in activities without proper training and/or compensation. Therefore, it is imperative to gain employee buy-in through communication that the change will be positive for both the firm and the employee.

Once the human issues have been addressed, there still exists a challenge in terms of the integration of the new technology with the existing systems. Issues along these lines include the technical aspects of simply getting things to function as intended and being ready to handle all the mishaps common to technology implementation. For example, the complexity of the innovation has been identified as a characteristic that impacts a technology's adoption (Rogers 1995). In terms of complexity, a potential problem in a technology integration effort deals with the problems related to integrating multiple new applications. For example, an organization may decide to maintain a Facebook page while also offering Groupons. In this case, there is the burden to maintain a consistent message to consumers, as any disconnect between these technologies could potentially cause frustration and dissatisfaction in the customer base. Finally, there needs to be awareness that many of the new technologies discussed above are so new that standards do not yet exist, so, the landscape has the potential to be altered at some point in the future. The key point to remember is that any technology implementation needs to follow a structured path so as to present and maintain a consistent message to consumers.

After the internal issues have been addressed, the retailer also needs to consider the potential challenges presented from the external environment (e.g., customer-related issues).Challenges from the customer perspective deal mainly with awareness, initial acceptance, and ultimate utilization. The awareness issue is mainly the function of getting the information through to potential customers. For example, it would not behoove an organization to implement Magic Mirrors or AisleBuyer if customers do not even know what they are. Therefore, it is imperative that organizations promote any changes to the service offering, while openly providing all relevant information about how the changes will improve the current shopping experience.

Once customers are aware that a retailer has altered the experience, the organization is now responsible for finding a way to get these customers to begin participating in the altered service offering. Typically, the largest barrier to customer participation in technology-enabled service experiences centers around privacy. It has been noted that consumers have serious privacy concerns once the technology has the potential to invade their lives beyond the specific service transaction. For example, research has shown that consumers are willing to participate in RFID-enabled service systems only if the benefit is substantial, given that privacy concerns are a significant barrier (Smith et al. 2010). Further, studies indicate that consumers are wary about participating in systems where their privacy could be at risk (Cleff 2007; Crespo et al. 2009). It has been shown that trust in an organization dampens the privacy concern (Ha and Stoel 2009), but trust-building has often been a difficult problem to solve.

The final challenge from the customer perspective involves the actual participation of customers in the altered service system. The biggest issue to address is enabling customers to utilize the new technology by effectively training them on how it can be used. For example, if a customer enters a dressing room and wishes to use a Magic Mirror to send images to friends but is unable to get things to work, the customer will be potentially more dissatisfied due to a failure to meet the heightened expectation. The specifics associated with customer tasks (e.g., ambiguity or complexity) have been shown to affect behavioral intentions in a technological context (Jarvelainen 2007), so it is important for organizations to consider the new routines that may have to be learned by customers.

Ultimately, every organization that chooses to alter the customer experience through the usage of new technology will face a series of challenges. However, if the retail organization is fully aware of the potential risks, then the likelihood of success is substantially increased.

Conclusion

In this chapter, we present the manner in which technology can affect the customer experience by denoting how certain types of hardware and software can alter the various dimensions of the service marketing mix (i.e., the 7 Ps). Specifically, we have discussed seven emerging technologies that can be utilized by retailers to alter the service offering so as to serve existing and new customers more effectively. As can be seen, the specific manner in which a retail organization decides to modify the customer experience can range from minor adjustments (e.g., offer promotions via a mobile application) to more radical innovations (e.g., fully incorporating RFID into the retail supply chain), depending on the desired outcome.

Within our framework, it is also easy to discern the complexity of each technology by examining the extent to which each technology impacts the service marketing mix. For example, from Table 9.1, we see that the Shopkick application primarily impacts place and promotion, making it a less radical and disruptive innovation than the RFID, which impacts the process, physical evidence, the price, people, and product. It is hoped that the technology examples offered in our framework can provide a foundation from which managers can explore other technology options and select the technology that best fits the desired alteration to the experience.

Beyond the manner in which technology can alter the service offering, a discussion of the potential issues associated with implementation was also presented. In this case, the goal was to denote that the decision to utilize a specific tool does come with certain implications. By doing so, it is believed that a sound decision can be made wherein a manager can weigh the potential benefits versus the inherent costs so as to select the best technology for the specific operational context. In essence, the key point that an organization needs to consider is that each technology (or bundle of technologies) comes with risks that need to be addressed in the initial stages of implementation so as to generate a seamless integration with existing firm systems.

Vignette #1: Apple's Impact on Product and Place

Apple's iPhone is an example of how an integration of hardware-based and software-based technology can change the retail experience. From a *product* perspective, the iPhone has been able to differentiate itself from other smart phones through its rich feature set. The iPhone provides Internet and multi-media capabilities, including a camera, text messaging, visual voice mail, a portable media player, e-mail, and web-browsing.

However, the iPhone is more than just a new hardware-based product for Apple. Even though the iPhone has a rich feature set, it has also transformed the *place* of the retail experience. The iPhone can also be considered as a hardware platform, supporting a myriad of 3rd party applications ("apps") in areas such as games, GPS navigation, and social networking. This support of apps by the iPhone has created an entirely new product offering for Apple – the "App Store." The "App Store" is an online store of applications that allows users to browse and download applications for the iPhone, some for free and some for as little as 99 cents. According to Fortune Magazine (Elmer-DeWitt 2010), the App Store has contributed over $189 million to Apple's gross profit since its launch in 2008. Piper Jaffray, an investment bank and securities firm, estimates that iPhone, iPad, and iPod users download more than 16.6 million apps per day (Elmer-DeWitt 2010). Although initially created to drive sales of Apple hardware, the App Store has evolved into a new, potentially profitable line of business for Apple. Apple has been able to increase the value of the iPhone such that it is no longer "just a cell phone", instead, it drives both software and hardware sales for Apple.

Vignette #2: Groupons: Coupons for the Masses

Groupons are an effective promotional tool, enabling a business to offer specific deals through the concept of mass appeal. Essentially, Groupons are a deal-of-the-day special offer that only takes effect if a certain number of people register, and often pre-pay, for the deal (http://groupon.com). Once the 'magic' number is reached, the specific promotion comes into effect for all current members. For example, Freemont Brewing offered a Groupon that included a company tour, a pint of beer, and a pint glass for $7, which equated to a discount of more than fifty percent. In the initial 24-h period, Freemont had more than 1,300 users trying to schedule the time for when they could take the tour (Del Rey 2010). Another example is the case of Hannah's Bretzel (an organic sandwich shop) who offered two sandwiches for the price of one deal, which meant customers had to pre-pay \$9. Within only a few hours, almost 3,500 people had responded, which led to gross sales of over \$15,000 in a single day. Even though it was reported that Hannah's only broke even on the sandwich offer, many of the customers were first-time patrons and almost forty percent of the customers purchased additional items (Del Rey 2010).

In addition to targeting local businesses, Groupon offers national discounts. For example, in August 2010, Groupon offered its first nationwide coupon – a \$25 voucher to The Gap that could be exchanged for \$50 worth of merchandise. Groupon sold 445,000 of the \$25 vouchers, resulting in over \$11 million in sales for that offer (Diaz 2010).

In order to receive a Groupon offer, a user must pre-pay for the product on Groupon's website, with the offer not valid unless a predetermined number of vouchers are sold within a 24-h period. In addition, Groupon typically charges 50% of the offer amount (Del Rey 2010).

As can be seen, the real power of Groupons stems from its promotional abilities in reaching a large number of actual customers. Unlike traditional coupons, where potential customers are targeted who may or may not utilize the offer, Groupon customers have already paid for the offer and represent an actual customer for the business.

Discussion Questions

1. In considering what technology to adopt, to what degree is it important for the retail firm to have a firm grasp of its target market?
2. Which of the technologies discussed do you think will have the biggest/least impact on the consumer experience, and why?
3. Which of the technologies described would you be most likely to use? What is it about the technology identified that makes it particularly desirable?
4. How would each technology change the customer experience with the retail firm?
5. How would the various types of retailers (department stores, drug stores, convenience stores, discount stores) benefit differentially from the various technologies discussed?

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Chapter 10
Multicultural Consumers and the Retail Service Experience

Veena Chattaraman

Learning Objectives

- Understand the significance of the U.S. multicultural market for retailing.
- Understand the current state of knowledge relating to multicultural marketing and retailing strategy.
- Describe the minority multicultural markets based on their salient consumer characteristics with respect to retail store attribute preference, reference group influence, brand loyalty, store vs. national brand preference, category spending, product preference, targeted advertising, media influence, and retail promotions.
- Distinguish between the three main multicultural segments and understand cultural factors that contribute to the uniqueness of each.
- Evaluate the effectiveness of implemented multicultural retail strategies.
- Identify and apply segmentation approaches for reaching each multicultural segment.
- Develop a target marketing strategy based on an in-depth understanding of each multicultural segment.

Introduction

The recent economic crisis in the U.S. and global economies has marked the beginning of a turbulent climate for numerous retailers, many of whom have filed for bankruptcy, closed stores nationwide, and downsized the workforce and inventory levels drastically to deal with declining sales. While some of these measures have helped is sustaining retail businesses, the road to recovery for U.S. retailers is

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long-drawn and far from being smooth, with every season potentially spelling the need for more closures and bankruptcies. Given these challenging conditions, the question arises whether there is a single, effective strategy that can help retailers sustain in this turbulent climate and remain poised for future growth? The ubiquitous answer to this question is centered around creating and fostering a superior and memorable retail shopping experience for the customer. As a result, customer experience management has emerged as a key retailing strategy in depressed economic times to combat declining sales and customer loyalties (Grewal et al. 2009; Puccinelli et al. 2009; Verhoef et al. 2009).

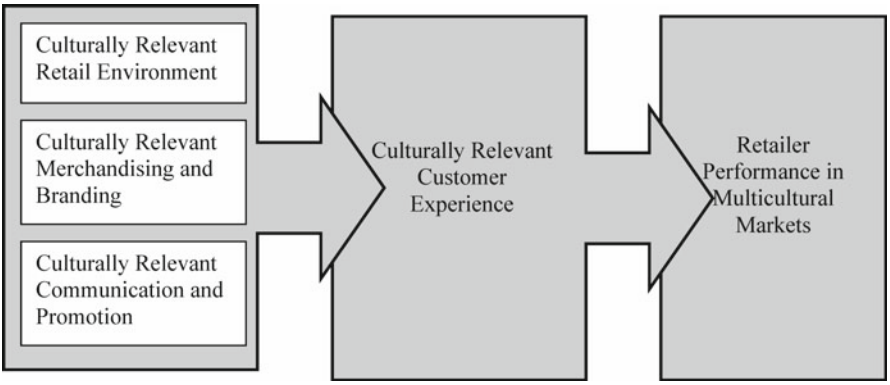
Prior to the economic downturn, the landscape of local and global markets had also changed dramatically due to transnational migrations and growing cultural pluralism in the developed markets of Europe and the United States. The 2004 U.S. Census report revealed some important statistics: the non-Hispanic White (NWH) population of the United States accounted for 67.4% of the total population, followed by the Hispanic/Latino population at 14.1%, the African-American (AA) population at 13.4%, and the Asian population at 4.8%. The U.S. Census Bureau 2009 national population projections further revealed startling changes in the racial and ethnic composition of the United States from 2010 to 2050 in the direction toward increased diversity (Ortman and Guarneri 2009). The Asian and Hispanic population are expected to experience the highest growth during this period corresponding to highest levels of net international migrations. The Hispanic population is expected to double between 2000 and 2050, from 11.8% of the total population in 2000 to 24.3% of the total population in the year 2050 (U.S. Census Bureau 2000a, b). The Asian population is expected to triple from 4.1% of the population in 2000 to 9.3% of the total population in 2050. The African-American population is expected to increase marginally from 12.8% of the total population in the year 2000 to 14.7% of the total population in the year 2050. Viewed together, these increases in the racial and ethnic populations signify that, by 2050, the above three racial/ethnic groups will comprise approximately 50% of the total U.S. population.

Apart from the population figures, the purchasing power of these groups forms another important consideration for retailers and marketers. According to the projections of the Selig Center for Economic Growth, AA buying power will increase from $590 billion in 2000 to $1.1 trillion in 2011 (Humphreys 2006). The increased number of jobs among AA has contributed to this tremendous growth. Asian buying power is projected to rise from $269 billion in 2000 to $622 billion in 2011. This growth trend is the result of the rapidly growing Asian population due to international migrations. The Hispanic economic power is projected to increase from $490 billion in 2000 to $1.2 trillion in 2011. In fact, the U.S. Hispanic buying power will grow faster than AA and Asian buying power, signifying the importance of this market for business communities. This growth is the result of multiple forces, including increasing migration and better employment opportunities among U.S. Hispanics.

Responding to increasing cultural diversity in the marketplace, many firms are using the strategy of target marketing to address the increasingly diverse needs of a culturally diverse marketplace. Target marketing refers to a firm's decision to serve the needs of a specific group of customers, who share some common characteristic

(Kotler et al. 1991). In implementing this approach, researchers and businesses alike are increasingly realizing that solely product- or communications-based target marketing approaches are less effective than holistic service-based paradigms. Developing culturally relevant products, brands, retail environments, and experiences is emerging as an important strategy in this holistic paradigm. These efforts bear parallels with the emergent service-dominant logic in marketing, which focuses on improving business performance through consumer-centrism and value-creation through the consumption experience (Vargo and Lusch 2004; Lusch et al. 2007). Connecting the service-dominant logic with racial/ethnic target marketing implies a shift in focus toward providing a deeper, more meaningful, and implicitly relevant consumption experience to the multicultural consumer. This chapter proposes the following model for the development of a culturally relevant service paradigm in retailing and discusses research literature and retail practice addressing each of the model components.

Model of culturally relevant service paradigm in retailing



Culturally Relevant Retail Environment

The retail environment is perhaps the first point-of-encounter with the multicultural shopper and plays a vital role in influencing the shopper's perceptions of the retail store. The retail environment includes a variety of elements which may be classified into design cues such as window/store display and decoration, ambient cues such as music and lighting, and social cues such as employee attributes (Baker and Cameron 1996; Puccinelli et al. 2009). This section examines the importance of culturally relevant nonsocial and social cues in the retail environment for three groups, AA, Hispanic, and Asian consumers.

In addition, the social environment is also another important aspect of the retail setting, which has received little attention in retailing research (Bagozzi 2000).

The social environment aspect of retailing examines, for example, how customers act in groups when shopping with family, friends or peer groups, or even the impact of managed virtual communities on consumer decision making (Verhoef et al. 2009). In essence, the focus of this research is on “creating relationships *between* customers” in addition to “creating relationships *with* customers” (Verhoef et al. 2009, p. 34) since inter-customer interactions have been found to significantly impact the retail service experience of consumers (Baron et al. 1996; Martin 1996).

African-American Consumers

Research on the importance of retail environment cues among AA consumers is very limited. A study by Kim and Kang (2001) investigated *store attribute importance* among different ethnicities and found that AA consumers demonstrate higher importance ratings for a store’s upscale image and convenience factor than white consumers for the purchase of small electronics and social clothes. The upscale image factor included items such as well-known company, attractive display, and wide product selection; and the convenience factor included items such as easy parking, convenient location, and ease of returns. With respect to *reference group influence* on purchase decisions, the study also found that AA consumers were more influenced by friends and co-workers than Hispanic consumers, but were similar in their influence patterns to white consumers.

Hispanic Consumers

Research on Hispanic consumer response to culturally relevant *design/ambient cues* in the store environment is also limited. Kim and Kang’s (2001) study found that Hispanic consumers demonstrated higher importance ratings for a store’s upscale image than white consumers for the purchase of social clothes and small electronics. A more recent study of *store attribute importance* among Hispanic consumers found that ***convenience,*** followed by *physical atmosphere,* and *customer service*, were the most important store attribute factors influencing their retail patronage behavior for clothing items (Seock 2009). The convenience factor included items such as store location, store layout, and pleasant dressing rooms; the physical atmosphere factor included items such as nice window display, attractive store layout, nice product display, and music; and the customer service factor included items such as salesperson’s assistance and store image.

In addition to the above, the study by Seock (2009) importantly revealed that *customer service* was the most important retail environment cue in Hispanic consumers’ use of brick-and-mortar retail stores, regardless of format. This same finding also emerged in a qualitative study that conducted focus group interviews among immigrant Hispanic shoppers (Fowler et al. 2007). The in-depth interviews revealed that that human or social dimension was the most important atmospheric dimension in Hispanic consumers' satisfaction with the retail experience. In essence, participants voiced the importance of a friendly salesperson over an aloof/condescending one, particularly since lack of English-language skills made these consumers vulnerable in the retail environment. The participants of this study further articulated that they are willing to overlook other aspects of the retail atmosphere if they are treated well by the sales staff (a simpatico treatment), and also emphasized that the ideal was to have bilingual sales associates.

A closely related study that built on Bitner's (1992) and Tomb and McColl-Kennedy's (2003) *social servicescape framework* suggests the importance of *place identity* for service encounters of Hispanic consumers (Rosenbaum and Montoya 2007). The authors define place identity as the congruence between the consumer's self-identity and a place. Based on qualitative data, the study first reveals that Hispanic consumers evaluate their place identity in a retail establishment through the process of *place likening*, defined as the extent to which employees and other customers in the environment are members of the same ethnic group. Results from subsequent quantitative data further revealed that place likening is a significant predictor of Hispanic consumer willingness to continue patronage of the retailer, despite increase in prices. These results imply that employing Hispanic associates and creating a welcoming environment for Hispanic shoppers can benefit retailers, by increasing retail patronage among Hispanics in general through the process of place likening.

Studies on *reference group influence* on Hispanic shoppers have revealed that strong ethnic identifiers are more likely to use personal acquaintances or experts in their purchase decisions (Webster and Faircloth 1994). Further, these consumers are also more influenced by personal acquaintances and family members' expectations of in their brand-selection decisions. Hence, retailers may benefit by employing strategies such as family/group-based promotions and events that may encourage these customers to shop in groups.

Asian Consumers

Store attribute importance among Asian consumers has been investigated in a few studies. A study among Asian consumers in Hawaii found that higher ethnic identifiers placed more importance on ethnic features in window displays than weak ethnic identifiers (Kim and Arthur 2003). Kang and Kim 1998), who surveyed Chinese, Japanese, and Korean consumers from three large cities in the U.S., categorized store attributes into three factors: product-related appeal (e.g., wide product selection and good value from price), upscale ambience (e.g., well-known brands and attractive display), and convenience (easy parking and convenient location). They found that the last two factors were rated similar in importance by all three groups. However, Korean and Chinese consumers rated product-related appeal of the store more important than Japanese consumers. This study also investigated *reference group influence* on purchase decisions among the three groups of Asian consumers and found that Chinese consumers relied more on family and relatives than Korean and Japanese consumers. However, Chinese and Korean consumers relied more on ethnic and American friends than Japanese consumers.

Retail Practice

Numerous large retailers have implemented several creative measures in enhancing the relevance of the retail environment for multicultural shoppers. In an effort to connect in an emotional and cultural level with the Hispanic shopper, IKEA, the Swedish home furnishing store, made an effort to resonate with Hispanic family values in its stores located near large Hispanic communities (Breyer 2006). The retailer redesigned its store layout to display larger living rooms since large family gatherings were an important part of the Hispanic culture. Walmart also used the store environment effectively to connect with the Hispanic shopper. In 515 of its stores (14 states) with high Hispanic shopper concentration, the retailer aired Hispanic targeted 5-min programs that were produced in conjunction with Telemundo, a Spanish-language network (DSN Retailing Today 2005). The aired Spanish-language segments focused on family, home, entertainment, and sports information relevant to the Hispanic audience. Home Depot is another large retailer that has reached out to the Hispanic market through several retail environment initiatives (see case study 1).

Case Study 1 Home Depot and the Hispanic Market

Based on research evidence cited below, Home Depot first identified that the Hispanic community represented an important market for home improvements:

- More Hispanic homeowners (19.4%) undertook home improvements in 2006 as compared with non-Hispanic homeowners (17.1%).
- In 2005, Hispanics spent $10.6 billion on home improvements.

The retailer then implemented several initiatives (below) that facilitate the in-store experience of non-English-speaking shoppers (physical atmosphere), make the store environment a welcoming place for families (social servicescape), and build relations with the community as a whole through sponsorships and community service (reference group influence).

- Bilingual Signage – location of departments and products for Spanish-speaking consumers
- Bilingual How-To Clinics – monthly clinics and kids workshops facilitated by bilingual associates.

- Hispanic Sports Sponsorships – sponsorship of soccer initiatives such as the Mexican National Team.
- Hispanic Community Service – partnering with a national nonprofit to build safe play grounds in more than 180 communities in Hispanic neighborhoods.

Source: Adapted from the online press kit of Home Depot, available http://corporate.homedepot.com/en_US/Corporate/Public_Relations/Online_Press_Kit/Docs/THD_and_Hispanic_Market.pdf

Culturally Relevant Merchandising and Branding

Products and brands serve as cultural mediators in the complex relationship between marketers, retailers, and multicultural consumers (Penaloza and Gilly 1999). Culturally relevant products and brands facilitate the maintenance of cultural, bicultural, or multicultural identities of diverse consumers, and enable the acculturation process of immigrant consumers. Consumers' relationship with products and brands encompasses several important dimensions, including brand loyalty, identification with brands, and product attribute importance. This section examines the importance of culturally relevant branding and product strategy for three groups, AA, Hispanic, and Asian consumers.

In addition, this section also examines category expenditure or spending patterns within different categories of products among the three groups. Ethnic differences in category expenditures have been found in several studies since the early 1990s (Abdel-Ghany and Sharpe 1997; Fan 1997, 1998; Wagner and Soberon-Ferrer 1990). The influence of ethnicity on category expenditures has been explained in the context of multiple factors (Fan 1998): (1) culture-specific preferences – the unique culture and tradition of each ethnic group, which affects preferences and consequent economic behavior of ethnic households; (2) economic constraints – these may include factors such as the size and composition of the household, which is again the outcome of culture and tradition and consequently affects economic behaviors of the household; and (3) noneconomic constraints – these include factors such as language barriers and racial discrimination, which may alter that choices that ethnic households make and consequently affect their economic behavior.

African-American Consumers

The topic of *brand loyalty* among AA consumers had received more research attention in the 1970s and 1980s (Hirschman 1980; Larson and Wales 1973; Wilkes and Valencia 1986). However, recent studies that reflect the increased socioeconomic status and purchasing power of this group are few and far between. With respect to conceptualizing brand loyalty among AA consumers, researchers have suggested that upscale national brands act has "symbols of success" with "badge value" that reflect their long-standing battle for higher aspirations (Miller and Kemp 2005). As a result, AA consumers are thought to be more loyal to premium brand names as a means to fulfill their social aspirations through conspicuous consumption. However, a recent study on brand loyalty among AA consumers found that there were no significant differences between AA consumers and non-AA consumers on brand loyalty toward purchasing big-ticket durable items such as automobiles (Podoshen 2008). Despite this composite finding, one of the scale items dealing with preferences for well-known brands was found to be significantly higher among AA consumers as compared to non-AA consumers. With regard to preference for "black-owned" products, the same study found that no significant majority of AA consumers agreed to this question, demonstrating that the success of brands such as FUBU and Sean John are due to the result of multiple factors, apart from "black ownership" (Podoshen 2008).

Another recent study conducted by a consumer research firm in Spring 2006 sheds further light on differences in *brand identification* among ethnic groups (Korzenny et al. 2006). The study measured the degree of identification with 25 brands that were then categorized into four major classes based on principal components analysis: (1) *large tech brands* representing well-established names in the area of technology such as IBM, MSN, American Express, Apple, and Nokia; (2) *established brands* such as McDonalds, Walmart, Nestle, and Coca-Cola; (3) *cool brands* representing design-oriented brands for youth such as Nike, Gap, Calvin Klein, and Sony; and (4) *search brands* such as Google, AOL, and Yahoo! The results of this study indicated that AA consumers were more likely to identify with *large tech brands* and *search brands* than NHW consumers. Both AA and NHW consumers expressed strong identification with *established brands* when compared with Asian consumers.

Studies dealing with AA *category spending* conducted in the 1990s found that AA consumers spent more than white consumers on cars, stereo equipment, televisions, and jewelry (Woods 1995). Further, in the early 1990s, two big categories for AA spending were the health and beauty aids market (19%) and the hair care products market (34%). Other studies conducted with data from the Consumer Expenditures Survey (Fan 1998) have found that AA households are less likely to have shelter-dominated and health-care-dominated expenditure patterns (health insurance, medical services, prescription drugs, and medical supplies) as compared with NHW households. However, the same study also found that AA households are more likely to have a food- and utilities-dominated spending pattern than NHW households, which may reflect a cultural preference for dining at home with friends and family (Fan 1998).

Hispanic Consumers

Studies on Hispanic consumer behavior conducted in the 1980s and 1990s have focused on Hispanic brand purchasing patterns, and particularly *brand loyalty*

(Deshpande et al. 1986; Donthu and Cherian 1992, 1994; Saegert et al. 1985). The key finding that has emerged from much of this research is that strongly identified Hispanic consumers as compared with weakly identified Hispanic and non-Hispanic consumers are more likely to have higher brand loyalty (Deshpande et al. 1986; Donthu and Cherian 1992, 1994), particularly for prestige brands and brands advertised to their ethnic group (Deshpande et al. 1986), as well as brands bought by family and friends (Donthu and Cherian 1994). These findings on brand loyalty have been explained in the context of the assimilation of Hispanic immigrants into the mainstream culture, which may influence the purchase of prominent brand names (Segal and Sosa 1983). A recent study on *brand identification* among ethnic groups has similarly revealed that Hispanic consumers identify with large *established brands* (discussed in previous section) such as Walmart, Coca-Cola, and McDonalds and *search brands* such as Google and Yahoo! (Korzenny et al. 2006).

Store brand vs. national brand loyalty is another important aspect of Hispanic consumer behavior that has been investigated in more recent studies (Mulhern and Williams 1994; Berkotwitz et al. 2006). Contradictory to the general belief that Hispanic consumers are more loyal to national brand versus store brands, a study by Mulhern and Williams found that Hispanic markets are less likely to substitute national brands for store brands when compared with non-Hispanic markets, demonstrating greater penetration of store brands in Hispanic markets. The study by Berkowitz et al., more recently, found that Hispanic consumers buy fewer store brands for utilitarian products as compared to non-Hispanic consumers; however, their store brand purchase for hedonistic products does not differ from non-Hispanic consumers.

Hispanic consumer behavior has also been investigated in the context of product and brand *attribute evaluations* that contribute toward the purchase decisions of the consumers. In one such study, Hispanic and Anglo consumers were asked to rate the importance of different purchase attributes of four different products – laundry detergents, coffee, televisions, and cars (Faber et al. 1987). The study found that for purchase of detergents, the attributes of price and friends' preference were more important among low-acculturated Hispanics than high-acculturated Hispanic and Anglo consumers. With respect to coffee purchase, brand and price were the most important attributes for low-acculturated Hispanics, followed by high-acculturated Hispanics, and Anglo consumers. For the purchase of durable goods (television and car), the availability of credit rather than price emerged as the most important differentiator between the groups. Specifically, for purchase of televisions, credit was most important to the low-acculturated Hispanics, somewhat less important to high-acculturated Hispanics, and significantly less important for Anglo consumers. With respect to cars, the importance ratings of the attributes – credit, warranty and mileage, and concern for service and quality – followed a descending order for the less-acculturated Hispanics, more-acculturated Hispanics, and Anglo consumers. Supporting the above findings, a more recent study of Hispanic consumers similarly found that strongly identified (or low-acculturated) Hispanics are less driven by economic value in brand purchase decisions than weakly identified (or high-acculturated) Hispanics (Donthu and Cherian 1994). A recent study on Hispanic consumers' product attribute preferences revealed that Hispanic consumers demonstrate higher evaluations of Hispanic-relevant attributes (color of apparel) in products than mainstream-relevant attributes (Chattaraman et al. 2009). The study also found that preferences for culturally relevant attributes differed by cultural contexts and situations. Specifically, Hispanic consumers evaluated the culturally relevant attributes more favorably after exposure to a congruent cultural situation and context.

With respect to *category spending*, data from the Consumer Expenditures Survey (Fan 1998) revealed that Hispanic households are more likely to have shelter-dominated expenditure patterns as compared with non-Hispanic White households, demonstrating a cultural emphasis on family and home among Hispanic consumers. Hispanic households were also more likely to have a food-and utilities-dominated spending pattern than NHW households, reflecting a preference for dining at home with friends and family (Fan 1998). However, Hispanic households were less likely to have a health-care-dominated expenditure pattern than non-Hispanic households, differences that may be explained by the existence of institutional and language barriers.

Asian Consumers

A study on *brand identification* among ethnic groups revealed that Asian consumers identify with large *tech brands* such as IBM, MSN, and Apple; large *established brands* such as Walmart, Coca-Cola, and McDonalds; and are more likely to identify with *cool brands* such as Nike, Gap, and Sony than any other ethnic group (Korzenny et al. 2006). Studies examining specific Asian subcultures have found that Chinese Americans are not brand loyal; however, they demonstrate high store loyalty (Ownbey and Horridge 1997).

The literature on specific *product preferences* of Asian American consumers has collectively revealed the importance of the two constructs – levels of ethnic identification and acculturation. Strength of ethnic identification indicates an individuals' base level of affiliation with the ethnic group or the native culture, whereas the level of acculturation deals with immigrant's adoption of traits and behaviors of the mainstream or host culture. Xu et al. (2004) found that a higher level of ethnic identification was positively related to the consumption of ethnic/traditional foods among Asian-Americans. With respect to clothing preferences, a study of Chinese and Japanese consumers in the California Bay Area found that individuals with higher levels of ethnic identity reported greater use of and identification with ethnic dress than individuals with lower levels of ethnic identity (Forney and Rabolt 1985–1986. Similarly, Kim and Arthur (2003) surveyed Asian-American consumers in Hawaii and found that the level of ethnic identification positively influenced the level of importance placed on ethnic features in apparel products. With respect to the level of acculturation, a recent study found a negative relationship between the level of acculturation and involvement in Indian ethnic apparel among Asian-Indian consumers in Southeastern United States (Rajagopalan and Heitmeyer 2005). These collective results suggest that the level of ethnic identification is positively associated with Asian-American consumers' consumptions of culturally related products, whereas the level of acculturation is negatively associated with this consumption.

Asian-American *category spending* demonstrates some similarities and contrasts from the other groups discussed so far. A couple of studies have found support for the hypothesis that Asian Americans spend more of their budget on shelter-related expenditures as compared to the other ethnic groups (Fan 1997, 1998). The study by Fan (1997) provides three explanations for this spending pattern: (1) kinship is an important cultural value among Asians and home become the locus, where families spend time together; (2) Asians view housing and related expenditures as investments, and have a strong propensity for savings and investments; and (3) a nice home is a way to demonstrate economic status and achievement to family and friends. Apart from shelter-related expenditures, Asian Americans spend significantly more of their budget on education and healthcare when compared with AA and Hispanic households (Fan 1997). However, Asian-American consumers spend significantly less on: (a) food at home than both Hispanic and white households; (b) apparel than AA and Hispanic households; and (c) household equipment, entertainment, alcohol, and tobacco than White households (Fan 1997).

Retail Practice

Numerous retailers have attempted efforts to implement culturally relevant brands for different ethnic groups as part of their merchandising and branding strategy. The fact that Hispanic consumers are more loyal to store brands than non-Hispanic consumers, particularly for hedonic products, has resulted in the launching of numerous Hispanic-targeted store brands for apparel. K-Mart was one of the earliest retailers to implement this strategy. The retailer signed on the Hispanic actress and singer, Thalia Sodi and launched the *Thalia Collection* in mid-summer 2003. The retailer had hoped the collection would appeal to its broader consumer base beyond the Latina woman; however, this vision did not pan out. Kohl's had more success with its launch of a Hispanic-targeted brand, *Daisy Fuentes*, in 2004. The retailer conducted research to determine the name recognition of the Daisy Fuentes among its broader shopper base and found that the former host of MTV's "House of Fashion/Style" was well recognized by both the Hispanic market and its general market and had crossover appeal (Skardino 2004). Since its launch, the brand has become a great success with Kohl's shoppers, and has expanded into the footwear and home furnishings categories. Walmart also implemented a similar strategy but did not have quite the same success as Kohl's (see case study 2).

Case Study 2 Walmart and the Metro 7 Clothing Line

In 2005, Walmart launched a new fashion-forward private-label apparel line, *Metro 7*, with crossover appeal for the Hispanic and general market. The retailer picked the former Miss Universe, Dayanara Torres, for as the face of the new line. In conjunction with the new upscale image of the line, the retailer advertised the line in *Vogue*, the premier fashion magazine. The hope was to increase sales in one of its three weakest areas, apparel, home furnishings, and electronics (Bhatnagar 2005).

However, the upscale apparel offerings did not quite resonate with Walmart shoppers, Hispanic or mainstream, who were expecting to receive good value than good fashion at Walmart (Kavilanz 2006). After an initial successful launch in 600 stores, the retailer had to scale back the line in October 2006. This case study demonstrates how store image interacts with product attribute importance to affect consumer response to newly launched product lines.

Source: CNNMoney.com

Culturally Relevant Communications and Promotions

Target marketing effects in communications and advertising are usually driven by perceived similarity between the consumer and some aspect of the advertisement such as language, source or model, and lifestyle represented, which leads the consumer to respond to the ad more favorably and to be more persuaded by the ad (Aaker et al. 2000; Whittler and DiMeo 1991). It has further been found that the favorable effects of target marketing are stronger for members of distinctive groups (e.g., African American) than nondistinctive groups (e.g., Caucasian American) (Aaker et al. 2000). This section examines multicultural consumer behavior toward communications and promotions including targeted advertising, media influence on purchase decisions, public relations and community orientation of retailers, and retail promotions.

African-American Consumers

AA consumers' response to *targeted advertising* is a topic that has received considerable research attention through the years. Numerous studies have found that AA consumers respond more positively to ads that feature AA models than white models (Choudhury and Schmid 1974; Williams et al. 1995; Whittler 1989). This research has suggested that these effects occur due to the increased identification with and perceived similarity to the models featured in the ads. More recently, studies have probed this phenomenon more deeply and looked into the interacting influences of strength of ethnic identification of the AA consumers, media placement, with the ad's racial composition (Green 1999). The results from this study revealed that AA consumers' ad response differs by product type, i.e., culture-based product (foundation) vs. culturally neutral product (perfume). Specifically, for a culturally based product, AA consumers with differing levels of ethnic identification were influenced by variations in ad racial composition and media placement; however, this was not the case for a culturally neutral product. With respect to media placement, the study found that strong ethnic identifiers were more favorable toward ads placed in racially targeted media than nontargeted media, whereas weak ethnic identifiers preferred the reverse. In the context of the ad's racial composition, the results revealed that strong ethnic identifiers were more influenced by ads with black models, whereas weak ethnic identifiers were most influenced by ads with white-dominant models (in racially integrated ads). Studies have also looked at AA consumers' response to ads that feature a multiethnic composition, and it has been found that AA consumers respond more favorably to ads that feature multiethnic models than white models, and this positive effect is driven by felt similarity to characters in a multiethnic ad (Brumbaugh and Grier 2006).

Another important topic in the context of advertising is *media influence* on purchase decisions. In purchasing hedonic products such as apparel, AA consumers have been found to be more influenced by TV than white consumers (Kim and Kang 2001). However, the influence of TV does not differ between the two groups in the purchase of utilitarian products such as small electronics. AA and white consumers did differ significantly in radio influence particularly, with respect to purchase of small electronics.

The *public relations* and specifically the *community orientation* of marketers and retailers is another aspect of advertising and communications that resonates positively with various ethnic groups. In fact, AA consumers are more vested in marketers' relations with their community than any other ethnic group and are willing to pay more when marketers extend goodwill efforts toward the AA community (Korzenny et al. 2006).

Retail promotions can be broadly classified into price-related promotions such as price discounts and non-price-related promotions such as product displays, coupons, and feature advertisements. A study investigating the responses of AA and white consumers to retail sales promotions found that significant differences exist between the two groups only for coupon promotions but not for price, product display, and feature promotions (Green 1995). Specifically, the study found that AA consumers redeem significantly less coupons than white consumers. One explanation proposed for the differential pattern in coupon redemption was the differential value placed by different ethnic groups on saving money, the main motive for using coupons. Based on previous research, Green posited that saving money was a lower priority for AA consumers as compared with white consumers. Another reason advanced was the informational barrier faced by ethnic consumers since most of them do not subscribe to local newspapers that distribute the coupons. By the same token, this informational barrier does not exist for price, product display, and feature promotions (available in stores), explaining the lack the differences in responses to these promotions.

Hispanic Consumers

Similar to AA consumers, studies have found that Hispanic consumers also respond more favorably to *targeted advertising* featuring Hispanic models (Stevenson and McIntyre 1995). It has also been interestingly found that Hispanic consumers respond more favorably to ads featuring AA models as compared with white models (Appiah 2001). In addition, more recently, a study revealed that Hispanic consumers also respond more positively to ads that feature Spanish language (Dimofte et al. 2003). This study interestingly found that as compared to English-language ads, Spanish-language ads were more effective in eliciting increased ad copy recall, and more favorable attitudes to the ad spokesperson and the ad itself among Hispanic consumers. The study proposed that these favorable effects were driven by increased ethnic self-awareness in response to the targeted ads, which in turn stimulated the processing of ethnic information.

Research examining *media influence* on purchase decisions of Hispanic consumers has demonstrated that these consumers are very similar to AA consumers in this regard. Specifically, similar to AA consumers, Hispanic consumers are significantly more influenced by TV in purchase of hedonic products such as apparel, as well as utilitarian products such as small electronics than white consumers (Kim and Kang 2001). With respect to radio influence, as compared to white consumers Hispanic consumers were more influenced by this medium as well in their purchase of both types of products. In addition to media influence, *media exposure* among different ethnic groups has also demonstrated such similarities in patterns of media consumption (Korzenny et al. 2006). Another aspect of similarity between Hispanic and AA consumers is that they also prefer marketers and retailers to demonstrate *community orientation* through active involvement in the Hispanic community (Korzenny et al. 2006).

Coupon usage patterns of Hispanic consumers also reflect close similarities to those of AA consumers. A study conducted by Donthu and Cherian (1992) investigated coupon usage among strong and weak Hispanic identifiers, who were considered similar to mainstream white Americans. This study found that strong Hispanic identifiers used fewer coupons than weak Hispanic identifiers due to: (1) brand loyalty, which made them loyal to familiar brands, (2) ethnic pride, which made coupon usage seem like unworthy behavior since it signaled lower economic status, (3) use of Spanish magazines and newspapers, which may have created a barrier in their access to coupons distributed through mainstream media, and (4) lower response to in-store marketing strategies. The above factors emerged as significant predictors of coupon usage behavior among Hispanic consumers.

Asian Consumers

Research on Asian American consumers' response to *targeted ads* has revealed some mixed results and differences from AA and Hispanic consumers. In general, Asian consumers are less positive toward advertising and marketing efforts toward their group than AA and Hispanic consumers (Korzenny et al. 2006). It was further found in this study that AA and Hispanic consumers are also less cynical and more interested in commercial messages than Asian consumers. However, earlier studies among Asian consumers have revealed that they prefer to see ads featuring models whom they can identify with (Rossman 1994). More recently, it was found that after exposure to an ethnic prime that triggers ethnic self-awareness, Asian consumers responded more favorably to Asian models featured in ethnically targeted ads (Forehand and Deshpande 2001). As a result of the Asian primes, they also felt more targeted by the ads featuring Asian models, and had more positive attitudes toward the ads. Another study delved into more details of Asian consumers' targeted ad response by examining its relationship to the important factor, the consumer's perception of the advertiser's cultural sensitivity (Karande 2005). Surprisingly, this study found that using an Asian model (vs. Caucasian model) had no beneficial effect on Asian consumers' perceived trustworthiness, attitudes toward, and purchase intent for the ad, brand, and the company. However, the study did find that Asian consumers who perceived the advertiser to be culturally sensitive did respond more favorably to the featuring an Asian model as compared with a Caucasian model. However, this was not the case among Asian consumers who did not perceive the advertiser to be culturally sensitive. These results suggest that Asian consumers are more cynical than AA or Hispanic consumers in evaluating targeted ads, and that cultural sensitivity of advertiser is an important factor in gaining a favorable response from these consumers toward targeted ads.

The examination of *media influence* on purchase decisions of Asian consumers has taken into account the subcultural differences within the Asian consumer segment. A study by Kang and Kim 1998) examined the above among Chinese, Japanese, and Korean consumers in major cities of the U.S. and found significant differences between the ethnic subcultures. This study also considered the important role played by the acculturation level of the consumer in examining the influence of the various media. It was found that among both Chinese and Korean consumers, the less-acculturated group was more influenced by TV and radio than the more-acculturated group. On the other hand, among Japanese consumers, the more-acculturated group was more influenced by TV and radio than the less-acculturated group. A more recent study examining media influence on purchase decisions of Asian consumers interestingly found that magazines, newspapers, satellite radio, and the Internet are more influential on Asian consumers than any other group (Korzenny et al. 2006).

Retail Practice

Targeted advertising and communications featuring ethnic models and spokespersons, and ethnic language, is perhaps the most widely used strategy in multicultural marketing and retailing and has been prevalent since the 1970s or earlier. For example, in the

1990s, JCPenney launched TV commercials targeted toward African-American women and had its own magazine for this audience (Cuneo 1997). During the same time, Sears ran magazine ads in magazines such as Black Elegance, Ebony, Essence, and Heart and Soul that have a large African-American viewership (Cuneo 1997). More recently, in April 2005, Walmart launched its first ever Asian-American targeted advertising campaign. This campaign included television, radio, and prints ads that were broadcasted in areas with high Asian American concentration, such as Houston, Los Angeles, San Diego, San Francisco, and San Jose. These ads featured testimonials from Asian-American families in Cantonese, Mandarin, and Vietnamese languages (Troy 2005). Retail practice in the context of targeted promotions is less publicized in trade literature; however, the main objective that retailers need to strive to achieve is to balance how the retailer enhances the manufacturer's brand performance versus the retailer's category performance through retail promotions (Ailawadi et al. 2009).

Questions for Review and Discussion

1. Which multicultural segment is expected to grow at the fastest rate in the period between 2000 and 2050?
2. What factors have contributed to the increased *buying power* of the three main multicultural segments?
3. What is the focus of *ethnicity-based target marketing*?
4. Discuss the importance of *retail environment cues*, including social and nonsocial cues, for the three main multicultural segments.
5. What is the most critical retail environment cue in Hispanic consumers' satisfaction with the retail experience in brick-and-mortar stores?
6. How does ethnicity influence differences in *category spending* and expenditures among the multicultural segments?
7. What are the important factors that influence *brand loyalty* among U.S. Hispanic consumers?
8. Discuss the two constructs that are important in influencing the *product preferences* of Asian consumers in the U.S.?
9. What factors drive the effectiveness of *targeted advertising* among the three main multicultural segments?
10. Discuss the similarities in *coupon usage* patterns among AA and Hispanic consumers. What are the reasons for these patterns?

Recommendations for Future Research

This chapter identified several gaps in the research on multicultural consumers and the retail service experience. This section delineates the specific gaps that need to be addressed in future research, to build a comprehensive and evidence-based body of knowledge on multicultural shopper behavior. First, few studies have examined the importance of retail environment cues, both social and nonsocial, among AA consumers. AA consumers have and will continue to constitute a significant proportion of the multicultural market. Studies about AA consumer attitudes have found that they demonstrate the highest preference for in-culture networking (talking about product to members of ethnic group) and community orientation (enjoyment for media that serve the ethnic group) than any other multicultural segment of consumers (Korzenny et al. 2006). Hence, social and nonsocial retail environment cues are critical for this segment, and merit deeper examination.

Second, the topic of brand loyalty and store vs. national brand preference has been under-researched among both AA and Asian consumers. Although studies examining brand loyalty among AA consumers were quite prevalent in the 1970s and 1980s (Hirschman 1980; Larson and Wales 1973; Wilkes and Valencia 1986), recent studies that account for the enhanced buying power among this segment are few. Studies examining brand loyalty among Asian consumers, and particularly the various subsegments of Asian consumers such as Chinese, Japanese, Korean, and Indian consumers, are practically nonexistent. Assumptions of similarity in brand loyalties of these subsegments can be misleading for retail practitioners, particularly since the cultural attitudes and values are vastly different between these Asian subcultures. Further, the topic of store vs. national brand loyalty merits examination among both the AA and Asian consumer groups since most large retailers are increasing their private-label footprint as a means to attract loyal shoppers to their stores. Hence, research on multicultural segments' preferences and loyalty toward national vs. store (private label) brands can help inform retail decisions on expanding private-label offering in areas of high ethnic group (Asian, Hispanic, or AA) concentration.

Third, research on the importance of the various types of retail promotions (price and nonprice) among the various Asian segments is lacking. This is an important area for future research since research has shown that coupon promotions are less effective for the AA and Hispanic consumers than the general market due to several factors discussed earlier. However, the values of Asian consumers do reflect a greater propensity and motivation to save, which might increase the importance of coupon promotions and price discounts for this group. Again, future research needs to identify the similarities and contrasts between different multicultural segments in their responsiveness to retail promotions in order to tailor a culturally relevant promotional strategy in areas with high concentration of a specific ethnic group.

In addition to examining broad similarities and contrasts in *inter-cultural* consumer behavior, there is a gap in research in the area of *intra-cultural* differences in consumer behavior (Ogden et al. 2004). These intra-cultural differences within one ethnic segment can arise from multiple factors such as differences in acculturation, ethnic identification, generational status, and country of origin that subdivide a broader ethnic category into various microcultural segments that elude the boundaries of category-specific generalizations. For example, the U.S. Hispanic population is comprised of 65.7% Mexicans, 8.9% Puerto Ricans, 3.5% Cubans, 3.3% Salvadorans, 2.8% Dominicans, 2.1% Gautemalans, 1.9% Colombians, 1.3% Hondurans, 1.3%

Ecuadoreans, and 1.1% Peruvians (Pew Hispanic Center 2010). Grouping these consumers into the broad category of "Hispanics" and ignoring intra-cultural differences originating from different nationalities is indeed an oversimplification of Hispanic consumer behavior. This might prove costly for retailers particularly in different geographic regions such as Miami with a majority of Cuban consumers versus New York with a majority of Puerto Rican consumers. Future research needs to focus on the factors contributing to the complexity and heterogeneity of behavior among ethnic consumers, and investigate beyond category-specific generalizations.

Managerial Implications

Retailers have the choice of three target marketing approaches to reach multicultural segments: *primary market targeting*, *secondary market targeting*, and *subsumed market targeting* (Schumann et al. 2009). Primary market targeting is closely linked to the holistic service-based paradigm discussed in the introduction of this chapter, and entails targeting efforts that extend beyond advertising to every area of the marketing mix (Schumann et al. 2009), including product, brand, retail environment, and promotion. The Hispanic targeting strategy implemented by the retailer, Home Depot, closely aligns with this approach. In addition to facilitating the in-store experience of Hispanic shoppers, making the store environment a welcoming place for Hispanic families, and building relations with the Hispanic community as a whole through sponsorships and community service (discussed in case study 1), the retailer also launched product lines such as the "*Colores Origines*" paint program in 2005 featuring vivid colors with Spanish color names inspired from the Latin American and Caribbean cultures. In addition, the retailer also developed bilingual and bicultural advertising broadcasted through television, print, radio, and online media. This holistic targeting approach resonates the most positively with multicultural shoppers, who are often skeptical of advertising- or message-only-based targeting approaches, referred to as *secondary market targeting*. It is also more effective than the *subsumed market targeting*, which uses the same product and message to reach both the ethnic and general market as seen with the Daisy Fuentes brand launched by Kohl's. Implementing the holistic approach enables retailers to derive the varied benefits of targeting, and builds a deeper and more meaningful relationship with the multicultural consumer at multiple levels.

In implementing targeting approaches, retailers should also consider *product differentiation* particularly with respect to c*ulturally based products* vs. *culturally neutral products.* Specifically, studies have found that ethnicity-based targeted advertising (ad racial composition and media placement) is more effective for c*ulturally based products* than *culturally neutral products* among AA consumers. It has also been found that Hispanic consumers are more loyal to store brands, particularly for hedonic products than utilitarian products. Hedonic products such as apparel can be considered culturally based since they embody value-expressive attributes that serve a social-identity function. By the same token, utilitarian products can be considered culturally neutral. The above findings broadly implicate that ethnicity-based target marketing is more effective and will bring a higher ROI for culturally based than culturally neutral product categories. Hence, ethnically targeted strategies in advertising, branding, and retail environments should be developed for culturally differentiated product categories. For example, featuring in-store displays with AA, Hispanic, or Asian models in the cosmetic aisles of a department store would be more effective in moving product (among multicultural shoppers) than a similar display in the appliance aisles.

In targeting multicultural segments, numerous retailers have also made attempts to develop successful store brands for multicultural shoppers, particularly for hedonic product categories such as apparel and home furnishings. While some retailers such as Kohl's have employed the *subsumed market targeting* approach by developing brands that reach both the multicultural (Hispanic) and general market, others have launched brands that target a specific segment such as the *Latina Life* brand, launched by Sears to target Hispanic women, which has since been discontinued. In ensuring the success of culturally targeted private-label brands, retailers would benefit by adopting the approach of *social-identity-based branding* (Reed et al. 2009). Social identity in the branding context refers to a "collection of labels that consumers use to express who they are," and is responsible for the success of numerous flagship brands such as Apple, Harley Davidson, Starbucks, and Nike (Reed et al. 2009, p.124). In the context of culturally targeted brands, ethnicity can reflect the cultural dimension of social identities, particularly to those consumers for whom ethnicity is a salient aspect of the self-concept. In developing a new brand, social-identity-based branding proposes that connection with the new brand can be built by maintaining consistency between the multicultural consumer, ethnicity-based social identity, and the new brand (Reed et al. 2009). Hence, brand managers should aim to make a strong link between the new brand and symbolic associations of the social identity (BRAND → SI). If retailers and brand managers are successful in establishing this link, then consumers who are strongly linked to the social identity (C → SI) will demonstrate a strong positive response toward the new brand (C → BRAND).

This brings us to the final implication that has been consistently demonstrated in the various research findings discussed in this chapter – consumer behavior within any single multicultural segment is inherently heterogeneous. This chapter has revealed that AA, Hispanic, and Asian consumers' *brand loyalty, product attribute evaluations, product preferences, targeted ad response*, and *coupon usage* differ based on the level of ethnic identification or acculturation of the multicultural consumer. Hence, acculturation-based market segmentation approaches need to be employed in developing targeted product, brand, retail environment, and promotion strategies for a single multicultural segment. For example, Wrangler Jeans offers differentiated product lines for different acculturation-based segments of Hispanic male consumers. Intra-group segmentation will enable retailers to derive the full benefits of developing a targeted strategy for multicultural markets, and will also resonate more positively with the multicultural shopper.

Points for Discussion

In the context of multicultural marketing and particularly Hispanic marketing, an emerging issue that needs to be emphasized is a new trend called "retroacculturation" among assimilated Hispanics. Although the trend has not been investigated in current literature, it is evidenced in the increased use of the ethnic language for communication, consumption of ethnic-language media, and retention of ethnic customs among assimilated individuals. Such trends defy the expectations based on a unidimensional, linear model of acculturation, which predicts that as consumers acculturate, they adopt values and behaviors of the mainstream culture, while giving up those related to the culture of origin.

Indeed, recent research seems to indicate a trend toward balanced biculturalism, which is based on a bi-dimensional view of consumer acculturation: consumers adopt traits and behaviors of the mainstream, while concurrently retaining those related to the culture of origin. Hence, an assimilated individual could demonstrate a trend toward balanced biculturalism by either re-establishing linkages with the ethnic culture, or not giving up values and behaviors of the ethnic culture from the onset. Further discussion on these emergent trends in consumer acculturation among both Hispanic and Asian American segments and their impacts on consumer behavior can be found in the suggested readings at the end of the chapter.

Summary

The dramatic growth in ethnic subpopulations has changed the demographic climate of the United States and the retail sector is recognizing the need to address this demographic shift in their business strategy, particularly to stay competitive and survive through the economic downturn. Prior research on multicultural marketing has addressed individual components of the targeted marketing strategy, an approach mirrored in industry practice. In the recent economic climate, the thrust is, however, on a holistic and integrative service paradigm that leverages the benefits of culturally relevant product, branding, retail environment, communication, and promotion strategies in creating value and culturally relevant retail experiences for multicultural consumers. This chapter elucidates on the various elements of this integrative service paradigm through a discussion of concepts relevant to multicultural retailing within the context of (a) culturally relevant retail environment, (b) culturally relevant merchandising and branding, and (c) culturally relevant communications and promotions. The discussion of concepts has been substantiated by research evidence and case examples from the retail industry. The chapter has thus emphasized approaches to build consumer equity through integrated value-creation strategies that dynamically customize the retail service offering to meet the diverse and evolving needs of multicultural consumers.

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Chapter 11
Culture and Social Media: Changing Service Expectations

Sanjukta Pookulangara

Learning Objectives

By the end of this chapter, readers will:

1. Better understand the influence of social media on consumer behavior
2. Recognize the influence of culture on social media
3. Understand and have explored service in a digital environment
4. Be familiar with the influence of culture and social media on service expectations

Introduction

Today's consumers are increasingly utilizing technology as an effective tool in their shopping experience. The advent of (World Wide) Web 2.0 has facilitated the growth and public popularity of social media and created a new world of collaboration and communication.

Social media can be defined as Internet-based applications that carry information posted by end users. End users utilize several online formats (e.g., blogs, podcasts, social networks, bulletin boards, wikis, newsgroups, and chat rooms) to express their opinions about a product, service, brand, and/or organization (Cleary and Terry 2008; Kaplan and Haenlein 2010; Paine and Lark 2005). In addition to sharing ideas about a given product, service, or brand, end users utilize social media to reach out to other consumers, who are seen as more objective information sources

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than firms themselves (Kozinets 2002). This information, produced by people who were hitherto assumed to only use or consume online content, is termed consumer-generated content (CGC) (Dwyer 2007). Likewise, consumer-generated media is defined as any positive or negative statement about a product or service, created by potential, actual, or former customers, and made available to a multitude of people and institutions via the Internet (Stauss 2000).

Shopping has always been a social experience and social media allows consumers to interact with others – many of whom are probably total strangers. Social media not only has transformed the research and purchase consideration phase for shoppers but also offers a platform from which they can advocate for the products and stores they love. Advocacy has always existed, but social media has made this stage even more critical, by amplifying the size of the potential audience that each advocate can reach (Swedowsky 2009).

By the same token, social media offers companies an opportunity to learn about consumer needs and increase customer satisfaction through proactive outreach and timely response. It also provides firms with creative and effective ways to obtain insights not previously available (*CLB: Does "previously" refer to the time period before Web 2.0 or before social media*?). Furthermore, social media has migrated from the margins to become a mainstream phenomenon: one that has even started influencing culture. Even though cross-cultural differences exist and impact the way people use social media, all told, this phenomenon indubitably promotes connection and information sharing with others.

The Internet has become one of the most important communication channels in the world and growing Internet usage has even instigated changes in the consumer purchasing process (Casalo et al. 2007). Consumers are increasingly turning to social media in order to gather information for decision making (Kozinets 2002).

The power of social media is progressively pervasive, with activities ranging from economic (e.g., shopping) and marketing (e.g., brand building) to social (e.g., MySpace.com) and educational (e.g., distance education) (Teo et al. 2003). The otherwise fleeting form of word-of-mouth communication, formerly targeted to one or two friends, has been transformed into enduring messages visible to the entire world indefinitely (Duan et al. 2008). Social media allows organizations to track customer sentiment, customer service problems, and indications of dissatisfaction in their customer databases. There is a greater sense of urgency for retailers to integrate this emerging medium into their marketing plans and create a social media-based strategy that is true to their brand and allows them to control the service experience of their customers.

Retailers are utilizing currently available technology to sell products or services online, respond to customer questions, suggest additional products and services based on previous purchases, and evaluate customer satisfaction with regard to their offerings – all without having to deal with the customer in person (Kasim and Ismail 2009). However, it is important to note that social media is no panacea. Retailers should simply consider the medium as a catalyst for innovative thinking on how to improve service in the digital age (Swartz 2009). Social media has put power in the consumers' hands and is forcing companies to deliver on their promises. The use of social media by retailers to shape their service strategy is still an emerging area that needs further investigation, especially since the alignment of social media strategy with service strategy is crucial for business success.

Similarly, consumer usage of social media for information, brand recognition, and opinions about brand and/or retailers is fundamentally influenced by cultural background. Research has indicated that consumers differ in their expectations of service quality, subject to their culture (Donthu and Yoo 1998). In general, consumer cultural values affect expectations and perceptions of products or services, and, therefore, by extension, purchase choices and buying behavior (Kueh and Voon 2007). Using deductive knowledge, it can be asserted that culture will also influence the usage of social media. Social media has given rise to the "*culture of sharing*," with individuals providing feedback on products and services for all to see. Given the impact that culture may have on the way people behave and interact, it is imperative to examine cultural influence on social media websites where much of the information is typically user generated. To date, little or no research has been undertaken to examine cultural influence on social media that is increasingly used by consumers for sharing both good and bad experiences.

In addition, usage of social media is increasing at a tremendous rate and is influencing how people share knowledge across the globe and, yet, there is similarly a lack of information on how this new media, coupled with its international appeal, is influencing service perceptions. Hence, the need for further investigation provided by this chapter, which proposes a conceptual model utilizing Hofstede's cultural dimensions (1980, 2001) and Venkatesh and Bala's (2008) technology acceptance model 3 (TAM 3). Hofstede's cultural dimensions are used as a guide for the adapted research model, as the dimensions help to explain elements of ethos within cultures. TAM 3 is used as a guide for the adapted research model, as it helps to establish the key factors in which consumers accept social media.

The "Sharing Culture" of Social Media

Information technology is dramatically modifying both economic activities and the social landscape (Konsbruck n.d.). Social media is emerging as a new domain, where consumers can communicate, connect with friends, and learn about new trends. Today, the Internet makes it possible for consumers to share experiences and opinions about a product and/or service via consumer-generated activities (Kim and Park 2008). It is important to appreciate that social media is a cultural evolution that continues to metamorphose. The Internet and its virtual communities have transformed consumers, societies, and corporations by extending widespread access to information, better social networking, and enhanced communication abilities (Kucuk and Krishnamurthy 2007). A recent study by Deloitte Touche Tohmatsu Ltd. (USA) revealed that 62% of US consumers read consumer-generated online reviews and 98% of them find these reviews sufficiently reliable (*CLB:…for decision-making purposes…?*). Eighty percent of polled consumers said that reading these reviews had, in some way, affected their buying behavior (Industry statistics n.d). In the context of social media, the distinction between brands and friends is becoming increasingly blurred. Hence, it is becoming progressively crucial for organizations to manage consumer expectations in a timely manner in order to maintain their popularity among end users.

Having recognized the benefits of social media, organizations are beginning to invest more time and effort in developing a social media presence in order to capitalize on the growing user population that is interested in creating, retrieving, and exploring CGC (Di Gangi and Wasko 2009). Social media provides a win–win situation for both organizations and consumers, with optimal results arising when social media strategy is aligned with customer service strategy. Organizations stand to benefit immensely from a large membership of users that can provide resources, including marketing insight, cost savings, brand awareness, and idea generation (Deloitte 2009), while users benefit from the ability to fulfill personal needs and interests. Thus, a company's ability to understand how social media influences shopping behavior and changes service expectations would clearly be a tremendous asset in a competitive business context.

Culture and Social Media

Technology is, to a considerable extent, socially and culturally constructed (Schwarz and Thompson 1990) and therefore cannot be examined in isolation from human beings (Hendriks and Zouridis 1999). Culture influences lifestyle and lifestyle, in turn, influences the way individuals communicate and interact with new media technologies (Brandtzæg 2010). Online social networks have become a modern-day cultural phenomenon. Social networks, such as Facebook and MySpace, have witnessed a rapid growth in their membership. With this increase in popularity of social networking websites, one can safely assert that the world is becoming "*smaller*" and people are becoming more interconnected now than at any time in the history of mankind.

The social aspect of shopping has long been ingrained in consumer culture, with shopping considered very much a social outlet. Asking someone where she got that great outfit, hearing about the latest sale from a friend, or socializing at the shopping mall are all integral parts of a consumer culture. Social media has enabled consumers to utilize technology to seamlessly "*social shop*" online. It is crucial to understand the influence that culture has on the usage of social media, especially with the widespread, and rapidly growing, popularity of this technology. Facebook's introduction of natural language interfaces in several markets has helped propel the site to 153% growth, with an overall usage of social media growing to 25% worldwide during 2008 (Social Networking Explodes 2008). Additionally, the Nielsen Global Online Consumer Survey (Global Advertising 2009) found that recommendations from personal acquaintances or opinions posted online by consumers are the most trusted forms of advertising worldwide. Culturally, every region of the world is different, so it is imperative to ascertain whether social media has homogenized culture and created consumers across the globe who think and behave alike.

Culture has been shown to influence marketing, including advertising, marketing strategies, and buying habits (Green 1999; Grier and Brumbaugh 1999; Simester et al. 2000; Taylor and Miracle 1996; Ueltschy and Ryans 1997), but relatively little theoretical and empirical research is available on the cross-cultural adaption of the emerging technology represented by social media. Culture as a predictor for online buying has produced mixed findings regarding its impact on online purchase behavior (Kim et al. 2009). While some studies recommend that online stores adapt their atmospherics to the nuances of a given culture (Chau et al. 2002), Cole et al. (2000) maintain that cultural differences do not affect online retailers' ability to attract and retain customers, citing that established online stores such as Amazon.com have achieved global success using a standardized customer interface. Culture and lifestyle deeply influence behavior and due to its growing popularity and usage, social media is fast becoming a lifestyle of choice, spanning generations and cultures. By dint of this astounding accomplishment, social media undeniably warrants closer and more thorough examination.

Service in a Digital Environment

Technology has allowed consumers to access information and exchange opinions on companies, products, and services on an unprecedented scale in real time (Duan et al. 2008). On the other hand, with an increasingly sophisticated range of services available through a steadily growing set of technologies, organizations are continually seeking reliable ways to measure the quality of the service delivered through online channels (Tate and Evermann 2010). However, with regard to service quality, it is important to note that service encounters in the digital environment lack both tangible elements and human interactions. Also, in a digital environment, consumers have to assume a lot more control of the service delivery process themselves (Gounaris and Dimitriadis 2003).

Research has indicated that perceived service quality influences customer behavioral intentions, such as repurchase intentions, word-of-mouth referrals, and customer loyalty (Zeithaml et al. 1996). Research has also indicated that word-of-mouth (WOM) communication plays an important role in service evaluation due to its unbiased nature, heterogeneity of service quality, higher associated risk, and intangible nature of services (Bansal and Voyer 2000; Ekelund et al. 1995; Jolson and Bushman 1978). Furthermore, information and the digital social network provide the online community with a valuable service. Considering the experiential nature of the digital social network, various types of service support may strengthen the social networks. The importance of service cannot be underestimated in this ever-changing digital environment, where traditional WOM has been replaced by e-word-of-mouth. i.e., CGC. CGC offers customers the opportunity to gather unbiased information about products and services from other consumers. Due to its unique characteristics, social media is capable of spreading information far more rapidly than traditional WOM (Han et al. 2007). Consequently, due to the proliferation of CGC, there is a push toward a consumer-controlled surveillance culture (Blackshaw 2006), with consumers aggressively monitoring marketers and their service strategies. All told, it can be unequivocally stated that in today's digital environment, organizations must be consistently transparent and accountable for their actions. Service is of utmost importance, as customer experiences create brands and superior service develops loyal customers who, in turn, create brand equity, which ultimately translates into growth, revenue, and profit.

Confluence of Culture and Social Media: Changing Service Expectations

Social media, a relatively recent phenomenon, is transforming communication patterns and interpersonal relationships (Byrne 2007; Hargittai 2007; Humphreys 2007). Social media's proliferation and growing cultural impact are confirmation of the growing influence of technology on the consumer decision-making process. Social media grants organizations with an attractive alternative to the more traditional communication tools, by permitting companies to engage in timely and direct end-consumer contact more efficiently and at relatively low cost (OECD 2007). Culture influences how people think about and perceive an event and social media constitutes a massive convergence of culture, giving new meaning to fundamental cultural terms such as "*knowledge*," "*wisdom*," "*authority*," "*trust*," and "*social transmission of meaning*" (Maj and Derda-Nowakowski n.d.). Social media has permitted the evolution of a new culture, one that is shaped not only by individual values and ideologies but also by the new rituals and communication tools that exist in the social space of Web 2.0.

According to *eMarketer*, the number of people creating online CGC will rise from 88.8 million in 2009 to 114.5 million in 2013 (The Future of User CGC 2010). Consumers acting via social media are exerting a progressively profound influence over culture and the economy and are prompting various industries to transform the way they do business. The retail industry is a prime example of this phenomenon, where over 81% of customers refer to consumer reviews before making a purchase decision (Leggatt 2009). Social networks are providing retailers with an opportunity to reach a new breed of consumer. Organizations are capitalizing on this situation by creating groups and fan pages which allow users to post direct links to the retailer's website. Thus, it can be asserted with confidence that both culture and the usage of social media are influencing customer service expectations on this new, evolving digital landscape.

Previous research has indicated that being able to leverage cultural factors in the service delivery process is a source of competitive advantage (Riddle 1992), even though the components and perception of service quality differ across cultures (Liu et al. 2008; Shareef et al. 2008; Singh et al. 2008). However, social media has changed the perception of service quality and service expectations of consumers, regardless of their cultural heritage. Consumers have now come to expect service 24/7, as they utilize a variety of social networking tools to keep themselves and others "*like themselves*" aware of their interaction with a product and/or service. So, does this mean that organizations should take the "*one-size-fits-all approach*," when designing their social media-influenced service strategy? The answer is a resounding "*No*!" Granted, it is true that social media has somewhat leveled the consumer playing field, with users across the globe contributing to the creation of new content *ad nauseam*; however, it would be presumptuous to declare that no cultural differences exist among social media users. Retailers must address the possibility of behavioral heterogeneity and homogeneity *co-existing* within and across countries and cultures (Broderick et al. 2007; Tung 2008; Yavas et al. 1992). Cultural groups and social phenomena, such as the usage of social media within a country, are subject to continuous influence by a global culture, which reshapes individuals' "*personal*" cultures, thereby strengthening the validity of horizontal global segments theory (Eckhardt and Houston 2007; Kjeldgaard and Askegaard 2006; Malhotra et al. 1996).

Social media does possess abundant merits, including its wide reach and capacity to spread information virally. However, it is critical to concede that it also possesses some drawbacks, including the time, effort, and resources required to constantly engage with one's customer base. In general, organizations can cause irrefutable damage to their image if they do not address customer service complaints in a timely and appropriate fashion. However, this threat is greater when the interaction takes places in virtual space, where communication is potentially accessible to all web users. As a result of this openly visible communication, organizations may be forced to capitulate to a consumer's demands, whether valid or not. The more companies concede defeat at the first sign of a complaint, the worse things will become, and service on social media may evolve into an enormous, unmanageable issue for businesses. In a similar vein, social media can cause cultural friction online, especially since its participants likely come from different cultural backgrounds. As different cultures often have divergent service expectations, organizations have to ensure not only that they meet the service requirements of a diverse customer base but also that they do so in a culturally sensitive manner. Thus, it can be stated that social media marketing can be one of the most promising and profitable ways to build a business; however, it can equally elicit deleterious results if not used properly.

Whether retailers employ a culturally specific or global approach in their marketing, it is vital that they recognize the more pressing issue of incorporating social media into their infrastructure. Social media usage has fundamentally altered the consumer landscape, and for brands to remain relevant in this environment, they need to adapt without delay to both emerging technologies and shifting consumer behavior (Feed 2008). Hence, retailers' online efforts should focus primarily on reaching shoppers by participating in and encouraging conversations through third-party tools, such as social networks, where online shoppers tend to congregate (Swedowsky 2009).

This conceptual paper proposes a closer examination of the cultural influence that social media has over consumer intention and its impact on shopping behavior and service evaluation (i.e., the extent to which social media influences shopping intention and subsequent purchase behavior) by using an adapted technology acceptance model 3 (TAM 3) (Venkatesh and Bala 2008). The technology acceptance model 3 and Hofstede's cultural theory are both described in the next section, followed by a presentation of the combined model and the development of proposed relationships.

Conceptual Framework

Technology Acceptance Model 3

The technology acceptance model (TAM) is one of the most widely used models to explain users' behavioral intention to utilize technological innovation. By considering consumer-generated media as a technology system and the consumer using social media websites as a computer user, one can apply TAM and test how well it predicts user intention to use the technology in question, i.e., social media. TAM, adapted from the theory of reasoned action (TRA) (Fishbein and Ajzen 1975) and originally proposed by Davis (1986), assumes that within an individual's information systems, acceptance is determined by two major variables: (1) perceived usefulness (PU) and (2) perceived ease of use (PEOU). TAM 3 (Venkatesh and Bala 2008) is an integrated model of technology acceptance that combines TAM 2 (Venkatesh and Davis 2000) and the model of the determinants of PEOU (Venkatesh 2000).

Venkatesh and Davis (2000) proposed an extension of TAM – TAM 2 – by identifying and theorizing about the general determinants of PU – that is, subjective norm, image, job relevance, output quality, result demonstrability, and PEOU – and two moderators – that is, experience and voluntariness. TAM 3 emphasizes the unique role and processes related to PU and PEOU and theorizes that the determinants of PU will not influence PEOU and vice versa (Venkatesh and Bala 2008).

Hofstede's Cultural Dimensions

Culture is a conceptually complex idea that has defied a comprehensive and multilaterally agreed-upon definition (Lam et al. 2009). Hofstede's seminal work (1980, 2001) focused on the cultural dimensions of individualism, power distance, masculinity, uncertainty avoidance, and long-term orientation. Individualism is defined as the degree to which a society emphasizes the role of the individual. Power distance is the degree to which the less powerful members of organizations accept that power is distributed unequally. Masculinity is the degree to which a society emphasizes traditional masculine values, as opposed to feminine values. Uncertainty avoidance is the extent to which people feel threatened by ambiguity and a lack of structure in their environment. Finally, long-term orientation is defined as the extent to which a society exhibits a pragmatic, future-oriented perspective, rather than a conventional, historic, or short-term perspective (Hofstede 2001). Individualism, uncertainty avoidance, and long-term avoidance are the three dimensions of culture that are included in this study.

The consumption and production of service are simultaneous in nature and can be influenced by the cultural background of the consumer. However, it is important to remember that global trends, such as social media, have increased the heterogeneity of attitudes and behaviors of consumers within countries and, at the same time, increased commonalities across different countries (Hofstede et al. 1999). Thus, it can be inferred that culture may influence a consumer's usage of social media, shape outcomes such as shopping behavior, and affect service expectations.

Service Quality

Social media has changed the way organizations should perceive their service strategy. There is now a greater need for businesses to focus on the "*experience*" aspect of social media, since a bad experience shared on the Internet can reach millions of people very rapidly. Today, with the growth of social media as an important communication medium, service has become the key element of a successful business. Service quality is an elusive and abstract construct that is difficult to explain and measure (Cronin and Taylor 1992). In any service encounter, customers judge service quality according to the provider's ability to respond to customer needs (Zimbres and de Oliveira 2009). Service quality reflects an overall assessment of the standard of service received (Brady and Cronin 2001; Grönroos 1984).

Service quality is often conceptualized as comprising elements of technical and functional quality (Grönroos 1984). Functional quality represents how the service is delivered and pertains to the interpersonal and relational part of the service process (Grönroos 1984; Soderlund and Rosengren 2010). On the other hand, technical quality reflects the outcome of the service experience and is considered the "*core*" of service quality (Grönroos 1984; Soderlund and Rosengren 2010). Promptness, accurateness, and the extent to which the customer is offered several alternatives and individualized solutions are some examples of technical quality (Soderlund and Rosengren 2010). In this conceptual paper, functional quality relates to the interpersonal communication between the consumer and the retailer utilizing social media. Technical quality, with respect to social media, would involve addressing consumer issues in a prompt and accurate manner.

Thus, Fig. 11.1 represents the conceptual model with proposed relationships.

Study Variables

Social media and cultural influences have changed consumer service expectations. Social media is an important tool for businesses to build relationships with their customers and, given the global nature of this media platform, it is important to gain

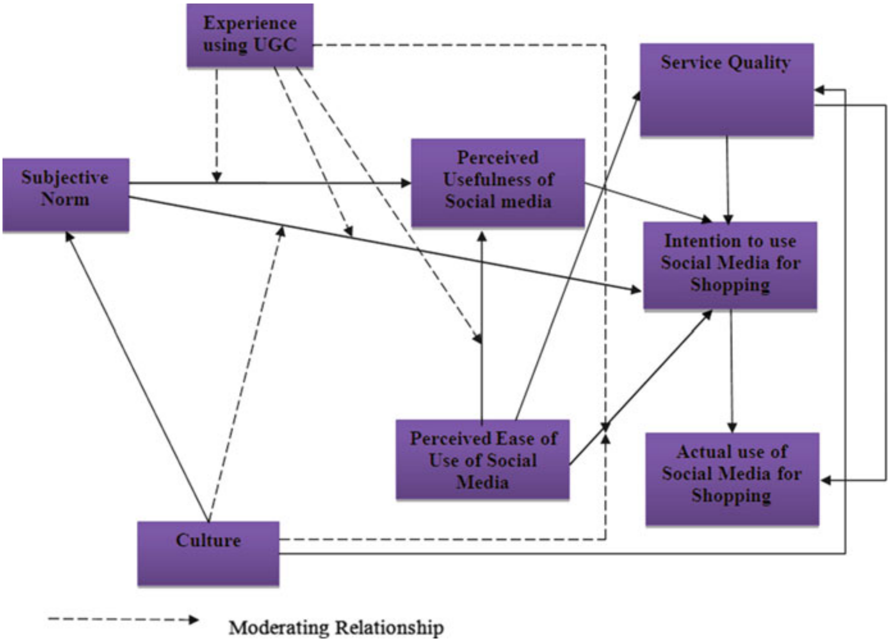

Fig. 11.1 The conceptual research model

an understanding of how the confluence of new media and culture is shaping service quality expectations. The purpose of this study is to propose a conceptual model to understand consumer use of social media while shopping, by using culture, service convenience, service evaluation, and TAM 3. The following section presents the proposed relationships between the variables via the research model. The overall research questions that could be examined are as follows:

1. Examine the influence of subjective norms on perceived usefulness
2. Examine the direct and moderating effects of culture
3. Examine the moderating influence of experience using social media
4. Examine the influence of technology acceptance factors on intention to use social media for shopping
5. Examine the influence of intention to use social media for shopping on actual usage of social media for shopping

Technology acceptance factors: Perceived Ease of Use and Perceived Usefulness TAM posits that a consumer's intention to use a new technology, such as social networking, is affected by two beliefs: (1) perceived ease of use (PEOU) and (2) perceived usefulness (PU). The former concerns, "*the degree to which a person believes that using a particular system would enhance his or her job performance*" (Davis 1989), while the latter reflects, "*the degree to which a person believes that using a particular system would be free of effort*" (Davis 1989). The model suggests that PU will be influenced by PEOU because, all things being equal, the easier a technology is to use, the more useful it will be (Venkatesh 2000) In general, PEOU has a significant positive influence on intention (Lee et al. 2003), whereas PU is a strong predictor of behavioral intention (Venkatesh and Bala 2008), which in this study is the intention to use social networks for online shopping.

Social media is slowly gaining acceptance among consumers; however, it may still seem complex and intimidating to many customers. Hence, it is reasonable to expect the PEOU of social media to be an important determinant of service quality (Parasuraman et al. 2005). Previous research has posited a positive relationship between PEOU and service quality (Sohn and Tadisina 2008; Yang and Jun 2002)

Subjective Norm. Subjective norm suggests that behavior is instigated by one's desire to act as an important referent for others (e.g., friends, family, or society in general), by behaving the way they think one should act, or as these others actually act themselves (Bearden et al. 1989). In other words, subjective norms are the perceived social pressures an individual faces when deciding whether to behave in a certain way. Subjective norm is included as a direct determinant of behavioral intention in the theory of reasoned action (TRA) (Fishbein and Ajzen 1975) and the subsequent theory of planned behavior (TPB) (Ajzen 1991). The rationale for the direct effect of subjective norm on intention is that people may choose to perform a behavior to comply with important referents, even if they are not themselves favorable toward the behavior or its consequences (Venkatesh and Davis 2000). Subjective norm has been found to have a positive link with PU (Venkatesh and Davis 2000). Additionally, the direct influence of subjective norm on intention has yielded mixed results, with Mathieson (1991) finding no significant effect of subjective norm on intention, and Taylor and Todd (1995) finding a significant effect. It has been suggested that subjective norms positively influence intention in the early stages of new technology implementation (Taylor and Todd 1995), and, as the use of social media for shopping is relatively new, it can be assumed that subjective norms will positively influence intention.

Moderating Effects of Experience Using Social Media. Experience can be defined as being familiar with and knowledgeable about the technology of interest, in this case, social media (Sun and Zhang 2006). It is suggested that, as a consumer becomes more experienced at using social media, it is more likely that they will utilize it when making decisions. In this proposed model, experience using social media is the moderator between (1) subjective norm and PU; (2) subjective norm and intention to use social media for shopping; (3) PEOU and PU; and (4) PEOU and intention to use social media for shopping.

Subjective norm is empirically confirmed as the most influential determinant of PU, especially when users have little experience with the technology in question (Venkatesh and Davis 2000). Consumers may use their direct experience with information presented in social media content rather than others' opinions, in order to form their intentions and perceptions of how useful this form of social media is (Venkatesh and Davis 2000; Venkatesh and Morris 2000). Additionally, research has indicated that potential adopters (i.e., inexperienced users) are influenced by subjective norms more than current users (i.e., experienced users) (Karahanna and Straub 1999).

Perceived ease of use – that is, how easy or difficult a system is to use – is an initial hurdle for individuals using a system (Venkatesh 2000). The more experienced the users are, the less effect PEOU will have on PU or intention (Davis et al. 1989; Szajna 1996). It can be inferred that with increasing experience, i.e., once consumers are adept at utilizing social media, the moderating influence of experience will decrease.

Cultural Dimensions. Individualistic societies indicate looser bonds between members, and, hence, it is anticipated that social interactions between members of the society will not be strong, which could lessen the importance of referent influence. On the other hand, it could be inferred that in collectivistic cultures, where people form stronger bonds, individuals will be highly influenced by other members of society.

Societies that are high in uncertainty avoidance continuously feel the inherent uncertainty in life, while societies low in uncertainty avoidance more easily accept uncertainty (Stremersch and Tellis 2004; Yaveroglu and Donthu 2002). Additionally, uncertainty avoidance is related to customer risk perception (Jarvenpaa and Tractinsky 1999) and thus one can infer that, depending on their level of uncertainty avoidance, consumers will react differently toward utilizing social media.

Individual perceptions can also differ based on orientation, with individuals in short-term orientation cultures expecting to see quick outcomes, and individuals in long-term orientation cultures preferring long-term goals. Thus, individuals in short-term orientation cultures experience materialist consumption pressures (i.e., keeping up with trends such as social networking) (Dwyer et al. 2005) and tend to adopt new technology rapidly as a result.

Subjective norm is influenced not only by individual-level differences but also by cultural and societal values and norms (Hofstede 2001; Triandis 1989). Since cultural norms have a primary influence on marketing perceptions and consumption behavior (Winsted 1997; Furrer et al. 2000), any approach to marketing that does not account for the influence of culture on subjective norms is lacking foresight.

It has been suggested that culture influences consumer service experience dimensions (Zhang et al. 2008). Previous research indicates that collectivism and masculinity influence service performance (Birgelen et al. 2002). Additionally, as Ekinci and Riley (2003) have observed, consumers are even more likely to evaluate service interactions based on cultural values, as they are active, social players in the service delivery process.

Moderating effects of culture. Srite and Karahanna's (2006) study tested a model in which Hofstede's four main cultural dimensions moderated the relationships between PU and PEOU. The result of the study found that only the masculinity–femininity dimension moderated the relationship between PEOU and intention. Additionally, Karahanna et al. (2005) study suggested that culture can moderate the relationship between subjective norm and the behavioral intention.

Service Quality. Research has indicated the direct influence of service quality on behavioral intentions (Cronin and Taylor 1992; Cronin et al. 2000; Parasuraman et al. 1988, 1991; Taylor and Baker 1994; Zeithaml et al. 1996). Additionally, there is substantial empirical evidence to support the causal link between intention and behavior (Taylor and Todd 1995; Venkatesh and Davis 2000; Venkatesh and Morris 2000).

Using deductive logic, it can be stated that positive service quality will also influence actual behavior.

Intention to use Social Media and Shopping Behavior. A survey conducted by the American Marketing Association indicated that 47% of consumers would visit social networking sites to search for and discuss holiday gift ideas, while 29% said they would also buy products there (Horovitz 2006). Social networks utilizing social shopping applications have enormous potential for transforming the apparel retail landscape. Social media allows consumers to embrace the inherent social nature of shopping not only by providing relevant information via postings online, but goes beyond the traditional realm, by also satisfying much more hedonic needs. These needs include the need for approval from peers, the desire for self-expression, and the desire for entertainment (Cohn and Park 2007). Individuals adopt innovations with mainly private, personal, and individual consequences. In addition, whether or not an individual decides to adopt an innovation is strongly determined by compatibility between the characteristics of an innovation and the needs of the individual concerned (Valente and Rogers 1995). In today's connected world, it would be safe to assume that social media is an important technology innovation that directly influences consumers and will eventually impact their shopping behavior.

Conclusions and Implications

It is estimated that 79.7 million people, 40% of US Internet users, created at least one piece of content on social media every month in 2009, by either updating a profile or communicating publicly (The Rush To 2009). Increasingly technology-savvy consumers are relying heavily on the collective wisdom of social media to help them find what they are looking for and might even give more weight to these kinds of consensus recommendations than expert advice or manufacturer testimonials. A recent study indicated that retailer sites play an important role in the shopping process, but respondents stated that a lack of user-generated media would cause nearly one-half (49%) of respondents to leave a retailer site (Online Retailers 2010).

Although retailers recognize the power of online research and online shopping, many are focusing more on social networking than customer-generated content. Customers are looking for data they can use to make an informed purchase, not for how many followers a retailer has accumulated (Vreeland n.d.). Information generated by consumers on a social media platform represents considerable added value for other users and a lack of such information on a retailer website would cause them to seek information, and possibly products, elsewhere (Vreeland n.d.). Thus, it can be clearly stated that not incorporating social media in the marketing mix is not only poor customer service but also a surefire way to lose business. Social media has become a critical piece of the marketing puzzle, based not only on consumer demand for it but also on the sales it delivers. By virtue of these reasons, social media merits further investigation, and examining how consumers utilize social media to form purchase intention and eventual shopping behavior will prove indispensable to the survival of twenty-frst century retailers.

Culture has not been given its due with regard to how it impacts new technology. Successful marketers are progressively recognizing culture as the most powerful determinant of consumer attitude, lifestyle, and behavior. Utilizing a study that incorporates culture as both predictor as well as mediator variable to new technology acceptance will add crucial new information and theory to this emerging area of research. Retailers must listen to and engage their customers through social media by participating in and encouraging conversations. The end result will improve customer service and help turn loyal customers into passionate advocates.

Managerial Implications

As more organizations jump on the social media bandwagon, it is important to understand that social media is no longer a fad: it is here to stay and has grown and intertwined itself with every aspect of the business. Successful implementation of social media strategy requires that organizations become an integral part of consumer daily lives, by enabling them to connect, interact, and benefit from like-minded consumers. Social media is an essential tool for consumer enjoyment, providing immediate contact, as well as customer interaction. Thus, it is suggested that managers nurture these social media platforms with the following recommendations:

1. Time is money: Time is an important cost involved in any business. Managers should think of the time invested in maintaining a social media presence as an opportunity cost. Consumers are looking for up-to-date information on products and services and the lack thereof can result in service failure.
2. Use engagement on social media platform as a new standard of customer service and marketing: Customers are already engaging with others to form opinions about a brand, retailer, or organization 24/7. It is imperative that organizations truly engage with their consumer base in this conversation, as it is an immensely powerful way to reach consumers.
3. Be genuine: It is important that organizations remain true to their brand image while conversing with consumers on social media. Consumers are more willing to forgive and forget honest mistakes, while open and authentic communication by organizations sets the right tone and can generate win–win situations.
4. Culture is important: Organizations have to be aware of the hidden, cultural nuances of consumers utilizing social media and refrain from creating "*one-size-fits-all*" solutions for service problems.

Review Questions

1. How has social media changed consumer shopping behavior?
2. Does a "*one-size-fits-all*" concept fit into the social media context, given the popularity of the latter worldwide?

3. How and why have service expectations changed due to social media and cultural influences?
4. Give examples of two companies that have used social media to provide exceptional service to their consumers.

Case Example

Social Media: The Changing Face of Customer Service

Today's retail industry is being driven by a new, dynamic equation, set in motion by an evolving type of consumer. The popularity of Web 2.0 has facilitated the growth and popularity of social media and has created a new world of collaboration and communication. The Internet has become one of the world's most important communication channels and growing internet usage is engendering change in the consumer purchasing process (Casalo et al. 2007).

This is a new arena of customer service, where customers are no longer content – or willing – to pick their way through a phone tree to solve problems or voice complaints. Today's consumer turns to Google, forums, and company experts to find answers, while airing their gripes to thousands of "friends" across the Internet. The result: social media channels, such as Twitter, Facebook, and YouTube, have the power to influence web-user perceptions about a company's fundamental value to customers. The importance of incorporating social media into channel strategy is becoming increasingly obvious to retailers. Today's organizations need to train their customer service associates on how to interact, gather information, and disseminate information to consumers. These social channels must become an integral part of a firm's service process, with case numbers that can be followed and handed off right up until resolution.

> Sigg Switzerland AG was the "ne plus ultra" of eco-chic. For years, the company's brightly-colored, aluminum water bottles were the fashion accessory of choice for celebrities and on-trend consumers eager to avoid bisphenol-A (BPA). BPA is a chemical used to harden plastic that has been linked to cancer and heart damage – which explains the backlash last year when Sigg disclosed that their aluminum bottles made before August 2008 were found to contain trace amounts of BPA. Customers took to Twitter in droves to voice their anger, fear, and feelings of betrayal, while the blogosphere swelled with indignant posts. Within weeks of Sigg's disclosure, outdoor-gear retailer Patagonia pulled Sigg bottles from both its shelves and its catalog (Dayton 2010).
>
> Zappos.com is considered as one of the companies that has actually understood and harnessed the power of social media. They currently have over 73,000 "followers" on Facebook (FB). Their site indicates that their followers' engagement level is very high, with daily status updates on the FB page, including either questions or information on internal Zappos activities. Zappos is widely regarded as the gold standard for online customer service since the advent of the dot-com era and its relegation of customer service to the confines of an e-mail inbox or less (Albright 2010). Zappos has worked relentlessly to bring humanization to what can otherwise be an extremely cold, online experience.

At the end of the day, social media is changing customer service and companies have to be accountable for the promises they make in an open forum, where information is available for all to see. Technological changes necessitate that companies embrace modern, interactive, collaborative applications that will help them respond to the onslaught of customer voices demanding immediate satisfaction. Consumers are also demanding synergy across all channels of business, which means companies will need to seamlessly funnel Twitter, Facebook, Google – and whatever the next big thing is – into their customer service system and processes (Dayton 2010).

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Discussion Questions

In your own words, describe the changes in service expectation that you have personally observed in this new, digital world. Support your answer with examples.

Activity

Visit the Zappos.com website and analyze the firm's service strategy, using both online and offline resources.

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Chapter 12
Complaint Management in Retailing

Bernd Stauss and Wolfgang Seidel

Learning Objectives

As you read this chapter, you should develop an understanding of the following key aspects of complaint management in retailing:

- The strategic relevance of complaint management for customer loyalty and economic success of retailers
- The objectives of a professional complaint management system
- The fundamental tasks of the direct and the indirect complaint management process
- The consequences of the specific framework conditions of retailing for the fulfillment of the complaint management tasks
- The responsibilities of different organizational units (head of complaint management department, customer care center, and stores) and the cooperation with manufacturers in the "Retailing Complaint Management Square"

Introduction

In recent years, most companies have been facing intense competition, increasing customer expectations, and decreasing customer loyalty. In this situation, customer orientation becomes a central strategic objective and customer satisfaction a major goal for every company. In this context, complaint management becomes more and

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more important. Within complaints, customers articulate their dissatisfaction with aspects of a company's product or service offer and, very often, this dissatisfaction makes customers abandon their loyalty toward a company and instead become susceptible to a competitor's offer. Under these circumstances, however, a proactive complaint management is oftentimes able to stabilize endangered customer relations. If successful, complaint management restores customer satisfaction; it helps to prevent customer defection in many cases and at the same time creates a positive impact on the repurchase and communication behavior of complainants (Smith and Bolton 1998; Tax et al. 1998; Durvasula et al. 2000; Miller et al. 2000; Maxham 2001; Mattila 2004; Homburg and Fürst 2005). Research by TARP (1979) showed that 70% of those customers who articulated a problem and whose complaint was handled to their satisfaction remained brand loyal. This number increased to even more than 95 percent in case of a satisfactory, and at the same time quick, reaction by the company.

Most retailers are confronted with a strong competition in buyers' markets, with stagnating revenues and severe price wars. As a consequence, customers mostly have multiple shopping options at hand and perceive comparably low switching barriers. Considering this situation, retailers have a particular interest in avoiding customer migration by implementing a professional complaint management. Surprisingly, however, the existence of a professional complaint management is not common among retailing companies. So far, only little empirical evidence is available which provides information about retail management procedures for dealing with complaining customers. Instead, current studies provide discouraging results on this matter: In their survey on complaint management across various types of retailers, for example, Hansen et al. (2010) were unable to identify even a single group of highly active complaint handlers among those retailers covered by the study.

However, if retailers want to take action, complaint management concepts developed for the consumer goods industry cannot be copied without being modified due to the specific retailing context. The aim of this article is to reveal retail-specific parameters and to develop a concept of complaint management which is adapted to this particular context and which also considers the specific chances and problems of complaint management in retailing: The *Retailing Complaint Management Square*. The development of this concept not only follows conceptual considerations but also is based on experiences from various research and consulting projects dealing with the implementation and optimization of complaint management systems in retailing.

Goals of Complaint Management

Complaint management encompasses the planning, execution, and controlling of all measures taken by a firm in connection with all the complaints it receives. The major goal of complaint management is to increase a firm's profitability and competitiveness by restoring customer satisfaction, by minimizing the negative effects of customer dissatisfaction, and by using the valuable information contained in complaints regarding current operational weaknesses and market opportunities (Brown et al. 1996; Tax and Brown 1998; Johnston and Mehra 2002; Davidow 2003).

Starting from this major goal, the following sub-goals relating to turnover and costs can be derived (Stauss and Seidel 2010).

Stabilization of Jeopardized Customer Relationships Through the Establishment of (Complaint) Satisfaction

As the central element of retention management, complaint management targets the re-stabilization of customer relationships that have been jeopardized as a result of dissatisfaction. This stabilization takes place on the basis of the empirically confirmed finding that complaint satisfaction can be achieved via rapid and generous settlement of complaints (Smith and Bolton 1998; Durvasula et al. 2000; Stauss 2002). Complaint satisfaction in consequence leads to major improvements of the customer's global satisfaction with the business relationship, of product and firm loyalty and, thus, of steady sales and profit-margin contributions.

Increase in Purchase Intensity and Purchase Frequency, as well as Promotion of Cross-Buying Behavior

A satisfying complaint handling should increase the commitment of customers and their willingness to intensify their purchases. This occurs as customers engage in multiple purchases, increase their purchase frequency, or expand their purchasing to other products and services.

Implementation and Clarification of a Customer-Oriented Corporate Strategy

Customer-oriented complaint management conveys security to the customer and thus helps to prevent dissatisfaction or to intensify satisfaction. In this way, complaint management provides a fundamental contribution to the development or maintenance of a customer-friendly corporate image. Additionally, it gives a clear signal to employees with regard to the seriousness of customer-oriented corporate strategy, since the internal pressure to deal with customers in a customer-oriented manner intensifies as critical customer feedback increases.

Creation of Additional Promotional Effects via Word-of-Mouth Communication

Negative word-of-mouth communication should be prevented and positive word-of-mouth communication should be stimulated via complaint management. Since consumer problems that lead to complaints and the complaint experiences that follow are discussed within the customer's social sphere, this personal communication is an important variable that influences the attitudes of other consumers toward the firm or the product (multiplication effect), thus enabling the exploitation of the sales volume of potential customers.

Improvement in the Quality of Products and Services via the Use of Information That is Contained in Complaints

Complaints contain valuable information about relevant user problems related to products, services, or corporate conduct. This information is important for quality management, as it provides an indication of the adequacy of fixed quality levels and adherence to quality standards. Furthermore, complaint information offers an abundance of insights into user expectations and thus provides a chance for organizational learning which helps to increase product and service reliability and facilitates continuous innovation (La and Kandampully 2004; Vos et al. 2008).

Avoidance of Switching Costs

The goal of the stabilization of customer relationships may also be formulated as a cost goal in the sense that switching costs can be avoided. If dissatisfied customers choose to switch immediately to a competing product rather than lodge a complaint, the resulting loss of turnover may be regarded as switching cost.

Avoidance of the Costs of Disagreements

When customers express their dissatisfaction by complaining directly to the firm, they provide the firm with the opportunity to influence the matter and to take corrective action. If they instead choose to complain via a third-party institution (e.g., media, arbitrators, and attorneys), the disagreements usually become more time- and cost-intensive for the firm. A system of complaint management that prompts the customer to choose the direct way of complaining to the firm itself consequently reduces these costs of disagreements.

Avoidance of Other External Failure Costs

Problems that become the subject of complaints oftentimes lead to the situations in which warranties and guarantees are invoked. Warranty costs can be lowered and guarantee claims can be reduced through a systematic analysis of complaint information with reference to product deficiencies.

Avoidance of Internal Failure Costs

Complaints not only contain indications of product deficiencies but also point to process flaws. An appropriate use of this information can lead to a more productive design of internal processes and an avoidance of mistakes and redundant process steps.

Fundamental Tasks of Complaint Management

The goals of complaint management can only be achieved if a series of fundamental tasks are accomplished that can be assigned to either the "direct" or "indirect" complaint management process. "Direct" complaint management means that its tasks are directly related to the individual case and target the elimination of individual customer dissatisfaction and the establishment of complaint satisfaction. The tasks of complaint management in which the customer is not directly involved are referred to as the "indirect" complaint management process. The tasks of the direct complaint management process are particularly relevant in the context of customer retention, whereas the tasks of the indirect complaint management process are particularly important for quality management (see Fig. 12.1).

Tasks of the Direct Complaint Management Process

Relevant to the direct complaint management process are complaint stimulation, complaint acceptance, complaint processing, and complaint reaction.

The relevance of *complaint stimulation* results from the fact that the majority of dissatisfied customers do not complain, but migrate immediately (Chebat et al. 2005). For every articulated complaint, there is a far greater number of "unvoiced complaints". According to the findings of Goodman et al. (2000), one can proceed under the assumption that, regardless of industry, approximately 50–80% of dissatisfied customers forgo the chance to bring their irritation to the attention of the company. Therefore, if a firm really takes the goal of achieving customer satisfaction and customer loyalty seriously, it is a more rational approach for the firm not to

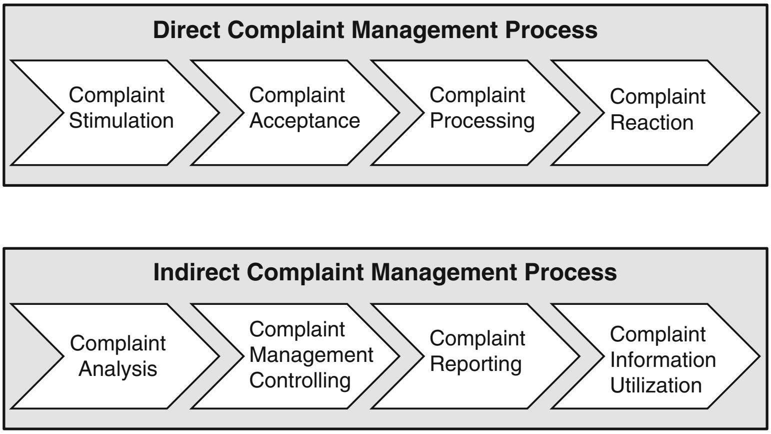

Fig. 12.1 Fundamental tasks of complaint management

pursue a minimization of complaints, but instead to increase the percentage of dissatisfied customers who complain. This can be achieved by complaint stimulation which requires the systematic use of instruments designed to encourage dissatisfied customers to bring their dissatisfaction to the attention of the firm.

Complaint acceptance refers to the organization of incoming complaint input and the documentation of complaint information. Once a complaint is articulated, a company's immediate reaction toward the complainant plays a decisive role in whether the customer's dissatisfaction is reduced or is increased even further. For this reason, it is important to organize the receipt of complaints in such a way that clear lines of responsibility are drawn and that all employees who will receive complaints are prepared for what they will encounter. During the phase of initial contact with a complainant, it is not only important to react toward the angry customer as the situation requires, but also crucial to document all the relevant information on the complaint case completely, quickly, and in a structured manner.

Complaint processing is mainly about the organization of internal processing procedures, the determination of processing deadlines and about the installation of mechanisms to monitor complaint processing. Besides, responsibilities must be defined on the three levels of "process owner", "complaint owner", and "task owner": "Process owner" is the one person within the firm that has the overall responsibility and accountability for all the procedures that arise as part of complaint management. He/she directs and coordinates all the complaint-management task areas, even across departmental boundaries. The "complaint owner" is the person who is first to be informed by a customer about a problem and is thus responsible for recognizing, documenting, and processing the problem as a complaint. He/she has to ensure a timely and hassle-free coordination and handling of the individual complaint process. Employees who are occupied with carrying out individual tasks during complaint processing (examination of the case, preparation of intermediate replies, etc.) are considered "task owners".

Complaint reaction refers to the decision about which solution should be offered to the complainant. Principally, three basic compensation offers are available to settle a complaint: Financial reactions (such as money back or price reduction), tangible reactions (such as exchange or repair), or intangible reactions (such as explanation or apology). Within complaint reaction, standards for the chosen form of reaction have to be defined and the employees' scopes of action for individualized answers have to be determined in order to achieve complaint satisfaction.

Tasks of the Indirect Complaint Management Process

Relevant to the indirect complaint management process are complaint analysis, complaint management controlling, complaint reporting, and utilization of complaint information.

Complaints contain precise hints to a firm's weaknesses in planning, producing, and marketing products or services and also point to changes in customer preferences or market opportunities. Therefore, a systematic *complaint analysis* is necessary. The information potential that is contained in the complainant's statements needs to be fully exploited by means of quantitative and qualitative analyses and to be made available for strategic and operative decisions.

Complaint management controlling is needed to review whether the goals of complaint management are achieved and encompasses three important areas: evidence controlling, task controlling, and cost–benefit controlling. The central concern of evidence controlling is to clarify to what extent complaint management is able to make the actual degree of dissatisfaction among the firm's customers evident to management. Task controlling is about the determination of quality indicators and quality standards for all tasks of complaint management. Here, one distinguishes between subjective and objective task controlling. In objective task controlling, the adherence to defined service levels for all tasks of complaint management is monitored by means of objective standards such as time targets for complaint processing. Within the framework of subjective task controlling, complaint satisfaction scores are used as standards and reviewed by the results of surveys among complaining customers. Cost–benefit controlling is about evaluating the profitability of complaint management activities and its contribution to the success of the firm (Stauss and Schöler 2004; Stauss and Seidel 2004).

Information gathered by complaint analysis and complaint management controlling has to be made available to the relevant groups of internal customers. Therefore, a central task of *complaint reporting* is to determine which analyses (quantitative and qualitative) should be delivered or made available upon request at which time intervals (daily, monthly, weekly, etc.) for which internal customers (upper management, quality control, marketing department, etc.).

A key goal of complaint management is to make a substantial contribution to quality management by guaranteeing an active utilization of documented complaint information for measures of improvement. In order to reach this goal, not only an ongoing complaint reporting but also a *systematic utilization of complaint information* by specific management measures and instruments is of crucial importance. Among those instruments are the applications of specific quality planning techniques for developing problem solutions, the use of complaint information in quality improvement teams and quality circles, and the integration of complaint information into a customer knowledge management.

Specific Framework Conditions of Complaint Management in Retailing

Retailers are primarily engaged in purchasing goods from other organizations with the intention to sell them to customers. In a distribution channel, they are the final business that links manufacturers to consumers (Levy and Weitz 2007, p. 7). In retailing, many different types exist with regard to the merchandise sold, the variety of assortment, the level of customer service, the price of the merchandise, and so on – such as supermarkets, convenience stores, department stores, specialty stores, or online retailers (Berman and Evans 2001, pp. 144–170; Zentes et al. 2007, pp. 31–42). Besides, retailers differ with regard to the size of the enterprise. They range from single-store retailers to huge corporate retail chains. Insofar statements to relevance and design of a complaint management have to be formulated subject to type and size of the retailer. In order to be able to make statements on a reasonable level of abstraction, the focus of the article is on retailers characterized by the following criteria: (1) they operate primarily through store channels (and not predominantly through electronic channels); (2) they are multi-store retailers (and not single-store firms) – consequently, they possess not only several stores but also a headquarter that provides essential tasks such as the central purchasing and that is also responsible for the coordination and support of the decentralized units which are bound to the headquarters instructions; and (3) they have an intermediary function between producer and consumer by selling products which they purchased from manufacturers. Furthermore, they usually offer their own brand (trademarks) and additional services (such as providing parking, accepting credit cards, or providing assistance to customers trying to find the appropriate product).

These attributes that apply to most retail chains represent specific framework conditions and challenges for the complaint management of retailers.

(To 1:) The store channel forces customers to visit the retail shop. Consequently, there exists a direct, personal customer contact at the point of sale. In this respect, retailers have to be prepared for customers using every personal contact with the retailer's staff to articulate a complaint, often demanding an immediate problem solution.

(To 2:) From the multi-store structure of retail businesses results the existence of two players: a central unit (headquarter) on the one hand and decentralized, local units on the other hand. Complaining customers can approach both the local store and the headquarter, so that there are parallel complaint paths available that have to be coordinated appropriately. Moreover, it is the headquarters' duty to coordinate the activities at the store level and to ensure a consistent proceeding on site.

(To 3:) From the intermediary function of retailers and the selling of own products and services result the fact that customer complaints can refer to very different issues, which can be of particular relevance for the various players. According to empirical experience, customers who are dissatisfied with a product bought in a retail shop predominantly complain to the retailer and not to the manufacturer. In these claims, the objects of the complaint are the products of the manufacturer and the retailer consequently serves as complaint channel for the manufacturer. Other customer complaints can refer to the retailer's own trademarks, to the company's activities (such as communication or pricing policy), or to the specific services of the local store. From this heterogeneity of complaints results the necessity of a differentiated design of processes to handle and analyze complaints as well as a differentiated approach to determine reporting, controlling, and improvement processes.

Due to these particular framework conditions, complaint management in retailing requires a specific organizational structure and concept that can be labeled as the *Retailing Complaint Management Square*.

The Retailing Complaint Management Square

As already mentioned, there exist two different players in retailing, who are also relevant for complaint management: The local stores and the central headquarter. In addition, the manufacturers of criticized products have to be taken into account as a relevant player.

The store channel provides the opportunity for customers to voice their complaints directly to customer-contact personnel and, in many cases, employees have the chance to eliminate the problem immediately. Therefore, the possibility of a decentralized complaint handling must be envisioned in retailing.

However, the multi-store structure demands a strategic foundation and a coordinated control by the headquarter: It has to coordinate the procedures, allocate the responsibilities, and create the organizational and technological requirements for a fast and easy communication between the headquarter and decentralized units. Therefore, a central complaint management department is required that takes on the above-mentioned tasks, that solves problems that refer to more than one store, and that handles complaints about centrally purchased products with the manufacturer affected. Insofar, the complaint management in retailing cannot solely be organized in either a centralized or a decentralized way, but it needs a solution with both centralized *and* decentralized elements and bilateral relations to the manufacturer. Such a setting can be called a "dual complaint management system" (Stauss and Seidel 2004) with a bilateral character.

Indeed, on the centralized level, one has to differentiate between the strategic head of complaint management and an operative customer care center, so that the dual organizational structure advances to a triangle. The head of the complaint management department is responsible for the strategic orientation of complaint management, the development of complaint policies, fixing budgets, and for the control of the local stores' complaint management activities.

Beyond that, it seems necessary to establish a separate operative unit for the direct customer contact. Especially two reasons speak for the creation of such a customer care center. First of all, a certain group of dissatisfied customers wishes to communicate their complaint directly to the retailer's headquarter. This applies particularly in cases of escalation, where the problem could not be solved adequately at the store level. These customers have to be offered a special complaint channel. Second, with a central customer care center the retailer can considerably improve its knowledge about the problems the customers experience. Generally, it is to expected that the retailer's headquarter will only get a precise (quantitative) view on product claims, which means it receives information mainly about those products that were complained about by customers because of quality defects. But, at the same time, the headquarter is lacking other relevant information: Store employees have no incentive to forward those complaints regarding the service quality of the own store. Even complaints of customers regarding perceived cross-store problems in the retailer's systems or services (e.g., the acceptance of credit cards) are usually not forwarded, if store management considers the expressed problem to be irrelevant or thinks that the situation or process is unlikely to change. Insofar there is a great danger that corporate management only receives an extremely incomplete view of the problems perceived by customers. As a customer's dissatisfaction with one store can rapidly extend on his/her estimation of other stores or the entire company, this information deficit is extremely problematic. Therefore, the more the headquarter succeeds in channeling the customers' articulation of dissatisfaction to a customer care center, the more the retailer's level of information and the foundation for corrective measures will improve.

As a last aspect, the manufacturer level has to be taken into account. Many customers who are dissatisfied with a purchased product turn directly to the retailer and consequently subject problems with the manufacturers' product to the retailer in their complaints; however, also the reverse case occurs. Many manufacturers publish service call numbers or particular contact addresses on their packaging. Customers can use these channels in case of problems with the purchased product. In this case, it is possible that customers not only complain about problems with the manufacturers' product but also communicate their dissatisfaction with aspects which refer to issues of the retailer. Rejecting a customer's problems and referring him/her to the respective business partner is not a reasonable behavior either in the eye of the customer or for both companies involved. Therefore, the retailer has to reach agreements with the most important manufacturers concerning a bilateral complaint management. Such agreements cover how complainants are dealt with in the direct complaint management process, how product return processes are handled, and which mandatory reports in the context of complaint analysis and complaint management controlling are to be provided. Furthermore, the allocation of costs within the bilateral complaint handling has to be arranged.

Consequently, the complaint management in retailing requires a quadripole organizational structure, a Retailing Complaint Management Square with the four

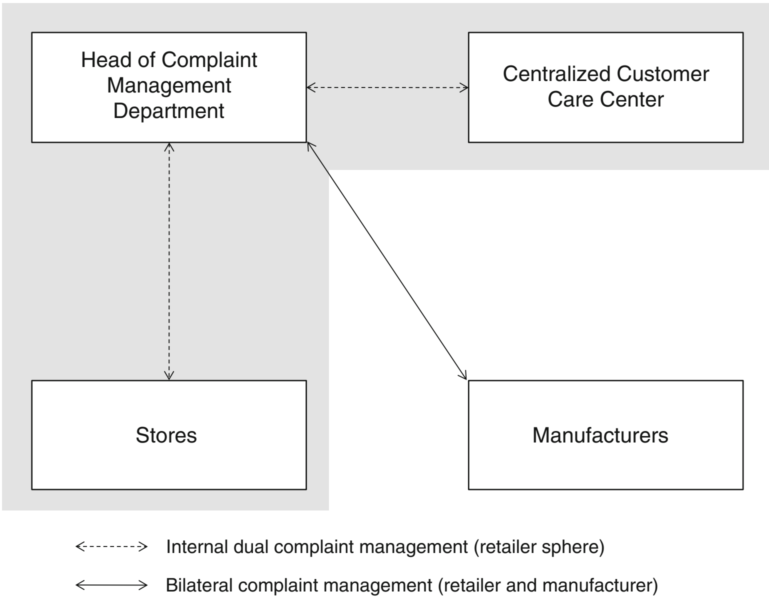

Fig. 12.2 The Retailing Complaint Management Square

poles: head of complaint management department, a centralized customer care center, stores, and manufacturers (see Fig. 12.2).

In the following, the roles of the four poles in fulfilling the tasks of the direct and indirect complaint management process will be described.

Roles of the Head of Complaint Management Department

The head of complaint management department is a separate organizational unit with direct access to the retailer's top management. It can be characterized as the conceptual steering unit of complaint management and as the "process owner" of the entire complaint management process. Its duty is to develop the conceptual foundation, to constitute the strategic direction, and to define essential processes and performance indicators for complaint management. In particular, it is one of its main tasks to control and coordinate the operative complaint handling in the stores and in the central customer care center. This also includes that the head of the complaint management department ensures the allocation of the necessary financial, human, and technical resources. In addition, it is responsible for coordinating the direct and indirect complaint management processes with the manufacturers.

Direct complaint management process: In respect to the direct complaint management process, a key departmental leadership function is to develop and to optimize the complaint management performance on a continual basis. This includes the planning of complaint-stimulation campaigns, the development of guidelines and process descriptions for all aspects of complaint acceptance, as well as the constant monitoring of the complaint receipt concept and the resulting complaint input processes.

Furthermore, the detailed and cross-functional development of the workflow for processing customer concerns, including the definition of responsible departments and persons, the time standards for the complaint reaction, and the contents of communication – for confirmations of receipt or intermediate replies, for instance – also take place here. In addition, the employee behavior guidelines regarding complaint reaction must be defined.

If all the guidelines and process descriptions for handling customer complaints are taken together, they form the basis for the operational processing in the stores and the central customer care center.

Indirect complaint management process: The crucial responsibilities of the head of complaint management also include the indirect complaint management process. Steps of this process are complaint analysis, complaint management controlling, complaint reporting, and utilization of complaint information. Here, the relevant analytical concepts must be developed and the various reports have to be designed, generated, and communicated to other internal, centrally and decentrally located customers. Moreover, the task performance for the various components of the direct complaint management process needs to be monitored, and evidence and task controlling for the entire complaint management system need to be installed. In addition, decisions are to be made regarding the choice of relevant key performance indicators for subjective and objective task controlling. Likewise, the design and implementation of the cost–benefit controlling of complaint management – in coordination with the firm's controlling department – fall within this department's area of responsibility.

Roles of the Stores

Stores are often organized as a profit center and their general managers are responsible for the economic results. To what extent they can be bound to strict cooperation with the headquarter depends on the chosen distribution system. The headquarter can realize the complaint management concept without any difficulty on a decentralized level when acting in an own store structure. When dealing with authorized dealers or franchisees, however, the aspects relevant for complaint management have to be taken into account in contracts and claimed consequently. It should even be arranged that contracts can be dissolved in case of noncompliance to complaint management agreements. Such an approach is particularly important when the firm aims to establish a customer-oriented business strategy.

Direct complaint management process: At the store level, the focus of tasks to be executed is on the direct complaint management process.

Here, the complaint stimulation is of particular importance if low-value goods are offered and if customers refrain from articulating a complaint because of the marginal benefit and instead “just shop elsewhere” (Berman and Evans 2001, p. 40). Insofar it is necessary to invite customers at the point of sale through various media such as posters or flyers to address the employees or a specific customer service desk and fill out comment cards when dissatisfied.

“When they are present in the ‘service factory’ customers often lodge complaints with the nearest employee they can find” (Tax and Brown 1998, p. 84). Because of the fact that customers have the opportunity to articulate their complaint directly to an employee in a retailing setting, this means a great chance for the firm to respond immediately by apologizing, taking back the product and return the money and/or offering goods coupons as a compensation for the inconveniences the customer had to experience. Moreover, the personal contact provides the opportunity to document the complaint with all relevant information in the complaint database.

However, this presupposes that all employees have gone through sufficient training in how to correctly receive a complaint, how to handle it, and, finally, how to respond to it. As “complaint owners” customer contact employees have to strive for an immediate solution when facing a simple and service-related complaint. In complex cases, they have to initiate the complaint processing by involving competent individuals and organizational units. This requires the development of behavioral guidelines, the clear definition of scope for action when choosing different response alternatives, and corresponding staff training.

Many retailers, however, are lacking the prerequisites of such an approach. Especially in price-aggressive retailing types – such as discount stores – there is often a very tight staffing situation. Accordingly, employees are working at their capacity limit with sales, cash register, warehouse, and administrative operations, allowing no time, serenity, and attention for the concerns of dissatisfied customers. Thus, for the employees in such a retail setting a complaint is not “a gift” (Barlow and Moller 2008), but a factor that still exacerbates the work stress. Employees find themselves in a role conflict between management expecting a fast and efficient processing of sales and cash register transactions on the one hand and the empathetic and individual handling of customer complaints on the other hand. Additionally, employees are rarely trained in complaint situations. All this carries the risk that staff repels customer complaints rather than stimulates and resolves problems to the customer’s satisfaction.

In this situation, it seems sensible to prepare all employees only in the sense of “task owners” to receive complaints in a friendly manner and quickly take back criticized products. For more complex problems, they should be instructed to transfer the complaint to a special service desk. At these service desks, trained staff can be employed for the customer dialog. These employees are enabled to perform all tasks of the direct complaint management process in a customer-oriented, and at the same time efficient, way.

Indirect complaint management process: At the store level, there are few opportunities to fulfill the tasks of the indirect complaint management process. Of course, stores are involved in the retailer’s general complaint management process in terms of product complaints and company-wide problems and, as such, are obliged to deliver (at least some) information. However, in terms of store-related problems, the relevance of the indirect complaint management process directly depends on the design of the complaint acceptance and the achieved quality of complaint information gathered. In many cases, the most relevant store-specific information about local service problems is either not recorded or only partially recorded. Mostly there is a lack of human resources, time, and system support. In addition, there are strong barriers to collect such information, because employees and store managers often fear that documentation of perceived service failures will lead to negative sanctions. Considering the low quality and quantity of complaint information in consequence, it seems not worthwhile to invest in complaint analysis, complaint reporting, complaint management controlling, and improvement processes in these cases.

A different situation exists in large stores with a dedicated point of contact for customer complaints ("service desk"). There, full-time employees are responsible for receiving complaints and for completely recording the information in the complaint management software. Thus, the prerequisites for a quantitative and qualitative complaint analysis are met, and reporting is possible, which not only provides feedback to the headquarter but also allows to control managers and employees in the stores. In this way, complaint information can also make a major contribution to the improvement of processes and services in the stores.

If a service desk is established at the store level, selected aspects of the complaint management controlling can also be handled according to instructions of the headquarter. This includes monitoring the compliance of quality and productivity indicators as part of the task controlling and the collection of the complaint costs within cost controlling. Again, special attention has to be paid to the investigation of costs that arise from handling product complaints because they might be charged to the manufacturer's account.

Roles of the Central Customer Care Center

The customer care center is the direct central corporate interface to customers, in which the essential operative tasks of the direct complaint management process are accomplished, and also for the indirect complaint management process important functions can be taken on here.

Direct complaint management process: The mere establishment and the active communication of a customer care center is an important element of complaint stimulation already. This complaint management task is of particular relevance, since the majority of dissatisfied customers do not complain and the vast majority of complaints that customers articulate directly in stores are not registered and forwarded. The customer care center provides an additional complaint channel that makes it easy for customers to articulate their dissatisfaction, for example, via a free (or low tariff) complaint phone number and/or via the opportunity of an electronic feedback form. In this way, the customer's expectation of a quick and easy complaint articulation can be satisfied. At the same time, the number of incoming and recorded complaints can be increased and thus the opportunities to improve customer retention as well. Moreover, this complaint channel offers the opportunity of an enhanced documentation and categorization of complaint information, which in turn significantly improves the retailer's insight into problems perceived by its customers – even at a store level.

Considering complaint acceptance, processing, and reaction, the customer care center provides an excellent chance to receive customer complaints professionally, capture the detailed circumstances of the complaint case correctly, and react efficiently and individually toward each customer. The staff of the customer care center is employed full time for the dialog with critical customers. Thus, it is their professional duty to realize the strategic complaint management concept and contribute with their own suggestions to its customer-oriented further development.

Indirect complaint management process: In coordination with the head of complaint management, some of the tasks of the indirect complaint management process can be assigned to the customer care center. These tasks may include subareas such as complaint analysis, complaint reporting, and complaint management controlling.

Here, the particular focus is on the analysis of problems that are relevant companywide and cross-store and therefore have to be solved by the head of complaint management (for instance, regarding the assortment, pricing and communications policy, opening hours, locations, or trademarks). If a considerable number of complaints about problems related to a single store have been received, a store-specific analysis and reporting can be conducted that enables a benchmarking and the initiation of store-individual improvements. In addition, the complaint analysis has to provide a sophisticated overview about the nature and frequency of customers' problems with manufacturers' products. This information not only should be forwarded to the manufacturers and integrated in their complaint management, but also serves as a basis in procurement negotiations in that the retailer demands increased quality control, quality improvements, or – if quality standards are still not met – price reductions by the manufacturer.

Regarding the complaint management controlling the customer care center is primarily responsible for three functions: First, it is obvious that significant key figures from evidence and task controlling, especially quality and productivity figures regarding the customer care center complaint center itself, must be collected here. This applies especially to indicators such as length of customer calls, the number of lost calls, or the adherence to defined service levels. Second, at the store level, the compliance with selected quality and productivity standards can be reviewed, for example, the achievement of target figures for processing times or complaint satisfaction. Third, in the context of cost–benefit controlling it is important to provide an information basis for the estimation of the value creation of complaint management, at least on the level of the head of complaint management and the customer care center. Here, the separate identification of those costs resulting from handling complaints concerning manufacturers' products is particularly relevant. In this case, the retailer takes on functions for the manufacturer; therefore, it makes sense to charge the handling costs to the supplier. This also shows a particular advantage of a consistent customer complaint management for retailers. A generous policy of taking back or replacing products supports the desired customer-based corporate image and builds customer loyalty, while much of the resulting costs are not taken over by the retailer itself but by the manufacturers.

Roles of the Manufacturers

Manufacturers pursue their own interests, which do not always coincide with those of the retailers. Hence, a need arises to establish a *bilateral complaint management* as an essential part of a cooperative vertical marketing strategy.

Direct complaint management process: It is in the mutual interest of manufacturers and retailers that both parties take the complaint stimulation, acceptance, handling, and reaction seriously and coordinate their activities, since the customers may complain about issues that fall into the responsibility of the business partner. Therefore, it is of crucial importance to treat any complaint (no matter if it really concerns the own company sphere or not) as if it directly concerned the own company. Oftentimes, customers do not realize that two independent companies are involved in the complaint management process, so that improper handling of complaints in each case may induce negative spillover effects.

The relevant complaint procedures are to be fixed contractually. Here, the scope of action for both cooperation partners is to be determined. In the interests of the customer and of an efficient complaint handling, the focus should be on the immediate problem solution and complex forwarding processes should be avoided. This requires fast and easy forms of communication and a good coordination of the implemented handling, analysis, and reporting processes.

Indirect complaint management process: The primary concern here is to deliver complaint information to the business partner in the form of coordinated complaint reports. Second, those problems have to be discussed that involve the danger of negative spillover effects. Thus, joint efforts are needed in particular in the context of the identification and initiation of quality improvement processes. It is also important to disclose the results of the complaint management controlling to convince the cooperation partner that the direct complaint management process is of high quality and that the quality standards agreed upon are met on a regular basis. In addition, the cost controlling provides the basis for the bilateral cost allocation.

The assignment of the various tasks to be fulfilled to the organizational roles of the Retailing Complaint Management Square is shown in Fig. 12.3.

In practice, this general assignment of tasks to the head of complaint management department, the central customer care center, and the stores as well as the nature of the bilateral relationship with the manufacturers have to be specified, depending on the type and size of the retailer and its company-specific positioning.

Responsibility	Head of Complaint Management Department	Central Customer Care Center	Stores	Manufacturer
Direct Complaint Management Process				
Complaint Stimulation	S	O	O	Oa
Complaint Acceptance	S	O	O	Oa
Complaint Processing	S	O	O	Oa
Complaint Reaction	S	O	O	Oa
Indirect Complaint Management Process				
Complaint Analysis	S	O	(O)	Oa
Complaint Management Controlling	S	O	(O)	Oa
Complaint Reporting	S	O	(O)	Oa
Complaint Information Utilization	S	O	(O)	Oa

S = strategic-conceptual basis, O = operative execution, (O) = operative execution if a service unit in the store exists ('service desk'), Oa= operative execution upon agreement with retailer

Fig. 12.3 Fulfillment of tasks in the retailing complaint management square. S = strategic-conceptual basis, O = operative execution, (O) = operative execution if a service unit in the store exists ("service desk"), Oa = operative execution upon agreement with retailer

Conclusion

In recent years, complaint management has been proved as a particularly relevant management area. Through a professional complaint management, it is possible to stabilize endangered customer relationships and avoid losses in revenues and profits. Moreover, the information contained in complaints give valuable hints to potentials for customer-orientated improvements of processes, products, and services.

Retailers have particular reasons to take advantage of the benefits of complaint management. First, their customers often have alternatives, as normally any type of retailer is confronted with local competitors. Second, the product ranges and prices often are so similar that switching barriers hardly exist. Furthermore, particularly retailers offering convenience goods at low prices can expect that dissatisfied customers shy away from the high effort of a complaint, and instead just defect and therefore do not give the company a second chance. In this situation, not only the customer needs to be assured convincingly that his/her complaint is welcome, but there also has to be a complaint management that keeps this promise at any time.

Such a complaint management consists of a complex set of tasks consisting of the direct and the indirect complaint management process. While the tasks of the direct complaint management process are performed in direct contact with the dissatisfied customer (complaint stimulation, complaint acceptance, complaint processing, and complaint reaction), the tasks of the indirect complaint management process can be realized by the retailer autonomously (complaint analysis, complaint management controlling, complaint reporting, and utilization of complaint information).

The realization of these tasks confronts retailers with huge challenges. From the existence of several stores with customer contact follows the need for a direct complaint handling on the point of sale and the necessity to coordinate and control the procedures at the store level. This function is undertaken by the head of complaint management department who, furthermore, is in charge of other relevant tasks such as the strategic complaint management planning, the provision of resources, and the coordination with other central departments as well as with manufacturers. In addition, a central operative unit is necessary that provides a direct point of contact for customers and also undertakes key activities of the indirect complaint management process.

For this reason, in retailing a clear allocation of functions and a good coordination of processes are needed between the head of complaint management department, the stores, and the central customer care center on the retailer's part as well as in the relationship between retailer and manufacturers of products affected by complaints: The Retailing Complaint Management Square.

In market situations that are characterized by an intense competition, retailers have to spare no effort to prevent customer losses caused by dissatisfaction. Therefore, complaint management deserves highest priority. The following 10 recommendations give orientation on a way to an excellent complaint management:

1. Use any opportunity to stimulate dissatisfied customers to complain to your company!
2. Train your employees in how to adequately treat complaining customers and in how to gather complete and accurate complaint information!
3. Care for a prompt and appropriate complaint processing!
4. Choose a plain and immediate problem solution!
5. Analyze the information contained in complaints thoroughly in order to discover weaknesses in products and services!
6. Communicate the results of complaint analyses to managerial staff and customer contact personnel!
7. Use complaint analysis information for quality assurance and quality improvement!
8. Monitor the task fulfillment of complaint management on the basis of objective standards and results of complaint satisfaction surveys!
9. Calculate costs and benefits of your complaint management!
10. Clearly define the roles and responsibilities of the head of complaint management department, customer care center, stores, and manufacturers!

Case 1: Complaining Behavior of Food Retailing Customers

A market research project conducted by one of Germany's leading food retailers investigated – on a local level – customers' complaining behavior, customers' experiences with the complaint process, and customer satisfaction with complaint handling.

In a first step, personal interviews were conducted with 250 customers in five different grocery stores; besides, all 41 customers who had placed a complaint with the retailer's regional headquarters during the past 6 months were contacted and asked to evaluate their complaint experience.

Among other results, the study revealed the following three insights that are of general interest to food retailers:

1. Food retailing customers complain mainly about product deficiencies, whereas service problems are hardly made the object of a complaint.

   During the personal interviews, customers were asked if they had recently experienced a problem that could have been a reason to complain. Almost half of the respondents (48%) affirmed that such a problem had actually occurred. However, the willingness to complain about the negative experience was highly dependent on the type of problem perceived: A majority of 84% of respondents declared that they complained when product-related problems occurred. However, willingness to complain dropped significantly for service-related problems: For example, only one out of three respondents was willing to complain about problems perceived regarding employee behavior.

   Implication: Those problems articulated within complaints and registered by food retailers can only give an incomplete picture of negative customer experiences; especially service-related problems are underrepresented and therefore might not receive as much managerial attention as needed. To prevent this, it is necessary to employ additional methods (such as customer surveys or mystery shoppers) that allow for problem identification from a customer's point of view.
2. Food retailing customers complain locally, directly, and personally. Written complaints are the rare exception.

   In food retailing, 56% of the customers who complained did so by directly addressing employees in the store, often the cashier/check-out staff as they were the contact person easiest to reach. Twenty-seven percent of the complainants turned to the local store manager, only 4% contacted the regional headquarters, and not a single complainant brought the problem forward to the company's national headquarters.

   Implication: First, the result stresses the need for a professional training of the staff in local retail stores, as the behavior of those employees has a crucial influence on restoring customer satisfaction and on customers' future loyal behavior. Second, it becomes clear that a specific contact person for complainants is needed at the point of sale, as the check-out staff is often under time pressure and therefore unable to adequately solve the individual complaint case and to gather all the necessary complaint information. Third, it is obvious that the national and regional headquarters do not have reliable information available about customers' negative experiences at the point of sale and even local store managers are poorly informed about this matter. Therefore, specific effort is needed to stimulate complaints by establishing easy-to-reach complaint channels on a local and central level.
3. The complaint experience has a considerable influence on the future behavior of food retailing customers.

   Those customers who had written a complaint letter to the regional headquarters were not only interviewed with regard to their complaint satisfaction

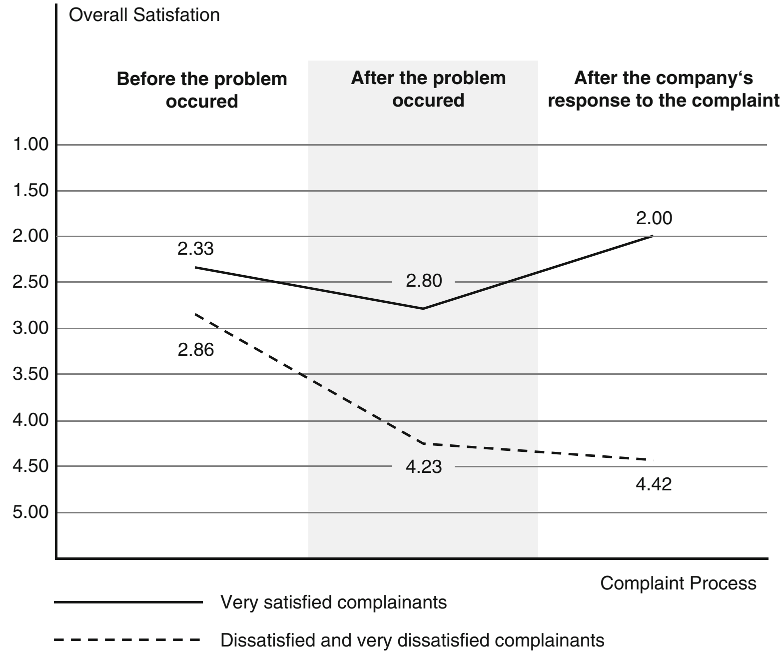

Fig. 12.4 Development of overall customer satisfaction during the complaint process

but also asked if there were any behavioral consequences caused by their complaint experience. Thirty percent of the complainants declared that they now buy "less" or "hardly ever" from the retailing company in question, 18% even declared "not to buy there at all anymore." An even higher churn rate was in some cases only prevented by the fact that the grocery store in question was the only one in town and therefore no alternative shopping option existed for consumers.

Besides, the study confirmed the "recovery paradox": Overall satisfaction was 2.00 (on a scale ranging from 1 = very satisfied to 5 = very dissatisfied) for those complainants who had been very satisfied with complaint handling, thus reaching a much higher level compared to before the problem had occurred (2.33). In contrast, overall satisfaction of those complainants who had been dissatisfied or very dissatisfied with complaint handling decreased considerably from 2.86 to 4.42 (see Fig. 12.4).

Implication: In the face of an intense competition and low profit margins in food retailing, not a single company can afford to increase customer dissatisfaction and to drive customers away by not handling their complaints in a professional manner. Instead, retailers have to come to realize that it is a top priority to stabilize those customer relationships that are in jeopardy due to dissatisfaction and that, therefore, complaint management constitutes the core of any successful customer retention management.

Case 2: Discovering the Annoyance Iceberg

The objectives of complaint management focusing on customer retention and quality improvements can only be achieved if annoyed customers articulate their annoyance directly toward the retailer instead of switching to the competitor immediately. Nevertheless, a considerable part of annoyed customers chooses not to complain. This applies in particular to retailing because only low switching barriers exist in this industry. According to the national German satisfaction survey (Servicebarometer 2008), the share of disappointed customers who do not complain accounts for 75.2% (grocery stores), 82.8% (home improvement markets), and up to even 91.5% (drugstores).

That large number of "unvoiced complaints" is one main reason for the fact that those complaints a retailer records in its database show only the tip of the "annoyance iceberg." A second reason is the circumstance that many articulated complaints are not registered in the company. Especially in retailing companies, many of these "hidden complaints" can be expected due to the fact that the vast majority of customer complaints are articulated in stores to customer-contact personnel. The associates accepting these complaints are often unprepared for complaint situations or are afraid of negative consequences and thus record only a fraction of the complaints they receive.

A high share of unvoiced and hidden complaints implies the danger that management gains a false perception of the extent, type, and urgency of customer dissatisfaction and this may lead to a wrong allocation of resources invested in corrective actions and improvement measures.

In order to avoid these serious economic problems, it is necessary to get a realistic picture of the annoyance iceberg. This can be done applying the following procedure:

1. In the annual customer satisfaction survey, retail customers are asked if they were confronted with a problem that (from their point of view) constituted a reason to complain. Those customers who experienced a problem (annoyed customers) were further asked to indicate whether they actually articulated a complaint. The number of noncomplainants among the annoyed customers divided by the total number of annoyed customers expresses the "nonarticulation rate."
2. Subtracting the number of complainants registered in the firm from the number of customers having declared that they actually did complain during the relevant time period results in the number of nonregistered complainants. If you relate this number of nonregistered complainants to the total number of complainants you get the "nonregistration rate."
3. The most important key figure for estimating the tip of the annoyance iceberg is the "evidence rate" which expresses the ratio of registered complainants to the total amount of annoyed customers. The evidence rate shows the extent to which complaint management is able to identify the annoyance among the company's customers within the scope of complaint analysis and is therefore an important element in the evaluation of the complaint management process.

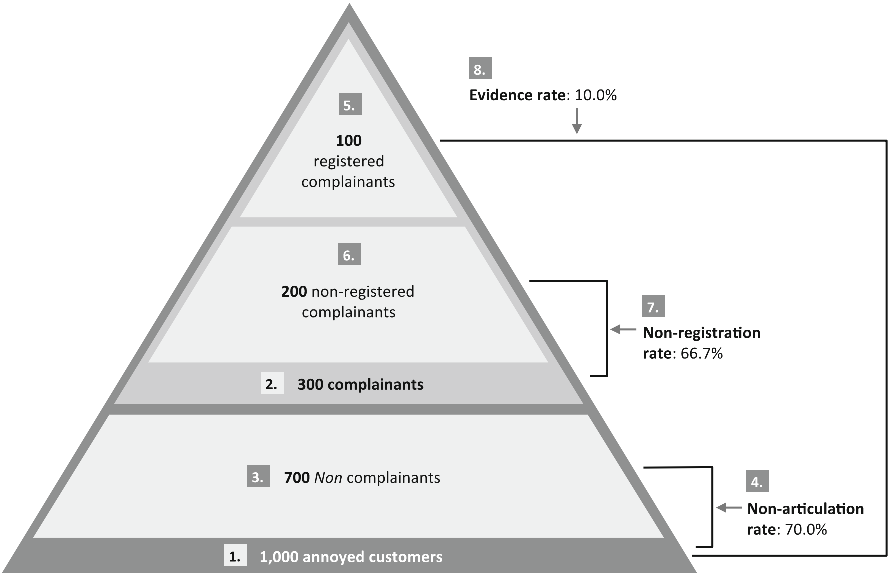

Fig. 12.5 Exemplary determination of the key figures of the annoyance iceberg (Stauss and Seidel 2008, p. 41)

How to calculate the different key figures is shown in Fig. 12.5 by means of a simple example: If a satisfaction survey reveals that there are 1,000 annoyed customers and 300 of them actually complained we get a nonarticulation rate of 70%. If 300 customers state that they complained but only 100 complaints are registered in the company, 200 complaints are not registered. This means that the nonregistration rate is 66.7%. If one relates the 100 registered complaints to the number of annoyed customers (1,000) this results in an evidence rate of 10%. This means that 90% of the "annoyance iceberg" do not become transparent within the registered complaints.

The discovering of the annoyance iceberg and the calculation of the different rates are of high importance for the retailer's complaint management:

- The nonarticulation rate indicates the urgency to analyze the firm-specific reasons for not complaining. On this basis, complaint barriers can be removed and easily accessible complaint channels can be established and communicated.
- A high nonregistration rate indicates that the majority of complaints addressed to the firm is unknown to complaint management and thus cannot serve as a basis for corrective measures. Thereupon, the reasons for the lack of registration have to be analyzed. On this basis, the desired degree of registration has to be determined in terms of costs and efficiency and the complaint processing has to be reorganized accordingly.
- Concerning complaint analysis, complaint reporting, and utilization of complaint information, the evidence rate is of crucial relevance as it indicates the extent to which data used in the standard complaint analysis are representative for customer

experience or requires adaptation. In many cases, it will be necessary to modify the results of complaint analyses taking the low degree of complaint articulation and registration into account.

Questions/Points for Discussions

How can you ensure that dissatisfied customers articulate their complaint instead of switching to the competitor immediately?
Discuss the advantages and disadvantages of a complete centralization (decentralization) of complaint management in retailing.
Which differences in the complaint management exist for corporate retail chains on the one hand and small retailers with just one store on the other hand?
How can a retailer use complaint information in negotiations with manufacturers?

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Chapter 13
Retailer Branding Through Excellence in Service

Jiyoung Hwang and Julia F. Cooper

Learning Objectives (What Students Will Learn from This Chapter)

- The importance of service in retail business enterprises
- Differences between product and service retailing
- Branding through product, service, and retailer
- How services and branding differentiate retailers
- How services add value to the customer experience
- The importance of collaboration and co-creation of value with customers.
- Branding through new perspectives (corporate social responsibility)

An important trend in the retail paradigm is the reinvention of service–value orientation embedded in retail business to achieve a sustainable competitive advantage in the marketplace. Given that consumers' shopping at stores is "experiential shopping" (Kim et al. 2007), delivering unique, satisfactory service experiences to customers is the key issue in retailing today. Indeed, the focus of a differentiation approach in the retail industry has shifted from diverse product offerings to "excellent services".

By definition, retailing refers to "a set of business activities that add value to products and services sold to consumers for their personal and family use" (Levy and Weitz 2004, p. 719). This definition connotes the "added value" embedded in the retail business, which highlights the importance of service aspects in the concept of retailing. In practice, online retailers have introduced a variety of services that enhance consumer experiences. Some examples include online consumer reviews (e.g., Epionions.com), consumer-centered markets such as consumer auctions

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(e.g., eBay.com), and price comparisons through various websites (e.g., Pricegrabber.com), which did not exist in brick-and-mortar retailing contexts. These new business circumstances have intensified market competition and further triggered retailers to realize the importance of service excellence as a fundamental driver of differentiating themselves from its competitors. The concept of retailing includes multichannel service delivery, and thus service opportunities.

The concept of "differentiation" is closely related to retailer branding as well. Branding can be defined as "an integrated process in creating an identity of goods, services, and companies to differentiate them from its competitors" (Kotler 2003). A brand represents the *identity* of business and the identification occurs not only at a store level through brand constituents such as symbols but also at a broader level, such as a mall location (Caylor 1999). For instance, what do consumers think of when they visit the "Mall of America" in Minneapolis or see the red bullseye logo in a store advertisement insert? They may identify the former as the largest mall in the United States, and link the latter with the symbol of a mass-market retailer, Target, the second largest retailer in the US. This identity helps consumers make decisions more easily.

One of the most important benefits of successful branding is brand differentiation. Branding differentiation through service strategies builds brand equity that adds "value" to a retailer in the minds of the consumer (Pechmann and Ratneshwar 1991). Consider an example of L.L. Bean that has been ranked as No. 1 retailer for its customer service excellence in all retail formats (Nrffoundation.com 2009). This mail order retailer offers a 'lifetime guarantee' for its products, regardless of the product type or reason for postpurchase service. A real-time customer testimonial, posted on an online consumer community, customerservicemanager.com (n.d.), describes how one retailer takes customer services into account. The consumer's experience was about his trial to replace his old pants while he was in Singapore. Even though twenty years had lapsed, the retailer not only replaced the pants, but also refunded international postage costs to the consumer. This anecdote gives a hint to why this retailer has been hailed as the No. 1 service value provider for a long period of time, successfully differentiating itself from various competitors in apparel retailers. Also, it is clear that such customers who are impressed by a retailer's service would remain a lifetime loyal customer of the retailer.

A key issue for today's retailers is to provide consumers with compelling and memorable experiences by reinventing service orientation. This chapter addresses how and why service orientation is critical for retailers drawing upon an emerging approach to retailing, through service-dominant logic (Vargo and Lusch 2004, 2007). The service-dominant logic approach has become an emerging retailing approach to branding through services.

Service Retailing: The Focus on Consumer Experiences

The service-dominant logic highlights that a traditional view on service component is value-adding enhancements to tangible goods but it has changed to "a stand-alone variable" and more importantly "primary focus of exchange" (Lusch et al. 2007).

This normative debate on service-dominant logic vs. goods-dominant logic brings fundamental differences in understanding of customers in the marketing context; that is, the latter views customers as a passive entity that is marketed on. Thus, this goods-dominant logic emphasizes on how to *segment* and *market* customers. On the contrary, the former view, service-dominant logic, considers customers as an entity to market with. That is to say, customers are "a resource that is capable of acting on other resources, a collaborative partner who co-creates value with the firm" (Lusch et al. 2007, p. 6). In other words, creating customer experiences is critical but reflecting customers' opinions to shopping experiences becomes even a more critical issue in differentiation of retail brands. Take an example of companies' seeking customers' opinions. As compared to the past, companies utilized diverse routes for the search of consumers' opinions about companies' products, services, and total shopping experiences. The search channels have expanded to include consumers' in-store feedback to online feedbacks/suggestions, online customer surveys, social media, etc. Such changes reflect the notion that identifying consumers' evaluations of their shopping experiences and incorporating their opinions into business communication channels have become an imperative task for today's retailers.

Moreover, from a service-dominant logic perspective, customer experiences are a pivotal component that allows value-creation with customers. In doing so, customer services offered by retailers are critical. Researchers present (e.g., Levy and Weitz 2004; Rayport and Jaworski 2004) customer service as the set of activities and programs intersecting retailers and their customers. These service components play an important role in increasing the value of merchandise. A global coffee retailer, Starbucks, for example, has been known for its creation of new consumer culture, called "a third place" meaning that Starbuck's offers a personal, relaxing place, in addition to home and work environments as a consumer service (Starbucks.com 2010). Although their product selection or coffee taste is not perceived to be strong, its customer service has been acknowledged to spur consumers' loyalty (Moon and Quelch 2006). This is an example of branding through service differentiation, not through product differentiation. To take this example one step further, not only does Starbucks offer free refills of coffee to registered customers, but Starbucks provides new coffee drinks to customers who are not satisfied for whatever reason and provides coupons for any long wait for a drink or other inconvenience occurring in-store. The retailer also implements multitier customer loyalty programs providing several different privileges (e.g., free drinks, free trials of new products) to loyal consumers. Such customer services contribute to the establishment of a positive image about the company (Moon and Quelch 2006). Thus, service elements are a clear "stand-alone variable" of retail businesses.

Service Retailing Versus Product Retailing

This concept of service retailing is different from product retailing in several ways. *Product retailing* or "branding through products" encompasses the degree to the excellence of how retailers can develop product portfolio of their business or specialty

Fig. 13.1 Author adaptation from Levy and Weitz (2004)

retailers. For example, among various grocery retailers, Whole Foods Market is well known for its diverse health-oriented products. The grocery retailer offers from local grown produce to organic products. It also provides selections of private brand products including “365 Everyday” and “365 Organic” in almost every product categories. As an advanced step in private brand products, the retailer has launched a premium private brand, “Whole Foods Market,” to meet the needs of consumers who seek more premium, organic products at affordable prices. Its diversification of private brand approaches creates brand images in consumer minds as “the retailer is the place where I can get healthy foods at affordable prices.”

Private brands are a popular approach that retailers utilize in the context of branding through products. A private brand (also known as private label brands and store brands) refers to products only sold at a specific retailer and they in general indicate the quality of retailers. Retailers launch their own private brands because developing private brands brings financial profits and enhance consumers’ story loyalty (Ailawadi et al. 2008). An underlying logic is that by eliminating the middleman, retailers can offer private brands with very similar quality to that of national brands at a lower price.

However, this “branding through product” approach is limited considering a whole spectrum from pure-product to pure-service (see Fig. 13.1). Some examples of pure-service retailers include airlines, health care providers, or financial services wherein the commodity of exchanges is intangible. Notably, services retailers consist of a growing sector in the retail industry (Levy and Weitz 2004). Indeed, retailers focusing on the exchanges of goods are inevitably engaged in service components at least to some extent. For example, grocery retailers are considered to be located in the left side of spectrum in Fig. 13.1 – more toward pure-product oriented retailer – because they sell a wide range of grocery items such as meats, produce, prepared foods, and household items. But grocery retailers may offer services including postal services, video rentals, or pharmacies. In this aspect, service component is an essential element for retailers irrespective of the commodity of exchange.

Levy and Weitz (2004) point out unique aspects of service retailing in terms of intangibility, simultaneous production/consumption, perishability, and inconsistency. First, services are intangible and thus consumers are not able to touch or feel the service. Thus, it is hard for consumers to evaluate the service from pre- to post-purchase stages of consumption. Services are also simultaneously consumed as they are produced. Compared to consuming a product purchased from a wholesale club, a service being offered by a bank is consumed or experienced by the individual customer. In other words, services perish, once they have been offered and accepted. Quality is another important factor of consideration, since quality control over products is much easier than over services. Consistency is a hallmark of good brand quality and the quality of services often becomes inconsistent when it comes to its quality. It highly depends on the person who creates and delivers the services. For instance, consider franchise restaurants such as Subway or Denny's. Even though these franchise retailers have the same training, manuals, and other business protocols from its franchise headquarter, customers may perceive their services differently depending on the store they visit. Therefore, maintaining service quality at the consistent level is a critical component of successful branding.

Fundamentally, service retailing entails service components of retail businesses positing the service orientation as a superodinate dimension over products (Brodie et al. 2006). Service is intangible, a critical characteristic of service in nature (Grace and O'Cass 2002). Consequently, "branding through service" involves more abstract, intangible aspects of business and thus may be more challenging to build brand image than branding through merchandise (Levy and Weitz 2004). Kotler (2003) provides service-driven stages that are associated with the consumers' purchase and decision-making process:

1. Prepurchase services (e.g., advertising, shopping hours, fitting rooms)
2. Postpurchase services (e.g., shipping and delivery, engraving, etc.)
3. Ancillary services (e.g., parking, baby-attendant service).

He further argues that such service mix is a key of retailers' differentiation. Thus, by identifying what is critical for the consumer decision, retailers have the opportunity to select and leverage branding through service.

Several companies use service to differentiate their brand throughout the supply chain. For example, Shiseido, a Japanese cosmetic brand, launched radio frequency identification technology (RFID) product information readers to improve customer shopping experiences (as well as to test the efficiency of logistics and distribution using the technology) (IDtech.com 2010). This technology allows the consumer to read detailed information of a product as soon as the RFID reader scans the product. While shopping, customers can learn about other consumers' feedback on the cosmetic products and can visualize the real-time simulation of personalized makeup. This example demonstrates how this retailer can enhance the shopping experience by offering innovative services in the consumers' decision-making process.

Offering essential services to customers can reduce risk perceptions associated with consumers' shopping experiences with retailers (Berry 2000; Wilson 2000). This role may, in turn, play more important roles to online retailers where risk perceptions are generally high. As an illustration, consumers' risk perceptions of online purchase mainly prohibit their online purchases especially apparel product categories (Kim and Lennon 2000). A main reason is that when it comes to apparel product purchases, consumers are known to prefer to have sensory experiences such as physical touch and trials to ensure fitting of the products (Kim and Lennon 2000; Miyazaki and Fernandez 2001). Acknowledging that a lack of physical touch and trials is a major obstacle of online purchases, online fashion retailers have devised effective strategies to reduce risk perceptions. In the case of Zappos.com, this online fashion retailer offers enlarged views of products in various angles, interactive chat functions, and more importantly, free shipping both ways, 365-day return policy, and 24/7 customer service. Also, consumers are able to communicate their experiences with a particular product through online customer reviews, ratings, and blogs, which allow consumers to indirectly experience the product. These great customer services can explain why Zappos.com ranked No. 3 in the top ten retailers for customer service conducted by the National Retail Federation in 2009 as well as in 2008 (Nrffoundation.com 2009). As another illustration, a global home furnishing retailer, IKEA, provides various simulations with its products. Despite high buying cost, home furnishing items are difficult to try and return. Thus, customers may hesitate making purchases to some extent. To resolve such concerns, IKEA offers simulation functions in its website that allow customers to visualize a virtual demonstration with the products that they are interested in buying. Store atmosphere is another important service aspect of retailer's branding. For instance, Victoria Secret stores have the concept of "Retail Theater" allowing customers feel like being in a romantic scene (Kotler 2003, p. 542). Fashion retailers like Abercrombie and Fitch or Hollister also use unique aroma in the store and so customers are likely to link the smell with the retailer. Restaurants utilize in-store music and lighting as an indicator of store environment.

Although these examples discussed above do not cover the dynamics of various service aspects embedded in the retail business, they clearly demonstrate how retailers can utilize an array of services and components other than products to differentiate their brand and to establish the positive brand (retailer) image.

Evolution of Branding in Retailing

The concept of retailing has been proposed in previous studies. According to Kotler (2003), retailers consist a step of marketing channels that refers to "set of interdependent organizations involved in the process of making a product or service available for use or consumption" (p. 505). As described in Fig. 13.2, it is retailers that connect manufacturers and the end users – either consumers or businesses – that need products or services.

The concept of "branding" is intangible and thus it is difficult to implement successful branding strategies. However, once brand implementation is successfully done, retail branding can bring several critical benefits to the companies. The most important benefit to companies can be competitive advantages in the market which contributes to the greater business profitability (Griffin 2002; Schultz and de Chernatony 2002).

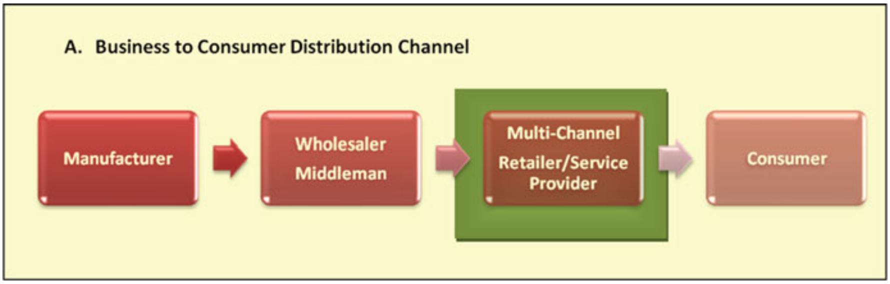

Fig. 13.2 Retailers in a marketing channel (adapted from Kotler 2003, p. 508)

When it comes to retail branding, it is important to note that retailers *are* the brand (Ailawadi and Keller 2004). Very similar to many buying situations of products, consumers have a diverse set of brands (retailers) when making a buying decision. Thus, it is critical that consumers need to be aware of the brand in order for a brand to be entered in a consumer's choice set. This *brand awareness* represents consumers' ability to recall a brand and to link a brand with a specific product or service category (Aaker 1991). As cognitive psychologists argue, consumers are able to encode, store, memorize, and retrieve information about a brand. Thus, when strong brand associations exist, consumers are able to make decisions more easily (Tulving and Psotka 1971). Thus, by activating the memory, brand associations – anything related to a brand stored in consumers' memory – serve as a retrieval cue for the particular brand (Nedungadi 1990). As consumers accumulate their experiences with a particular brand, they have greater *brand familiarity* to the brand (Alba and Hutchinson 1987).

Combined through retail services, brand awareness and brand familiarity contribute to the formation of brand image (Ho and Chong 2003; Keller 1993; Schuiling and Kapferer 2004). *Brand image* refers to a total summation of brand associations including both affective dimensions (e.g., attitude toward a focal brand) and cognitive dimensions (e.g., quality perception of a brand) (Keller 1993). Importantly, brand image is a key component of long-term success of brand since it allows a clear and recognizable brand identity (Aaker 1996; Park et al. 1986) and thus it is a key element of consumer-based brand equity (Keller 1993; 2003). Brand image further determines *brand attitudes*, an overall evaluation of a brand. Brand attitudes are similar to beliefs about product attribute and not-product attributes such as functional or symbolic aspects of a brand, influencing brand preference (Keller 1993). As an illustration, consumers who are motivated to express certain aspects of self-concepts (e.g., classic image) are more likely to choose brands such as Chanel because the classic image of the brand facilitates positive attitudes toward the brand, and consequently the person is likely to prefer the brand over other brands. In this way, brand image has an impact on consumers' purchase intention (Batra and Homer 2004) contributing to a company's financial performance (Kim et al. 2003).

Value-Satisfaction-Loyalty in Retailer Branding

An emerging stream of branding research is driven by service-dominant logic (Vargo and Lusch 2004) highlighting that branding is a process of "value-adding" to consumer experiences (de Chernatony and Segalhorn, 2003). It is no longer business operations, such as marketing and advertising that build brands loyalty, it is service execution. Specifically, a primary goal of branding is to enhance brand image and familiarity in consumer minds through a process of value–satisfaction–loyalty relationships.

Customer value. Consumers typically buy products or services based on overall value they gain (Hoyer 1984). According to the utility theory which forms the basis of value concept (Caruana et al. 2000), consumers buy products bundles of attributes providing utilities (or benefits). While the notion of customer value is largely quite divergent (Gounaris et al. 2007), a traditional definition of value is a consumers' overall assessment of the utility of a product based on perceptions of what is received and what is given (Zeithaml 1988, p. 14). Gounaris et al. (2007) decompose overall value perception in terms of product value, procedural value, personnel value, emotional value, social value (as a positive factor), and perceived sacrifice (as a negative factor). Customer value is perceptual and subjective perceptions often influenced by self-concept and store image (He and Mukherjee 2007).

Brand image is a key determinant of customer values (Brodie et al. 2009) contributing to the brand equity (Keller 1993). Likewise, in a retail context, retailer (company) image is a critical source of retailer brand equity (Ailawadi and Keller 2004). Other factors including store environment, merchandising quality and value, and customer service influence retailer image perceived by consumers (Semeijn et al. 2004). Consumer perceptions of these dimensions help strong associations between customers and retailers that is an essential component of brand image that further contributes to the long-term brand equity (Aaker 1996; Keller 1993). Furthermore, the associations perceived by consumers affect their perceived values from the retailers and loyalty intentions.

An emerging concept concerns "incremental" value or added value. For example, under a circumstance where various products, services, or retailers look very alike, consumers may experience difficulties in differentiating one from another. But when consumers perceive one commodity has additional value with respect to price or service or other functional or symbolic aspects (or decomposed value components noted by Gounaris et al. 2007), they would perceive more value from it, as compared to others. Indeed, researchers have illustrated that superior customer value eventually contributes to companies' success (Bolton and Drew 1991; Parasuraman 1997). From a retailer perspective, since retailers have limitation in offering lower prices (e.g., infrastructures, corporation of suppliers), other aspects such as unique store environment or customer services can be better options to increase consumers' value perception.

Customer satisfaction. A major goal of brand management is enhanced customer satisfaction. Researchers have distinguished satisfaction in terms of attribute satisfaction and overall satisfaction. More specifically, attribute satisfaction refers to a cognitive satisfaction regarding a specific attribute such as store environments or employees (e.g., Jones and Suh 2000). On the contrary, overall satisfaction can be defined as affective responses to products or services based on aggregated experiences with the commodity (Homburg et al. 2005; Oliver 1997). Viewing satisfaction as a type of emotional response, overall satisfaction is more common in the literature (e.g., Oliver 1999) and researchers have demonstrated that the overall satisfaction consists of several attributes satisfaction (e.g., Chiou and Droge 2006).

In branding contexts, customer satisfaction is driven by corporate brand image (Davies et al. 2003). In a similar vein, value has been identified as an important determinant of customer satisfaction given that customer value reflects customer preference for the consequences that satisfy their own goals (Woodruff 1997). Such a value-satisfaction relationship has been supported by researchers (e.g., Gounaris et al. 2007; Roberts et al. 2003).

Customer loyalty. Enhanced consumer brand loyalty is a pivotal outcome of branding (Gilmore 2002). Customer loyalty can be defined as predispositional commitment toward a brand (Aaker 1991; Assael 1998; Jacoby and Chestnut 1978). More specifically, customer loyalty, a major construct in branding literature, is conceptualized in several ways. Oliver (1997), for instance, proposes four types of loyalty, namely cognitive, affective, conative, and action loyalty: *cognitive loyalty* reflects beliefs that one entity (e.g., brand, store) is preferable as compared to others, *affective loyalty* implies emotional responses such as liking or favorable attitudes, *conative loyalty* reflects a deeper level of commitment in terms of behavioral intention (e.g., repurchase intention), and *action loyalty* reflects strong willingness toward an action even with obstacles to the action. A more simplistic conceptualization of customer loyalty views customer loyalty as a two-dimensional construct that encompasses attitudinal and behavioral aspects. Specifically, *attitudinal loyalty* refers to an individual's commitment to a brand or a store (Chaudhuri and Holbrook 2001; Jacoby and Chestnut 1978). *Behavioral* loyalty, on the other hand, represents the willingness to repurchase the same brand or at the same store or to generate positive word-of-mouth (Chaudhuri and Holbrook 2001). In fact, this view is not fundamentally different from that of Oliver (1997), in that attitudinal loyalty captures cognitive, affective, and conative elements of the loyalty concept while behavioral loyalty is in line with action loyalty.

Researchers suggest that customer loyalty is a major consequence of customer satisfaction both conceptually (e.g., Keller 2003) and empirically (e.g., Chiou and Droge 2006; Fornell et al. 1996). For instance, Chiou and Droge (2006) found that attitudinal loyalty is influenced by overall satisfaction, affective attitude toward a brand/retailer. Other researchers found that customer satisfaction increases the likelihood of positive word-of-mouth and of repeated purchase decisions (Bolton and Lemon 1999; Zeithaml et al. 1996). Also, attitudinal loyalty has been conceptualized as an antecedent of behavioral loyalty that is usually represented as repeated purchase. This is because consumers' attitudes influence their behavior (Ajzen and Fishbein 1980), but positive attitudes toward a brand/retailer may not directly transfer to purchase behavior (Dick and Basu 1994) due to consumers' financial constraints or lack of product availability in the market (Bandypadhyay and Martell 2007). However, positive attitudes are likely to promote emotional bonds with the brand/retailer.

Retailers can achieve customer loyalty by making the customer satisfied with excellent customer service. As discussed earlier, L.L. Bean, a mail order retailer has been ranked as No.1 retailer for its customer service excellence (Nrffoundation.com 2009) mostly through its practice of "lifetime guarantee" for its products regardless of the reason. The anecdote presented earlier demonstrates that such customers who are impressed by a retailer's service remain a lifetime loyal customer of the retailer.

Customer loyalty can increase effective responses to customer dissatisfaction and customer complaints from service failure. Without surprise, companies do not satisfy 100% of their customers: in general, there are 25% of dissatisfied customers, and among these consumers, 8–20 people share their dissatisfied experiences with their friends or families (Customerfocusconsult.com n.d.). Ninety-one percent of customers who experienced dissatisfaction tend to not make complaints, but 63% of these unsatisfied customers do not make repurchases of the products/services (Michelson 2003).

But an important point is that consumers' complaints dealt by companies quickly, effectively, and responsibly increases customer overall satisfaction (Spreng et al. 1995) and loyalty to the companies (Harris et al. 2006). For this reason, effective handling of customer dissatisfaction or complaints has become an important issue for retailers. Indeed, they have devised ways to learn of customer complaints, because they have realized that effectively handled complaints can recover customer trust and satisfaction substantially even spurring customer loyalty. For example, many restaurants offer customers to provide their experiences and any complaints through their websites. Rewards for feedback include coupons and quick responses to such emails so that consumers know that restaurants take customer complaints (and customer satisfaction in other words) seriously. An important consideration may concern retailers' consideration of their retail format when implementing service recovery. This is because the impact of service-recovery strategies may differ depending on shopping environment (online vs. offline) or service type (Harris et al. 2006). Harris et al. (2006) found that service recovery plays a more important role in brick-and-mortar retail settings than in the Internet retailing contexts, which reveal that offline customers are less tolerant to service failure than consumers who do shop online where self-service components are more involved.

Conversely, retailers that do not consider service recovery may have detrimental, unexpected negative impact on their business. An incident that happened with United Airline is an interesting example. In 2008, a customer, David Carroll, uploaded a song called "United Breaks Guitars" on YouTube. The song is based on David's personal experience with the United Airline. His guitar was damaged during the flight and he asked for compensation of 3,500 dollars to the company. However, United did not accept his request. Later, David wrote a song and the music video in YouTube hit around twenty five million plays. The song attracted substantial attention and even broadcasting companies interviewed him and invited him as a guest.

He further wrote additional songs and uploaded them in YouTube, which also became very popular through YouTube. Not too long after, United admitted their fault regarding the damaged guitar and offered compensation. It is obvious that this seemingly small incident resulted in degraded company image not only in the US but also in other countries, which would not occur if the service retailer effectively handled the consumers' complaints. Furthermore, these unsatisfactory shopping experiences are critical for retailers given that today's consumers tend to "broadcast" their dissatisfactions through the Internet. Indeed, websites such as www.complaints.com or www.consumeraffairs.com are designed to facilitate consumer complaints with all types of retailers and websites such as www.walrmar.pissedconsumer.com or www.macrumors.com targeting consumer complaints focusing on specific companies. Clearly, the importance of service failure recovery has become a wise strategy for retailers.

Branding Through New Perspectives

We additionally present a case study of Toms shoes that shows how a small shoes retailer has rapidly accomplished its brand establishment through their engagement in corporate social responsibility.

Brand Building Through Social Responsibility

Corporate Social Responsibility (CSR) has been an increasingly important factor for consumers in the buying decision-making process. As globalization becomes expedited, consumers have realized the interconnected impact of companies' business operations in other countries and, ultimately, the well-being of a global society. Attitudinal studies show the changing shift in how consumers relate to a brand and/or company [These studies show that not only companies' expertise in offering high-quality products/services (*corporate capability*) but also their commitment to social responsibility (CSR) creates significant impact on consumer perceptions of the companies, and purchase intent (Anselmsson and Johansson 2007; Becker-Olsen et al. 2006; Brown and Dacin 1997; Ellen et al. 2006)]. Likewise, these findings are in line with the notion that today's consumers represent their buying decision as a voting for a company that considers its social responsibility within society (Shaw et al. 2006).

In a branding perspective, a corporate image driven by CSR (or CSR-oriented store image) has been acknowledged as a critical dimension of retailer image (Brown and Dacin 1997; Gupta and Pirsch 2008; Gurhan-Canli and Batra 2004). A *CSR-driven image* can be defined as a store's image in consumer's minds defined by their beliefs and knowledge about the social responsibility of the retailer.

Key aspects of retailer commitment to the CSR image are:

1. *Community* (e.g., donations, community programs, disclosure of environmental and social performance)
2. *Environment* (e.g., material reduction, reuse and recycling, energy conservation, and waste management)
3. *Employees* (e.g., fair remuneration, healthy and safe work environment, and job security)
4. *Customers* (e.g., truthful promotion, value for money, minimal packaging, and environmentally and socially responsible product composition) and
5. *Suppliers* (e.g., develop and maintain long-term relationships, fair and competent handling of conflicts and disputes) (Spiller 2000).

According to Brown and Dacin (1997), social responsibility associations (CSR, corporate ability) affect corporate image, which in turn influences consumers' evaluation of the products provided by the company. Engaging in CSR also engenders a positive brand image, as cause-related marketing or sponsoring socially significant events (e.g., cancer research) are found to enhance company or brand image (Barone et al. 2007). CSR programs create store images as attribute-based cues influence the evaluation of the retailer. For example, consumers may feel that Whole Foods Market is a good corporate citizen because it uses environment-friendly products in almost all of its business operations (Porter and Kramer 2006), which can be understood as *attribute-based cues for retailer image*. This perceived image can facilitate consumers' positive attitude toward Whole Foods Market because it makes substantial efforts to be environmental friendly (Gupta and Pirsch 2008). These findings reflect that active CSR engagement by retailers contribute to individual consumers' positive evaluation of the firm and services provided (Ahluwalia et al. 2001; Brown and Dacin 1997; Gupta and Pirsch 2008).

It is important to note that CSR plays a fundamental role in retail business practices, to enhance not only public opinion but also private evaluation of a firm. The small retailer, Toms Shoes, is one illustration of how CSR can be a critical competitive advantage in brand building. Because of the "buzz" created by the person-to-person brand message, this shoes retailer name has accomplished its brand building at an international level in the spirit of giving, gone viral.

Case Study: Toms shoes – Corporate Social Responsibility as a Business Model

Toms shoes (Toms.com) is a US shoes company. As of 2010 September, they have donated one million pair of new shoes to children in need. The company materialized from Blake Mycoskie's travels in Argentina in 2006 where he found that a lot of children had no shoes. He started a shoe company right after the trip. Toms Shoes are lightweight canvas shoes inspired by the Argentinean alpargato design.

A fundamental philosophy of the company's business is to give a pair of shoes to a child in need for every pair of shoes that he sells. A break for his business was the interview with the LA times. Then, a lot of publicity dealt with the company's story, including Time, Vogue, Oprah. Then, the company expanded its products lines including t-shirts and bags. Their shoes are sold nationwide through more than 500 stores including Nordstrom, Whole Foods Market, and even a high-end department store, Neiman Marcus. Now, the company expanded the business other than the US including European countries, Australia, Asian countries. TOMS' has Friends of TOMs, a non-profit affiliate of TOMS Shoes. This organization takes the lead for the company's shoe drop movement.

What sets this brand apart is the consumer response to this brand, and word-of-mouth advocacy. Consumers voluntarily upload videos introducing this company and shoes, encouraging other people to buy Toms shoes. Also, companies' interns run an online community, Toms community, on Facebook.com to let people know about the company and local events/promotions. Instead of Toms shoes promoting the brand, advocated consumers do their work. The company also runs a campus club and a non-profit organization, Friends of Toms, to volunteer shoes drops in Argentina; The company's monthly event, One Day Without Shoes, does a one-mile barefoot walk. TOM's unique, identifiable, and meaningful aspects of business philosophy are projected in every business practice promoting consumers' knowledge about the brand, a core aspect of brand equity (Keller 1993; MacKay 2001). The company is likely to achieve several other benefits including positive brand attitude, greater purchase intention (Brown and Dacin 1997), more effective communication with consumers (Keller 2003). This company is a great example of brand building domestic and international scopes as a small but socially responsible enterprise by "doing things right."

Conclusions

From this chapter, it is evident that service is a key brand identifier for retailers, from mass merchants to high-end specialty cafés. Consumers use services to differentiate retail brands and businesses are recognizing the impact of consumers through multimedia channels. Thus, the challenge for managers and restaurateurs is maintaining consistent quality service levels and is a critical component of successful branding through training (Fig. 13.3 and 13.4).

Discussing branding issues in the context of retailers' service, this chapter suggests that branding driven by service orientation consistent with service-dominant logic, it can conclude that competitive advantages are not based on "commodities themselves, but rather on collaborative ability of the firm to allow the commodities to provide service for some other party" (Lusch et al. 2007, p. 15). From a strategic

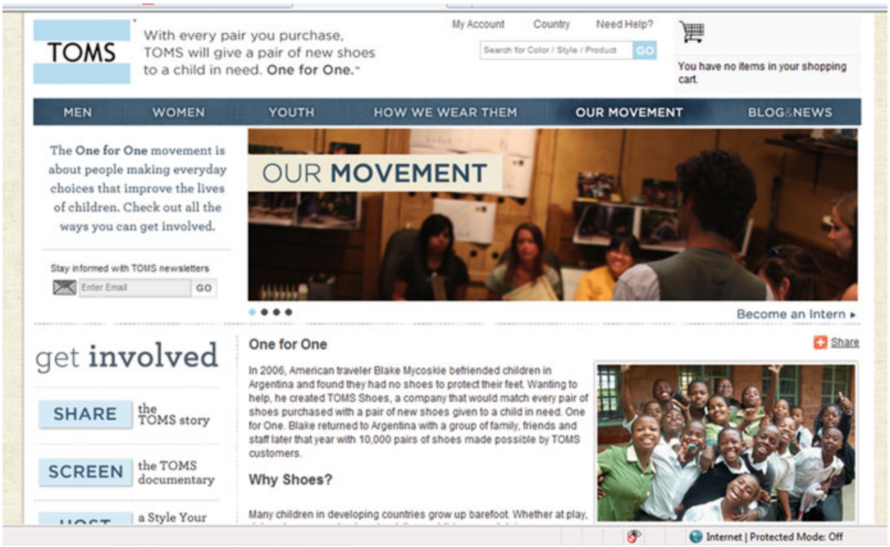

Fig. 13.3 One for One business model (www.toms.com)

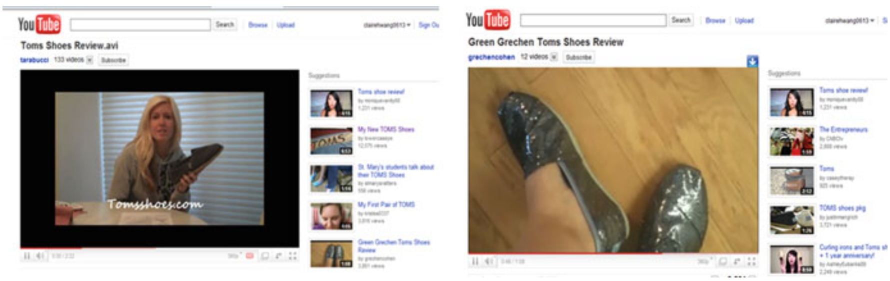

Fig. 13.4 Consumer reviews of Toms shoes on YouTube

approach, retailers are reinventing themselves as "service-oriented" organizations, branding in line with a service-dominant logic. In doing so, retailers need to critically analyze their strengths and weaknesses in service aspects as well as product offerings to differentiate themselves from its competitors, a key benefit of brand equity. With multichannel retailing, there are new opportunities available to connect with the consumer.

Questions for Discussion

- How much does the customer impact what services are offered?
- How can management define and evaluate "excellence" in services?
- How can retailer "control" what consumers say/post for testimonials? What are positives/negatives to consumer-based branding?

- What components can you identify that make up your favorite retailers' identity? How important is retailer identity? Corporate social responsibility?
- How can managers insure consistency in service delivery?
- How is branding delivered throughout the supply chain?
- How important is service recovery of retailer to customer satisfaction and customer loyalty? Do you have any personal experiences that you are dissatisfied but become loyal to the retailer due to effective actions taken by the retailer? In what way have retailers utilized Internet or Mobile services to enhance customer experiences? What other ways can retailers use as venues to offer valuable services to their customers?
- How does branding help consumers with purchase decision making?

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Chapter 14
Values Resonance Drives Sustainable Customer Value: Lessons from IKEA

Bo Edvardsson and Bo Enquist

Introduction

In this chapter, we focus on how sustainable customer value is a driver of business success. Our role model is the retail company IKEA, the world's largest furniture industry business. IKEA is a successful and growing business, with long-term profitability.

Retailing is a mature industry in the modern economy and challenged by a number of trends and forces that are shaping its future development. Many players are developing new business models, marketing and brand strategies, supply systems, products, services and offerings creating value for money as defined by customers and other stakeholders. The following are some important trends and forces shaping this development:

1. Globalisation and economy of scale. Examples are Walmart, Lidl and IKEA.
2. Information and communication technology (ICT) such as RFID, E-commerce, Internet shopping and various simulation tools such as IKEA's kitchen planner provide more and better information and access 24/7.
3. Global sourcing networks and supply chain actors have developed and represent a major force shaping the future.
4. Creating favourable, memorable customer experiences and understanding retailing and shopping as hedonic consumption is more and more important. The design of service landscapes and experience rooms to provide service test-drives is now shaping the future of retailing.
5. The battle of the brands is still going on and a "red ocean" representing blood and hyper competition is more common than a "blue ocean" with little competition and few threats. The big players often want their own brand name for their products and services as in the case with IKEA.

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6. Retail companies now attract professional employees in various parts of the business as was not always the case 30–40 years ago. There is now a professional focus on mission strategy, business models, human resources management and not the least on product and service development and innovation. This has made retailers to be attractive to students with MBAs or engineering degrees. In 2010, students in Sweden ranked IKEA as their first choice of employer, and not Ericsson, Google or Volvo.

Values Resonance

The notion that a service culture, grounded in company core values and corporate social responsibility (CSR), drives service strategy has been empirically examined in a 4-year research journey presented in the book *Values-based service for sustainable business – lessons from IKEA* (Edvardsson and Enquist 2009). The book focusses on what might be called "values-based service", with particular emphasis on the role of such service in the furniture company IKEA. We have continued our empirical studies on values resonance in the context of IKEA. In this chapter, *Values resonance drives sustainable customer value*, we argue that a company must seek resonance in terms of values and avoid dissonance. The mechanisms are three-fold. First, values refer to the *norms and beliefs* of *individual customers* used in the selection of attributes and the "level" of these attributes used to assess different alternatives within the evoked set, such as the products, services and brands or the companies from which to buy or have a relationship with. Second, values refer to *company core values* linked to or forming the basis for an organisation's culture. These values can be understood as a compass which gives energy and direction to leaders and employees in carrying out their work and making decisions. Third, the values refer to *foundation values* linked to society in general and are often referred to as corporate social responsibility.

We may thus conclude that there are three levels and categories of values that must be understood and related to by companies. If there is resonance and not dissonance between values – individual customer norms and beliefs on the one hand and service or product attributes, company core values and foundation values on the other – then values drive value perceptions and contribute to value-in-use. Values can be understood as a benchmark or a measure focussing on the qualitative dimensions to which customers and/or other stakeholders pay attention. Values are often much more stable and long term, while attributes linked to market offerings are in constant flux.

Corporate social responsibility (CSR) has become a driving force in many service businesses. "Values linked to CSR have become incorporated into the core values of many companies, and it has become increasingly apparent that a company that does not meet the requirements of customers in terms of ethical, environmental, and social values will suffer so-called 'values dissonance' and attract negative media publicity that drive customers away" (Edvardsson and Enquist 2009 p. 38). Proactive

CSR is neither a charitable act nor merely doing good for the sake of doing it, but rather a strategy through which an innovative service company advances their business (Enquist et al. 2008). Bhattacharyya (2010) calls this "strategic CSR". He identifies four themes (ibid. pp. 83–86) based on his literature review of strategic CSR:

1. *The perspective of the firm's internal and external stakeholders*. Internally, this perspective motivates employees and demonstrates good management practice. Externally, it earns a good reputation in society.
2. *The perspective of the firm's activities*: This perspective contributes to value chain activities, develops better human resources, and streamlines production and logistical activities in terms of cost and environmental parameters.
3. *The strategic traits of strategic CSR*: Any strategic CSR should be close to the mission and vision of the organisation.
4. *The business gains from doing strategic CSR*: These are pursuit of a generic strategy, development of strategic resources, creation of new business, and more effective management of stakeholder-related risk.

In this chapter, we will describe and analyse IKEA's approach to CSR, which is grounded in values resonance and drives sustainable customer value.

IKEA Culture is Based on Strong Corporate Values

IKEA was founded by Ingvar Kamprad in 1943, in the farming village of Älmhult in Småland, southern Sweden, as a one-man, mail-order furniture company. What might be called the "IKEA concept" began in the 1950s with a showroom where customers could see and touch the products. From the beginning, IKEA has focussed on function, quality and low price. These continue to be the core values of the firm, although good design later became the fourth core value. IKEA has become a fast-growing, global, home furnishing group, with 301 stores in 44 countries and more than 100,000 employees. In 2009, IKEA had a turnover of 22.713 billion euro and some 660 million people visited company stores (IKEA Fact and Figures 2010). IKEA's research has revealed that the average customer returns to an IKEA store four times a year. In 2009, one of the company's defining features, the IKEA catalogue, was printed in 56 editions in 27 languages, and numbered 2 billion copies. IKEA's *vision* is "to create a better everyday life for the majority of people." The company's *business idea* is "to offer a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them." IKEA provides "smart solutions for homes" by implementing three criteria: good design, functionality and low price (IKEA of Sweden 1995).

The strong culture of IKEA is based on shared values and shared meanings, and Kamprad's *A Furniture Dealer's Testament* is highly significant in articulating these values and meanings in creating a better everyday life for the majority of people. Kamprad put it this way in the *Testament* (Edvardsson and Enquist 2002, p. 167):

> We have decided to stand on the side of the majority of people, which involves taking on more responsibility than might at first seem to be the case. Standing on the side of the majority of people means representing the interests of ordinary people, no matter whether that is good or bad for our own short-term interests. It means getting rid of designs that are difficult and expensive to produce, even if they are easy to sell. It means refusing to sell in hard currency to consumers in a country with non-convertible currencies – even though that would make our profits bigger and our problems fewer. Developing a range and presenting it in an imaginative, appealing way in all our stores demands a great deal of knowledge about the lives, hopes, and aspirations of the majority of people. The best way to learn this is through personal experience – not as tourists gaping at things with cameras slung around our necks. Using public transport is one good way of getting closer to people.

The history of IKEA demonstrates that a culture based on a logic of values that makes sense both *inside* the company and for customers and other stakeholders *outside* the company is a strong driving force in business development.

Service Dominant Logic (S-D Logic) in the Context of IKEA

Mainstream business is today product- and production-oriented, and thus characterised by a "goods-dominant logic" (G-D logic), which can be seen as the opposite of a "service-dominant logic" (S-D logic) (Vargo and Lusch 2004, 2008). The main focus of S-D logic is that value is co-created with customers and assessed on the basis of "value-in-use". Market offerings (physical products and services) are understood as being resources that produce effects. Hence, customers use their knowledge and skills when service value is created and assessed – for example, when using a mobile phone to communicate. When a service becomes real in action, value-in-use is realised for the customer (Vargo and Lusch 2004; Edvardsson et al. 2005). A service business that is based on S-D logic is essentially customer oriented and relational (Vargo and Lusch 2004, 2008). The cultural expression and value propositions of IKEA are essentially about *shared values* and *shared meanings* (Edvardsson and Enquist 2002). Indeed, according to Salzer (1994), the "success story" of IKEA is essentially based on producing (and co-producing) such collective meanings. In a values-based service company, the business model is grounded in the paradigm of S-D logic, which is in turn based on the core company values, the foundation values (social and environmental responsibility) and the customers' values. Moreover, the logic of values drives the business strategy, which is expressed in the design of the business model, the definition of the business goals and the choice of performance indicators.

The logic of value creation is supported by the logic of values in forming the basis for IKEA's culture (and thus forming the basis for a values-based, sustainable and profitable service business). Examples of this combination of logics can be found in a booklet entitled "The Key" (IKEA 1995). This booklet describes a cornerstone of IKEA culture – the wise use of resources while minimising waste:

> It's all about understanding how, by continuing to make the most rational use of energy and materials, we can reduce our costs and do the planet a favour at the same time … The [IKEA] range and our purchasing operations are the basis for our success. This is where

> everything begins. If things go wrong here, [they will] go wrong all along the line: from our choice of material via manufacturing techniques, through the labyrinth of logistics and distribution, all the way to the store, where our customers would just stand shaking their heads at the price tag. We have often said that we are one of the world's very few retailers who are steered by production … It is the key to our success … The biggest secret is the advantage we have at the production stage. This creates the conditions for the vital third dimension – a low price.
>
> The Key (IKEA 1995)

The IKEA Way for Sustainable Business

The Testament

Ingvar Kamprad's *A Furniture Dealer´s Testament* is a key document for IKEA.

In 1976, Ingvar Kamprad listed nine aspects of IKEA that he believed formed the basis of the IKEA

Culture, together with the vision statement "to create a better everyday life for the many people".

These aspects are given to all new employees in a pamphlet titled A Furniture Dealer's Testament. The following table summarises the major points:

1. The Product Range – Our Identity
   IKEA sells well-designed, functional home furnishing products at prices so low that as many people as possible can afford them.
2. The IKEA Spirit – A Strong and Living Reality
   IKEA is about enthusiasm, renewal, thrift, responsibility, humbleness toward the task and simplicity.
3. Profit Gives Us Resources
   IKEA will achieve profit (which Kamprad describes as a "wonderful word") through the lowest prices, good quality, economical product development, improved purchasing processes and cost savings.
4. Reaching Good Results with Small Means
   "Waste is a deadly sin."
5. Simplicity is a Virtue
   Complex regulations and exaggerated planning paralyze. IKEA people stay simple in style and habits as well as in their organizational approach.
6. Doing it a Different Way
   IKEA is run from a small village in the woods. IKEA asks shirt factories to make seat cushions and window factories to make table frames. IKEA cuts umbrella prices when it rains. IKEA does things differently.

7. Concentration – Important to Our Success
   "We can never do everything everywhere, all at the same time." At IKEA, you choose the most important thing to do and finish that before starting a new project.
8. Taking Responsibility – A Privilege
   "The fear of making mistakes is the root of bureaucracy." Everyone has the right to make mistakes; in fact, everyone has an obligation to make mistakes.
9. Most Things Still Remain to be Done. A Glorious Future!
   IKEA is only at the beginning of what it might become. 200 stores is nothing. "We are still a small company at heart."

Source: Appendix 1 in Edvardsson and Enquist (2009)

The "IKEA Values"

A key success factor is the recruitment of people who share the IKEA vision and values and who work together to realise those values. IKEA prefers to talk about "co-workers" rather than "employees" as the company believes that the term "co-worker" better reflects the IKEA way of doing business. The company emphasises that it not only wants to fill jobs, but also to "partner with people" (Edvardsson and Enquist, 2009 pp. 19–20). IKEA's human resources policy is to provide co-workers with opportunities to grow as individuals and professionals. It suggests shared values such as togetherness, cost-consciousness, respect and simplicity. To ensure recruitment of individuals who share these ideals, IKEA makes its values clear to prospective co-workers. In addition to the ability to do a good job, IKEA looks for personal qualities such as a strong desire to learn and improve, common sense, the ability to lead by example, efficiency and humility. These values have a strong historical significance for the company, and are connected with Småland, the region of Sweden where IKEA founder Ingvar Kamprad was born. With a reputation for thriftiness, simplicity and humility, this part of Sweden sets the example for how IKEA as an organisation and its co-workers should behave and act. The fact that the heart of IKEA is still situated in the small town of Älmhult in Småland further emphasises the heart of the values. These values are used in employee marketing for prospective co-workers. They are included in a document by Ingvar Kamprad called *The IKEA Values*, which Edvardsson and Enquist (2009 p. 19) presented as follows:

> *Togetherness and enthusiasm*: We respect each other's efforts. We realise that we all need each other. Everyone is prepared to lend a hand.
> *Constant desire for renewal*: A willingness to make change in a constant search for smarter solutions.

Cost Consciousness: Achieving good results with small resources. Never producing a product or a service without a price tag. Awareness of the small costs that can easily mount up. It is impossible to have a low price if you don't have a low cost. Awareness that time is money.

Willingness to accept and delegate responsibility. We must always be more than willing to accept and delegate responsibility. Making mistakes now and again is the privilege of dynamic co-workers – they are the ones who have the ability to put things right. We encourage those who have the desire and the courage to take responsibility.

Humility and Willpower: The way people behave towards other people and their ideas. Consideration, respect, friendliness, generosity, sincerity, admitting your mistakes, listening to others – these are the qualities we like to encourage at IKEA. Humility and willpower is a question of taking responsibility, making the decisions, and having the courage to act.

Simplicity: Simple habits and simple actions are part of IKEA; we must never forget to show respect for each other.

Leadership by example: Set a good example by your behaviour and thereby create a feeling of well-being and a good working environment.

Daring to be different: "Why not?" or "Is there another way of doing this?" We encourage our co-workers to come up with unconventional ideas and to dare to try them out. At IKEA it's always possible to test exciting new ideas within the framework of our concept.

Striving to meet reality: Maintaining practical connections with daily activities.

The importance of constantly being on the way: This means being stimulated by finding ways of achieving a goal rather than by the goal itself. Constantly asking ourselves whether what we are doing today can be done better tomorrow.

No fear of making mistakes: To allow people to get things wrong now and again. To encourage initiative, but with the privilege of making mistakes and putting them right afterwards.

IWAY

Acting with social and environmental responsibility is one of the guiding principles of IKEA. In order to ensure that these principles are adhered to in its various operations, the company introduced its own code of conduct – "IWAY" – in 2000. IWAY is based on the eight core conventions defined in the Fundamental Principles of Rights at Work, which was developed by the International Labour Organisation (ILO) in 1998. IKEA has developed these principles further. IWAY defines what suppliers can expect from IKEA and what IKEA requires from its suppliers. It sets clear requirements regarding the use of child labour to ensure that the operation of the company does not harm children. The code of conduct stipulates that when a supplier is found using child labour an action plan should be developed in order to minimise the risk that the child is merely moved from one workplace to another (IKEA 2008 p. 16).

Classification for work against child labour (IKEA 2008)

Child labour is defined as work performed by children, which interferes with a child's right to healthy growth and development and denies them the right to quality education. According to ILO Minimum Age Convention no. 138 (1973), a child is defined as any person less than fifteen years of age, unless local minimum age law stipulates a higher age for work or mandatory schooling, in which case the higher age would apply. If the local minimum working age is set at fourteen years of age in accordance with exceptions for developing countries, the lower age will apply.
If child labour is found in any place of production or operations, IKEA will require the IKEA supplier to implement a corrective and preventive action plan immediately. The action plan shall take the child's best interests into consideration, i.e. family and social situation and level of education. Care shall be taken not merely to move child labour from one supplier's workplace.

The IWAY document also clearly states the company's environmental policy and demands safe working conditions for everyone involved in the production of IKEA products. IKEA obliges all of its suppliers to comply with national laws and international conventions and to provide healthy and safe working conditions for all employees. To ensure that the suppliers adhere to IWAY, both planned and unplanned audits are carried out; each supplier is audited at least once every 2 years. The IWAY guidelines are stated in a public document that can be viewed on the IKEA website by any interested party, thus further underlining the transparent approach adopted by the company.

The updated version of IWAY emphasises that IKEA wants to move from audit-based control towards working together with suppliers and understanding their needs and what needs to be done to ensure compliance with IKEA standards. Start-up requirements for working conditions have been established. The aim is to help IKEA choose suppliers that share its culture and have the wherewithal needed for a long-term relationship. As China is IKEA's largest supplier, the importance of improving compliance is obvious. Although IKEA claims that IWAY has had a positive impact on its suppliers, only 7% of its suppliers in China comply with the standards. The main problems in China are related to wages, working hours and social security. The large number of migrant workers makes it even more difficult to implement the changes. In Europe, 80% of its suppliers comply with the standards. Heading compliance are American suppliers with a 91% compliance rate (IKEA 2008 p. 11)

CSR at IKEA

IKEA takes what it describes as a holistic view in its social initiatives. This means that it wants to be engaged in projects that result in sustained change. These initiatives are carried out in the framework of the "IKEA Social Initiative". IKEA has been working with UNICEF and Save the Children for several years to improve children's rights. Major projects have been carried out in India, where IKEA partnered with UNICEF in addressing the root cause of the problem: debt, poverty and lack of access to education. Through this project, over 80,000 children had the opportunity to receive an education, something that would not have been possible without IKEA's input. IKEA has also led worldwide donation programmes like the IKEA Soft Toys Campaign in 2008, when the company donated one euro for every soft toy sold to finance more than 40 projects in 20 countries (IKEA 2008).

IKEA places great emphasis on ensuring that its products cause minimal environmental footprints and that they do not contain hazardous materials. In its 2007 Social and Environmental Responsibility Report, and the 2008 Sustainability report, IKEA outlines what measures are being taken to ensure that the company adheres to this aim. One of the basic principles of IKEA's CSR work is its collaborative efforts with NGOs, trade unions and other organisations that want to have positive impacts in social and environmental areas. For instance, IKEA has teamed up in some of its producer countries with WWF in forestry, cotton and climate-change projects. After facing child labour accusations and environmental issues in the 1990s, IKEA has now set up clear guidelines for dealing with these social and environmental issues, as can be seen from the discussion of IWAY above. The guidelines place pressure on suppliers of IKEA products to live up to the standards set by the company and include both efforts to strengthen employee rights and combat corruption. CRS activities span every area of the business. As an example, all stores now sell only certified coffee produced under conditions that take the needs of local environments and communities into account.

IKEA's 2007 Social and Environmental Responsibility Report demonstrates the company's progress and development in relation to environmental impact and the use of renewable materials. The goal for 2009 was to have 75% renewable materials in all IKEA products (up from 71% in 2007). One of the most important raw materials for IKEA is wood, which is both renewable and reusable. IKEA's long-term goal is to purchase wood only from forests that are certified for responsible management. Auditors from IKEA visit the factories and, together with IKEA Trading Services Officers, ensure that suppliers meet the standards. The Rainforest Alliance's SmartWood Program also conducts a limited number of supply chain audits at IKEA's factories. The company also works with WWF to tackle illegal logging in countries such as Laos, Cambodia, Vietnam, Russia and China, as well as in major Eastern European producer nations such as Romania, Bulgaria and Ukraine. China – the main wood sourcing country together with Russia – is an especially prioritised area, where IKEA is working with Rainforest Alliance to increase awareness and discuss best forest management practices. Compliance with environmental standards is improving in China; between 2006 and 2007 the number of approved wood suppliers rose by 30%. Nevertheless, IKEA is struggling to find certified suppliers in China, and acknowledges that illegal logging in border areas between China and Russia remains a great concern (IKEA 2007).

A Business Model for Values Resonance

Edvardsson and Enquist (2009) develop five principles for a sustainable values-based service business. We use these five principles to illustrate values resonance.

Principle 1: Strong Values Drive Customer Value

Strong values form the basis of a company's culture. In tandem with the values of customers and of the wider society, strong corporate values provide energy and direction to business development. Innovative service businesses are often created by entrepreneurs who are imbued with a clear vision and a strong sense of mission. Such visions and missions are usually based on a firm set of personal values.

Strong company values are not necessarily unchanging. They are in fact dynamic and can become stronger, in the sense that they become clearer, more relevant and better integrated with the business model. These values are the basis of the bonds formed with customers and thus represent a significant loyalty driver.

IKEA's operations in Russia offer a good illustration of this principle. IKEA's mission was to rapidly develop and build up IKEA Russia into a major operation – to move from vision to action. IKEA's Lennart Dahlgren was instrumental in making this vision real. His personal story about "leadership, passion and stubbornness" and about the way in which "IKEA loves Russia" (Dahlgren 2009) is an archetypal "values-based" risk project. It is interesting to assess IKEA's investment in Russia. The company has invested more money for this project than in any other country. IKEA not only built a shopping mall for its own business in Russia, but also is setting up a chain of shopping centres there. Based on Dahlgren's (2009) analysis, there were two fundamental reasons for this success. The first was Ingvar Kamprad's personal engagement (based on his entrepreneurial vision: "to create a better everyday life for the majority of people") and his consistent search for opportunities instead of problems. Kamprad gave full support and freedom to the management of IKEA Russia. The management had the contextual knowledge of the Russian situation needed to implement its mission. The other reason was IKEA's values-based culture, which exerted pressure to ensure solutions for every upcoming situation. IKEA's values provide guidance and direction not only for navigating when the sailing is easy, but also in difficult situations and scenarios. Although the values and company policies have been important during the process, things can go wrong in an empowered decentralised organisation. In February 2010, IKEA announced the dismissal of two senior executives from its Mega centre operations in St Petersburg. They were suspected of paying bribes. Bribes are completely unacceptable for the IKEA organisation. IKEA's founder, Ingvar Kamprad, has in a Swedish Radio programme during the summer of 2009, told that IKEA had been swindled out of US$200 million in connection with electricity and gas suppliers (Press release IKEA 2010.02.13; Swedish Radio http://mobil.sr.se/ 2010.02.13 at 10.29).

In summary, in developing a sustainable values-based company, values are preeminent in relationships with staff, partners, suppliers, shareholders and the media.

Principle 2: CSR as a Strategy for Sustainable Business

Sustainable, values-based service businesses generally have a strong commitment to CSR, which leads to quality-assurance systems, appropriate performance indicators, triple bottom line (TBL) thinking and involvement with NGOs in assessments and improvement efforts.

A sense of social and environmental responsibility stimulates lean production, lean consumption, energy conservation, and the creative use of apparent "waste". Social and environmental responsibility thus contributes to profitability from a long-term perspective.

CSR is important for rethinking the role of any company in any industry. By using CSR in a proactive way, companies think "laterally" in searching for "smart" solutions. The logic of values thus drives the logic of value creation. Cooperation between IKEA and UNICEF in India illustrates the importance of using CSR as a strategy for sustainable business:

> In 2000, IKEA joined forces with UNICEF in India to help prevent and eliminate child labour in 'the carpet belt'. Both parties are convinced that child labour is best tackled by addressing root causes, such as indebtedness in marginalised communities, adult unemployment, poverty, disability and ill health, and children's lack of access to quality primary education. The concrete project is focused on creating awareness and mobilising these rural communities around strategies designed to prevent child labour. School enrolment drives have been conducted to enrol children into primary school as well as the establishment of alternative learning centres (ALC) as a transitional measure to formal mainstream primary schooling. The IKEA initiative complements the government's efforts to enrol all six to twelve year olds in the project area in the primary school. What are the benefits to society? The child rights project in Uttar Pradesh has now grown to cover a population of more than a million, of whom nearly 35 per cent are children under the age of 14, living in 500 villages across eastern Uttar Pradesh. As a result of the school enrolment drives and the ALCs, more than 80,000 children previously out of school in the 500 villages now can attend primary school. IKEA and UNICEF will continue the project in the coming years, adding on villages in a planned manner to reach millions more in the region. The self-help strategy has boosted women's economic and social status, self-confidence and decision-making abilities both within their families and the local community. Through education and economic opportunity such as micro loans, women and their families have broken out of the vicious circle of debt, child labour and the exploitative interest rates of local money-lenders. What are the benefits to the company? IKEA's partnership with UNICEF has allowed the company to achieve its business objectives while supporting children and women and their opportunities for learning and developing. Although it cannot be quantified for the bottom line, IKEA's actions have built trust, a significant asset, within the communities it touches.
>
> (Edvardsson and Enquist 2009; Enquist et al. 2007)

Principle 3: Service Experience for Co-creating Value

As many services are experience-based, companies should aim to create and offer "test-drives" for customers to enable them to experience the service before purchase and consumption. IKEA has created several opportunities for customers to co-create value. The best-known examples of this – and something that first time visitors often react to – are the experience rooms at IKEA stores. These are model apartments or rooms furnished entirely with IKEA products; they allow customers to experience IKEA products in a setting that mirrors that of a home. An English online blogger described the experience of visiting the IKEA store in Croydon, outside London, as follows:

> … always chock full of consumers shuffling themselves around pseudo-Scandinavian room-sets, flirting with and then shutting out everyone else, gazing at contemporary perfection, projecting themselves a faultless, unique and modern life. It's an art gallery-like experience. More specifically, it's very similar to a trip to Tate Modern (3.6 million visitors per year). Looking. Shuffling. Self-awareness. Hunger. Flirting. Looking. Imagining. Not quite enjoying. Smugness. Not quite understanding.

A well-designed service concept should include an "experience room" that simulates services for customers. IKEA "experience rooms" around the world are designed in a similar way and most of the furniture comes from the same collection. Within this generic uniformity, various distinctive experience rooms are created with a view to attracting different target groups. All experience rooms relate to the needs of everyday life – such as sleeping, cooking, working and entertaining. For example, the living rooms are designed as representations of "real" living rooms with appropriate furniture, fabrics, lighting, books and televisions. Customers sometimes buy all the items in an experience room because they can clearly envisage the specific living room as their own. Even when they do not buy everything, the rooms are a great source of inspiration, and can inspire new ideas while the customer is in the experience rooms. Customers are often highly involved when experiencing the rooms in the store, using the furniture and discussing how this relates to their own home, in addition to consulting IKEA staff. They also have access to a large database, which contains information about sizes, colours, and so on.

Furniture can also be placed in an experience room that has the same size as the customer's room. This promotes an enhanced form of "hyper-reality", to illustrate solutions to real-life problems at home. During a personal interview with Edvardsson and Enquist (2009), an IKEA communications manager at regional level made the following observations about the IKEA approach to "experience rooms":

> We have everything under one roof and we carefully create a space and show solutions to the customers … to make their lives at home better. [We show them] how they can set up their room, how they can arrange their furniture, how they can light up their room, [and we provide] tips and ideas about how they can improve their room. It can be a living room … a kitchen or … a bedroom… [all] different spaces within the house where we try to show how our expertise and products can create a better environment in their home … We are able to do this because of the wide range of products that we are selling. We are able to put them together in an attractive way. We try to keep it fresh and thus provide a new experience to the customers every time. It is very much based on reality … We try to be as close to reality as we can … in a store. (Ibid. p. 51)

The experience rooms combine functionality with emotional involvement to create a favourable customer experience. The "hyper-reality" is perceived to be a true reality, through a combination of furniture, decoration and service (Edvardsson et al, (2009). Both cognitive and affective mental abilities are involved in creating the experiences. While not quite a real-life situation (or as IKEA puts it "an everyday life situation"), the "hyper-reality" of the experience room approximates the customers' daily life experiences. The rooms provide inspiration, encourage interaction and provoke discussion.

IKEA has also developed an interactive service, whereby customers can plan their new kitchen. The IKEA Kitchen Planner is a program that customers can download from the IKEA website. It allows customers to draw their own kitchen space in a three-dimensional environment and then experiment with different IKEA items to create their own kitchen. This is a highly interactive process and an outgrowth of the "hyper-reality" of the experience rooms in the store.

Principle 4: Service Brand and Communication for Values Resonance

Brands are living expressions of what a company stands for. They communicate what its products or services can do for people. However, if a company overstates what its products can do, and subsequently fails to deliver (as perceived by customers), this creates adverse reactions – both in the market and among the company's employees. Successful brands are not created *de novo*; rather, they evolve naturally within value-based companies. These brands then enable values-based companies to reach out and connect with customers, staff and other stakeholders. Successful companies often challenge established views in suggesting something new and attractive in their marketing. These ideas can be provocative, but they must simultaneously resonate with the values of customers in the market. Values-based brands must incorporate values that are attractive to customers and avoid being associated with unfavourable values. Values resonance (both within the organisation and outside it) is essential for a sustainable values-based service company. Using CSR to secure a values-based service brand involves more than just communication about CSR with the customers. It is instead about using CSR as a basis for strategy and ensuring that the service brand (and communication with all stakeholders) is in resonance with the values of the company, the customers and of the wider society.

IKEA's marketing focusses on customer value by communicating how customers can co-create solutions to real-life problems at home and thus promote a better life. Advertising in the catalogue and brochures and on the website all communicate this value proposition. The focus is not on the furniture per se; rather, it is on the value that can be realised by customers who utilise the resources offered in a personalised fashion to provide solutions to their own distinctive real-life problems. An IKEA document from 2006 summarised the brand image as follows:

> What we do, what we say, the products we offer, the price we offer them at, the presentation of our range, and the information we provide our customers – all contribute to our image. The overall task of IKEA's marketing communication is to build the IKEA brand and inspire people to come to the stores. (Edvardsson and Enquist 2009, p. 67)

The IKEA values that underlie the brand can be categorised as *economic*, *social* and *environmental*. These values differentiate the IKEA brand – not only in terms of the sentiments expressed but also in the words and styles that are used to communicate them to customers. IKEA challenges the established order and ways of thinking. In doing so, communication is more than a tool for transmitting values; communication is also a "value" in itself. There is evidence of strong bonds being formed between the brand and customers, and between the brand and various other stakeholders (such as IKEA's co-workers and suppliers). Two mini-case studies will illustrate this: IKEA in Japan and IKEA in China.

IKEA in Japan

When entering the Japanese market for the second time, in 2006, IKEA placed great emphasis on its marketing strategy. To ensure that the launch was successful, a great deal of market research was carried out before its first store was opened in Japan. As the CEO, Anders Dahlvig, observed:

> We spent five years planning. We had to find a site, and then there were regulations to adapt to, and customs duties. And we had to understand how Japanese people live. We looked at 100 homes. We sat down with people and asked: "What do you do? Where do your kids sleep? How do you work and play with them?"
>
> Edvardsson and Enquist 2009, p. 73

Because women have significant influence in making decisions about the purchase of interior decoration in Japanese households, IKEA focussed on female customers when launching its concept in the country. The campaign used such slogans as: "The home is the most important place in the world"; "Have you seen your kids today?" and "Stay home today!" in order to underline the idea that home is the most important place. The advertisements were rather controversial in Japan, even leading one railway company to refuse to use the advertisement billboards, insisting that the advertising message encouraged people to stay home from work. IKEA also placed 14 outdoor showrooms around Tokyo. They were called IKEA 4.5 Museums (http://advertisingforpeanuts.blogspot.com/2006/04/ikea-outdoor-showroom.html). The name refers to 4½ tatami mats (traditional Japanese floor mats), and illustrated how IKEA furniture could be used to create storage solutions in the small spaces where many Japanese customers live. IKEA also conducted extensive advertising in the vicinity of its new flagship Tokyo store, including efforts such as newspaper advertisements, advertisements on buses and on staircases located within a 15-km radius. The campaign achieved its purpose, effectively communicating the message that IKEA planned to change the *status quo* in the Japanese furniture market. Exhibitions to showcase "compact living" were also held to ensure that Japanese people understood the IKEA concept. The creative marketing campaigns continued when IKEA opened its Kobe store – situated in the international business and commercial district of Port Island – in 2008. The company redecorated an entire monorail train that connected the IKEA store to downtown Kobe. The outside of the train was covered with a famous Finnish textile Marimekko pattern and the inside was overhauled to create a live IKEA showroom. The train was fitted out with IKEA sofas and drapes, and in some areas even new wall coverings. This "train jacking", as it was labelled by Japan Marketing News, achieved considerable media attention and became an instant talking point in the blogosphere (http://www.japanmarketingnews.com/2008/04/great-japanese; http://www.culture-buzz.com/blog/IKEA-Creative-Street-Marketing-Japan-1610.html; http://design.socialblog.us/2008/04/20/ikea-unconventional-street-marketing-lately-in-japan/; http://www.thetrendwatch.com/2008/05/12/ikea-japan-is-on-the-right-track/).

IKEA in China

IKEA entered the Chinese market in 1998 and plans to develop 12 stores in the country by 2012 – a slow introduction by IKEA's standards. The Asian market currently contributes 3% of IKEA's turnover, although China is now the largest producer of IKEA goods in the world. IKEA's slow entry into the Chinese market can be explained by the cultural and economic differences between China and western countries where the IKEA concept has been so successful. One of the strongest features of the IKEA brand is low prices – something that is a challenge to achieve in developing countries like China. In China, IKEA is seen as an exclusive brand and the "Billy" bookcase – a famously cheap product – is considered to be something of a luxury in China. In order to keep prices low, the Chinese stores carry more and more products that are produced in the country. This strategy has meant that IKEA can sidestep slow and costly import costs, and made it possible for the company to lower prices by 30% between 2003 and 2009 (Johansson and Thelander 2009).

IKEA's advertising strategy in China is mainly targeted towards females as IKEA's research shows that women make decisions that concern the home. IKEA believes that females are also more adaptable to change, and that the IKEA concept suits this profile. The target group is between 25 and 35 years, and the average customer is around 30 years old – considerably younger than customers in Western European countries. IKEA exists exclusively in urban areas in China, often in more downtown locations than stores in Europe. This is because many customers do not have access to a private car. The customers are generally well educated; many of them part of what has been called "the me generation" or "the lifestyle generation", and who are seen as having a strong affinity with foreign customer brands (Schütte and Ciarlante 1998 p. 139). The target group in China is also wealthier than in other countries, with the average household income of customers being high by Chinese standards.

One of the defining characteristics of IKEA's marketing around the world is the IKEA catalogue, distributed in 38 different editions in 17 languages. However, with the size of the Chinese market, IKEA found it hard to distribute the catalogues in a cost-effective way, and therefore restricts distribution to stores. Smaller brochures, however, are distributed several times a year. IKEA television advertising in China follows the same style as in the rest of the world, with a focus on how IKEA can make small, low-cost improvements. IKEA China also carries out inventive public relations campaigns; for example, it furnished an elevator in a less affluent area with IKEA furniture to illustrate how it is possible to provide a nice environment even in a dull space.

IKEA's standardised product offering – an important feature of the company – was expanded for the Chinese market, with the introduction of, e.g., a wok, chopsticks and a cleaver. These products have since been launched in stores outside China. The China stores also produce special cups for the Chinese New Year and currently sell beds that are shorter than their European counterparts. As IKEA faces – like many other successful western companies – copying of its products by local stores, its marketing strategy is focussed more on being experts on interior design, rather than emphasising their products.

Also, the stores have been adjusted to reflect the reality of Chinese customers: the size of kitchens and rooms are adjusted to reflect those in Chinese homes. Another aspect that is close to the heart of the IKEA culture – the self-assembly furniture – is another core aspect to which adjustments have been made. China does not have a "do-it-yourself" culture and many customers are used to good service when they visit local furniture dealers who work in small stores. Special staff has been hired to explain the concept to the customers and a delivery and assembly system has been established.

The company has adjusted its standardised concept to fit the local context, something that is also visible in its re-entry to the Japanese market, outlined earlier in this chapter. Because the Chinese market is so different from other markets, and as Chinese customers consider IKEA expensive rather than cheap, IKEA has had to adjust some of its core principles. Johansson and Thelander (2009) argue that IKEA has learnt that its concept does not work everywhere and that it has been important to take account of the local context in order to ensure profitable market expansion for the company.

In order to be successful and sustainable, a company needs to focus on a few values that are attractive to its customers, employees and other stakeholders. Values such as ethical social behaviour and environmental responsibility are likely to create "values resonance" (rather than "values dissonance") with these vital stakeholders. In this regard, the IKEA brand is built on associations with cost consciousness, sensible design, unconventionality and social and environmental awareness. Customers who furnish their homes with IKEA's products are demonstrating (to themselves and to others) that these associations represent an outlook and a set of priorities for life in general. In this way, a values-based branding strategy connects to life at home and contributes to a better life for customers.

Principle 5: Values-Based Service Leadership for Living the Values

To secure sustainability, a values-based company needs strong, values-based leadership. A company built on an entrepreneurial business model often has the original entrepreneur's values and leadership style as a model for future generations of leaders. However, the challenge for subsequent leaders is to develop these values and communicate what they mean today. To communicate these values in contemporary terms, it is essential that leaders "live" the values. Leadership is about "walking the talk"; but both the "talk" and the "walk" must make sense to employees and energise them to focus on serving customers, thus creating shareholder value. Leaders communicate through their interactions with employees, partners, suppliers and customers. Authentic leaders therefore spend time with customers and employees, and learn from them. Great leaders are directed not only by the logic of value but also by the logic of values.

IKEA has created a strong culture, built on authentic leadership and knowledge sharing. Most IKEA leaders are identified, developed and promoted from within the organisation. Within the IKEA network, the values and skills of the organisation are cultivated by shared knowledge and authentic leadership. Leaders are promoted on the basis of their personal values, skills, potential and what they have delivered so far. The sharing of IKEA values among leaders and co-workers ensures that values resonance within the firm provides energy and direction for sustainable business development. In a personal interview, IKEA's manager of public relations in China, Linda Xu, described how Kamprad and Anders Dahlvig (former CEO of IKEA) have acted as role models for others in transferring culture and values to employees:

> They provided an example for us. I remember that Ingvar Kamprad, who was more than 70 years of age, sat in economy class when flying to China. Although he is a wealthy man who is famous as the founder of IKEA, he still purchased an economy-class ticket. I was impressed by this behaviour. Similarly, the CEO of IKEA, Anders Dahlvig, flew from Sweden to Guangzhou in China last year; he also travelled economy class … without any accompanying entourage … Moreover, the CEO did not have a car (or driver) provided by IKEA. [These examples have been followed by] the director of IKEA, China, who has no private office. He uses the same office table as I do, and did not have his own secretary until recently … In short, IKEA did not infuse its values and culture through a compulsory structure system. On the contrary, apart from some basic training courses in values and culture, co-workers have absorbed the IKEA culture and corporate values from the role models they see in their everyday work. As a result, these values and culture have become basic to their lives and work.
>
> (Edvardsson and Enquist 2009)

Summarising the Lessons from IKEA

H*ow does values resonance drive sustainable customer value?* We can now summarise the lessons learnt from this study of IKEA. First, we will discuss what these lessons from IKEA's approach mean for other retail organisations and then we will summarise for bench learning in various service businesses.

In a globalised world, economy supplier chains have promoted "commoditisation" (Friedman 2005, p. 344), not least for the retailing industry where Walmart is a role model. Although this can lead to lower prices and convenience, the dark side is the scope for manipulation and exploitation. In the case of IKEA, the process of "commoditisation" emphasises better quality at lower prices, with sustainable environmental and social standards. IKEA has thus created a business case for the new globalised economy, in which costs are cut without sacrificing quality or stringent social and environmental standards (Konzelmann et al. 2005). IKEA is of course not the only retail company demonstrating a long-term sustainable business. H&M promotes shopping as an easy and pleasant experience with environmentally friendly products. The Body Shop aims for an enjoyable customer experience in their shops and at home based on sustainable products (Edvardsson and Enquist 2009). The lifestyle retailer Patagonia and its entrepreneur founder and owner Yvon Chouinard also represent strong values for a "planet alliance" (Chouinard 2005).

Going back to IKEA, we propose seven areas for bench learning. These are insights that we believe other organisations can use in their efforts to manage CSR and to develop a service-oriented internal culture that is understood, accepted and supported by leaders and co-workers and that resonates with the values of customers and other external stakeholders:

1. Strategic CSR is an important part of IKEA's company culture and business model.
2. IKEA's strong, dynamic values provide leaders and co-workers with energy and direction. Values resonance contributes to defining best (and next-best) management practice at both the strategic and operational levels.
3. IKEA has developed a proactive relationship with NGOs to expand public trust in its business.
4. Values resonance contributes to governing the IKEA value chain activities through the IKEA codes of conduct. IWAY provides detailed directions for better human resources and streamlined production and logistical activities, not only in terms of cost, but also of social and environmental parameters.
5. *A Furniture Dealer's Testament* expresses value resonance, and is closely aligned with IKEA's mission and vision. The *Testament* has to be understood and interpreted by IKEA's leaders and co-workers in both new and old markets and different places (different cultural contexts such as Taiwan, the US, Malaysia, Norway and Germany). The *Testament* always brings people back to IKEA's roots. It is expressed and visualised in IKEA's strategic CSR activities. These activities are designed to balance economic, social and environmental perspectives. For example, the principles "profit gives us resources", "reaching good results with small means", and "concentration – important to our success" can be seen as related to an economic perspective; the principles "simplicity is a virtue" and "doing it a different way" are closely linked to environmental issues and to the challenge of minimising the use of natural resources; while "taking responsibility – a privilege" is related to a social and environmental perspective.
6. The IKEA business idea is: "to offer a wide range of well designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them". IKEA develops strategic resources locally, in the form of natural resources, suppliers, co-workers and even customers. These resources are integrated and used in a global sourcing and service system to create a global business.

7. Authentic and dynamic leadership may be the most important factor in obtaining values resonance, resulting in sustainable customer value. A values-based company needs values-based leadership. An entrepreneurial business model often uses the original entrepreneur's values and leadership style as a model for future generations of leaders. The challenge for subsequent leaders is to develop these values and communicate what they mean today. To communicate these values in contemporary terms, it is essential that leaders are authentic and "live" the values. Leadership is about "walking the talk".

Learning Objectives

This chapter has given a lecture about a retail firm acting in a global market. What is the main message?

- Retailing is a mature industry in a global economy. It is challenged by a number of trends which force actors in the industry to reconceptualise in an innovative way their business models and their relations with all the stakeholders, in particular, with customers, employees, suppliers and important NGOs. Retail companies must seek resonance in terms of values as values drive value perceptions and contribute to value-in-use if there is resonance between customer norms and beliefs on the one hand, and service or product attributes, company core values and foundation values in the society on the other.
- A strong corporate culture based on the logic of values makes sense both *inside* the company and for customers and other stakeholders *outside* the company and is a strong driving force in business development, in combination with a focussed understanding of the economic realities of value-creation logic (attractive product and services attributes, time and cost).
- A values-based service business based on SD-logic is customer oriented and relational, built upon a values-based business model where the relationship addresses shared values and shared meanings.
- A business model for innovative and sustainable service business for values resonance.
  - Where strong values drive customer value, values which are often created by entrepreneurs with a clear vision and a strong sense of mission that will be reproduced and renewed over time
  - Where CSR will be used for sustainable business, where social and environmental responsibilities stimulate lean production, lean consumption and energy conservation, and contribute to profitability from a long-term perspective
  - Where service experience, including an "experience room", stimulates the value creation process for customers
  - Where service brands and communication is in resonance with the company's values (which are not associated with any unfavourable values), the customer's values and the values of the wider society
  - Where the service leadership live the values by walking the talk in a way that make sense for customers, employees, suppliers and partners such as NGOs.

Conclusion and Managerial Implications

V*alues-based service* is introduced as a basis for a sustainable business model for service providers and *values resonance* is put forward as a major driver of customer value. A sustainable business model shifts the focus from a control-based norm to a values-based norm in which corporate social responsibility (CSR) and sustainable development (SD) are recognised as the driving forces of value creation and value-in-context for the involved stakeholders. IKEA is a good example of a "globally integrated enterprise" with a business model that integrates economic, environmental and social perspectives as a basis for excellence, innovation and sustainability for customer experience, responsibility and empowerment of co-workers and suppliers, service brand resonance and a leadership living the values.

The managerial implications of this book chapter for a retail business in a global economy stress the importance of building a business model that does not work for command and control management and short-term profit. Instead, the message is a new type of leadership and strategy that uses social and environmental perspectives in a proactive and innovative way to keep together the whole business with shared values and shared meanings. IKEA has proved that it is possible to go that way. Smaller actors in retail business can do it on a small scale. Learn from the big player but try to do it "my way" and do not forget that building a successful retail business is about "trial and error".

Points for Discussion and Further Readings

The big challenge for a modern retail company is to keep together a new business model, marketing and brand strategies, supply chain, products, services and offerings creating value for money as defined by customers and other stakeholders.

The lesson in this chapter is that a company acting in a global economy is changing – structurally, operationally and culturally. How can we see this in the various companies and sectors of the retail industry?

Another lesson is that companies driven by strong values communicated as shared values and shared meanings act differently. How can this be applied in the retail business in guiding innovation, renewal and the creation of a more sustainable business?

Discuss how three financially successful and three unsuccessful retail companies during the last 10 years describe their (a) business model, (b) company core values, (c) SCR, (d) leadership principles and (e) customer value.

For further reading about sustainable retailing and IKEA, we suggest *Values-based service for sustainable business – Lessons from IKEA* by the founder and entrepreneur Ingvar Kamprad in Edvardsson and Enquist (2009). Also read the story of Yvon Chouinard, founder and entrepreneur of Patagonia, in his book *Let my people go surfing* (Chouinard 2005).

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Chapter 15
Lessons from History: What Today's Retailers Can Learn from the Marketing of *The Wizard of Oz* Stage Show in the 1900s

Pratibha A. Dabholkar

Learning Objectives

1. To be able to examine any successful case study and draw implications for marketing strategy.
2. To take a substantive area (e.g., retailing) and identify the gaps in the literature that need to be filled.
3. To learn how customer needs can be met by a deep and intuitive understanding of what customers want.
4. To understand the importance of retail atmosphere as a means to make customers comfortable.
5. To see how critical it is to hire skilled employees and to train them rigorously if delivering high service quality is a company goal.
6. To learn that creating a winning formula is not enough; ongoing modifications are needed for continued success.
7. To understand the critical role of promotion in creating a high level of awareness and interest.

Several streams of service research, such as "blueprinting," "critical incidents," and "service quality," have made fine contributions toward improving service practice in general and retail practice in particular. Research on service blueprinting (cf., Shostack 1982) relates to designing efficient services with good customer flow, no bottlenecks, and ideal employee assignments. Shostack (1982, 1987) explains that blueprinting is essential for service design and innovation, and that it can be used for positioning. Baum (1990) discusses how blueprinting can help in long-term planning, while Patrício et al. (2008) show how blueprints can be used for multi-interfaces with the customer. All of these discussions have direct implications for a variety of retailers.

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The "critical incident" or "moment of truth" literature (e.g., Gremler 2004) relates to the finding that extreme service experiences, whether good or bad, play a large role in customer evaluations and future patronage. Research shows that a study of critical incidents can determine the factors that create satisfied or dissatisfied customers (Bitner et al. 1990) and help in developing service-recovery strategies in the case of negative critical incidents (Kelley et al. 1993; Smith et al. 1999). These ideas are directly relevant for many retail contexts where critical incidents are likely to take place. In fact, Wong and Sohal (2003) have made a start in this direction by studying critical incidents in retailing.

The "service quality" literature includes early conceptualization and measurement of service quality (cf., Parasuraman et al. 1985) as well as overviews that examine the best way to conceptualize and measure service quality and its relationship with customer satisfaction and purchase intentions (e.g., Dabholkar et al. 2000). This stream of research has seen many applications in retailing. It was first extended to in-store retailing (e.g., Dabholkar et al. 1996; Sweeney et al. 1997) to help retailers monitor and improve the quality of their in-store service. More recently, this research has been extended to online retailing (e.g., Long and McMellon 2004; Swinder et al. 2002) to assist retailers in providing quality service to their online customers.

Despite their many contributions to retailing, however, no stream of service research has specifically addressed how a retailer can create a winning formula, i.e., an offering that stands out among the competition. Nor has past research on services explicated ways in which retailers can make ongoing modifications for success even after creating a winning formula. Finally, no service research has indicated how retailers can create striking promotional messages that captivate and draw consumers. All three gaps in the literature relate to issues that are crucial for retail success.

Another stream of research already applied meaningfully to the service context, namely "dramaturgy," can offer insights to fill these three gaps. Researchers (Grove and Fisk 1983; Grove et al. 1992) have long proposed that the drama metaphor, with elements such as actors and audiences, front stage and back stage, scripts and rehearsals, can be used to study and improve service performance in ways that can have marked outcomes. Indeed, the drama metaphor is very useful to a variety of retail settings where "performance" is critical, such as restaurants, hair salons, doctors' offices, car dealerships, and even department stores where employees interact substantially with customers.

This essay extends dramaturgy, or a study of the theater, to address the three identified gaps in the literature. First, the theater with its creative focus can be a rich source of ideas for retailers to develop a winning formula. Second, the stage is long associated with captivating promotional messages aimed at drawing large audiences. Third, although perhaps not widely known, most theatrical productions make ongoing modifications during their runs to assure continuing success. Thus, there is much potential for a study of the theater to make solid contributions to the retailing field. This essay goes beyond the drama metaphor to examine a classic theater production in the early 1900s. The objective is to highlight what retailers can learn from this unique case study to create their own success.

Before M-G-M's *The Wizard of Oz* (1939) became a universal cultural icon with the beloved Dorothy, Toto, Scarecrow, and Tin Woodsman, Frank Baum's widely popular book *The Wonderful Wizard of Oz* (1900) was adapted and produced theatrically across the U.S. The very first stage performance of *The Wizard of Oz* started in 1902 and continued for more than a decade; it was a "lavish musical extravaganza" that "took the country by storm" (Swartz 2000, p. 2). But it was more than just an artistic performance; it was a carefully crafted and marketed service experience that can serve as a model for successful retail strategy even today.

A Brief Look at the Success of the *Oz* Stage Show

The Wizard of Oz theater production opened in Chicago in June 1902. By noon of the day on which tickets went on sale, revenues had exceeded $1,600 even though ticket prices ranged from only 25 cents to a dollar and a half. The opening night crowd was wildly enthusiastic, there were many curtain calls, a clamor at the end for "author, author," and people went home whistling or singing the score as they walked away from the theater (Swartz 2000, pp. 61, 65). Word-of-mouth brought in scores of people and the show was sold out for most of its season. Tickets went on sale four weeks in advance, which was highly unusual for the era. After 14 weeks and 125 performances, the show made $160,000 and did not make a loss on a single performance (Swartz 2000, p. 66).

After the first Chicago run in 1902, the company toured from mid-September through December and the show was loved all over the nation. In January 1903, when the show opened in New York, it was originally scheduled to run for 5 weeks, but ran for more than 8 months. Given the unsurpassed demand for the show, tickets were available 8 weeks in advance and the production made more money in New York than it had in Chicago (Swartz 2000, p. 104).

When the *Oz* production formed a second company for summer touring in 1903, critical reviews for their initial performances were mixed, but audience reaction was consistently positive. Both companies toured the country and both were hugely profitable (Swartz 2000, p. 136). The show then returned to Chicago in 1904, continued to prosper all over the U.S. until 1912. It is well worth examining the factors that led to this resounding success of the *Oz* stage production and to draw implications for today's retailers where service "performance" is essential for pleasing and keeping customers.

Creating a Winning Formula

To adapt the book to the theater in a way that assured popular and financial success, the men behind *The Wizard of Oz* production paid careful attention to a variety of factors that we may label today as: (1) meeting customer needs, (2) managing the retail atmosphere, (3) hiring of employees, and (4) training of employees. The strategies used in each of these areas have direct application for successful retailing even in today's competitive and uncertain business world.

Meeting Customer Needs

Meeting customer needs has always been an integral part of the marketing concept (e.g., Kotler 2003), which is the most widely accepted business philosophy today (e.g., Burns and Bush 2005). Given the wide variety of retail options available to customers, it is critical that retailers carefully tailor their service offering to meet specific customer needs. The services marketing literature (e.g., Bitner et al. 1990; Dabholkar et al. 2000; Parasuraman et al. 1985) has proposed a variety of approaches for meeting customer needs based on rigorous marketing research. In contrast, *The Wizard of Oz* production seemed to understand their customers' needs intuitively and without any explicit marketing research. Moreover, even before the marketing concept was formally conceived and stated, the *Oz* production put the heart of the marketing concept into practice in many different ways that are well worth examining for their creativity and success.

The director of *Oz*, Julian Mitchell, knew that his audience was not highly sophisticated and so he deliberately made many modifications to Baum's book to suit their tastes. For example, he added several new characters to spice up the original story. In making room for the new characters, however, the main characters were weakened. Thus, Dorothy did not learn anything on her journey and was brought back by a second cyclone rather than by her own power; and the Wizard was a villain, rather than a humbug (Swartz 2000, pp. 52, 55). These changes could not have appealed to purists among the book's admirers. However, Mitchell understood his audience and compensated by providing plenty of broad humor "often pun-dependent and corny" (Swartz 2000, p. 56). He also drew on political events or absurd situations, all of which kept his nonliterary audiences well entertained.

Mitchell also minimized Baum's plot line, and in doing so, several meaningful themes in the book such as "friendship, longing for home, self-discovery, and self-reliance" were lost and were replaced by "romantic love," "political intrigue," and "lust for power" that were similar to those in comic opera (Swartz 2000, pp. 53, 94). Although these changes must have disappointed ardent fans of Baum's book, the new themes appealed to a wider, adult audience and contributed to the production's longevity.

Whereas Frank Baum's script (based on his own book) had contained songs relevant to the plot, the theater production used songs that were adapted from other musicals, vaudeville, or popular songs, with a generous sprinkling of ethnic songs (e.g., Scottish, Irish, and Spanish) (Swartz 2000, pp. 57–58, 94). Mitchell's idea was not to strive for cohesiveness or integration but to include elements that would appeal to the theater-going audience of the day. He knew that ethnic songs were popular at the time and that familiar songs would have the audience toe-tapping and humming along.

Mitchell added other elements that were already popular in novels or the theater. For example, the idea of mistaken identity in Baum's book only applied to the Wizard, but here it became a theme throughout the musical, where Dorothy and many other characters kept getting mistaken for someone else, drawing on what was popular in comic opera (Swartz 2000, pp. 54, 94). It made the play more farcical and less unique but the middle class audience enjoyed it greatly as Mitchell had correctly gauged.

The implication for retailers from all of these successful strategies is that it is imperative to fully understand the needs of one's customers and to develop a new offering or modify an existing one to closely fit those needs. Despite its many store closings in the recession of 2009, Starbucks is an example of a retailer that has created a winner, by closely meeting the needs of its targeted youth market for strongly caffeinated, almost bitter coffee and a "cool" place to hang out for hours on end. The majority of retailers, however, have a difficult time understanding and meeting their customers' needs. To be successful, such understanding is needed, whether intuitive or based on market research, followed by a wholehearted tailoring of the offering as Julian Mitchell did, to ensure that customers are delighted and won over.

Managing the Retail Atmosphere

Another aspect that is essential for retailers to plan well is the retail atmosphere (Baker et al. 1994). The visual elements need to be striking yet pleasing to customers and the auditory elements appealing. Once again, we can look to the *Oz* production to see how thoughtfully the physical environment was arranged. Scenes and sets were carefully planned and talented artists were hired to paint the scenes (Swartz 2000, p. 61). The set designer's work was considered unique in the theater world at the time, and all sets were based on detailed drawings as well as cardboard models (Swartz 2000, p. 63). Many of the sets were two-stories high, with colors and lighting to make them brilliant, yet realistic (Swartz 2000, p. 67).

A noticeable change from Frank Baum's book was that Kansas was shown as "golden and picturesque" instead of "gray" (Swartz 2000, p. 54). Although this may have been done partly to compensate for not having the yellow brick road, which was seen as a "cumbersome recurring scenic device" (Swartz 2000, p. 55), it had the added benefit of creating an attractive visual to please theater audiences. The cyclone, which is critical to the story, was powerfully depicted by projecting it on a gauze screen and showing people, animals, and buildings whirling through the air (Swartz 2000, p. 71).

On the whole, the money spent on all the physical aspects exceeded norms for other theater productions and greatly impressed audiences. Even critics applauded "the opulence and visual splendor" of the show, commenting positively on sets, costumes, and color schemes (Swartz 2000, p. 67). Although Swartz does not explicitly mention the quality of the sound, he mentions audiences' rapturous enjoyment of musical numbers (Swartz 2000, p. 125). Such investments in what we term today as retail atmosphere were richly rewarded – the *Oz* show was a huge financial success over many years.

Unfortunately, many retailers do not seem to understand what is needed to plan the retail atmosphere well. One of the worst examples is Abercrombie and Fitch, where extremely loud music is played in the stores, apparently to intimidate shoppers and make them feel insecure, because store executives believe this is what will make their young customers buy more things they do not need (*Wallet Pop* 2009).

However, the loud music and the strong perfume sprayed all over the store turn away many customers even from its targeted youth market and alienates passing shoppers needlessly, many of whom may control the purse strings of the young customers. If retailers want customers to step into their stores and browse for some time with the hope of their eventually making purchases, all the facets of retail atmosphere must be inviting and pleasing, even at great expense as evidenced by the *Oz* production.

Hiring of Employees

Service providers know intuitively that hiring skilled employees should lead to high job performance and job satisfaction. Moreover, high levels of job performance and job satisfaction should in turn lead to matching levels of service quality and customer satisfaction (Dabholkar and Abston 2008), which are critical to success in retailing (Dabholkar et al. 2000). All of these connections underline the importance of the hiring process.

It is informative to examine the first stage show of *The Wizard of Oz* to see a successful application of these ideas way back in the 1900s. The producer, Fred Hamlin, spent considerable time, money, and energy to find the best possible actors to fit the major roles (Swartz 2000, pp. 60–61). This helped tremendously in creating a high-quality performance which delighted audiences. The performances, especially of the principal actors, were remarkable and audiences were glued to their every nuance (Swartz 2000, p. 79).

Although a few retailers such as Family Dollar Stores spend a disproportionate amount of time and effort in obtaining the best back-stage (or support) employees (Tuna 2009), the majority of retailers do not pay close attention to selecting the best employees they can and should, especially for front-stage positions where they interact with customers. Applying the practical evidence from *The Wizard of Oz*, retailers ought to hire the best possible employees to ensure high-quality service performances that will engage and delight customers.

Training of Employees

Hiring well is not enough, however. Training is the second half of this equation. The dramaturgy metaphor and the example of the *Oz* production show the kind of training that is needed for success. Grove et al. (2004) write that for a service performance to be credible, it may be necessary to apply the type of rigorous training that actors go through; only then will it be translated into consistently credible performances.

Indeed, a study of the first theatrical performance of *Oz* underscores that training was imperative to its success. The players in the *Oz* production had to undergo a hard and lengthy training process to get their lines, expressions, emotions, and timing just right. Director Mitchell observed that "constant repetition" of musical numbers and "constant rehearsals" of every aspect of the performance were needed to get the show to the level of perfection he sought (Swartz 2000, p. 63).

In contrast, only a few retailers, such as Nordstrom, pay considerable attention to rigorous employee training (*Business Wire* 2005). In general, training in the retail setting is often superficial, relying on bulky manuals or buddy systems, which fail to create the type of superior performances needed to captivate customers. By implication, much greater attention than is currently given to employee training should prove effective in many service "performances" that occur daily across retail settings. The implication is also relevant to online retailing contexts such as company-moderated chats, where employees need to be thoroughly trained not only in terms of the required expertise but also in the style of communication preferred by customers (Dabholkar et al. 2009).

Ongoing Modifications for Success

Once a strong offering is created, should retailers stick to it? Although that seems like a sound approach, a more effective way to assure continued success is to make ongoing modifications to meet changing customer needs. For example, John et al. (2006) have pointed out that service performances need to be *flexible* and that service providers can learn how to *improvise* by drawing on the experiences of jazz musicians.

In fact, flexibility was a built-in element of the *Oz* production. One might wonder how a stage play can be flexible when it is encumbered with a plot and a script. But the director managed this by minimizing Frank Baum's plot and his originally submitted script to a bare outline and by using a looser structure for the script (Swartz 2000, pp. 30, 36). This combination allowed adaptability from day to day as well as improvisation during a particular performance. The actors were clued in to their audiences and were quick to improvise to suit different moods and requests. For example, audiences often demanded encores during the show, which made the length of any given performance unpredictable. The flexibility of the script made it possible to improvise both the dialog and the music. The actors even tried different accents or dialects to discover what was most appealing. The daily changes in the show enticed audiences to go to repeat performances and the improvisations pleased them by enhancing their experience (Swartz 2000, pp. 87, 94). This adaptability combined with skilled performances helped make the *Oz* production a huge success, and the formula is one that many retailers can emulate in interacting with their customers, whether in groups, such as company-moderated online chats (Dabholkar et al. 2009), or individually, in face-to-face interactions.

At the same time, the basic "scripts" that retail employees use in interacting with customers may also need revision on an ongoing basis. Looking to the *Oz* production, modifications were made to the script and the show from the very beginning. Despite the opening night audience's enthusiastic reaction, reviewers suggested trimming.

As a result, changes started to be made right away. In a couple of weeks, the show was shortened by an hour and a few minor characters were dropped (Swartz 2000, p. 66). The director and actors continued to carefully gauge what audiences liked and kept changing the show accordingly on a daily or weekly basis. They dropped numbers with little applause and added numbers for players the audiences liked and jokes for comedians who were well appreciated. Such changes resulted in huge repeat business (Swartz 2000, pp. 110–115). A retail application following this approach would be to modify how retail employees respond to customers' questions, possibly based on surveys that indicate problems with the current "scripts" being used. Such ongoing modifications are also necessary for retailers' telephone and online scripts, which are often not quite as effective as they ought to be.

Sometimes, changes are needed when targeting a new market. For example, after the initial run in Chicago from June through mid-September in 1902, the Oz company began touring and did so until the end of that year. Touring necessitated further modifications based on variations among audiences and venues. Ethnic songs were switched around to appeal to audiences in different parts of the country, and stage effects, such as sound and lighting, were changed based on the capabilities of different theaters (Swartz 2000, pp. 94, 96). Similarly, retailers need to consider differences in consumer preferences and tastes when opening stores in varied geographical locations. This is even more critical in international retail expansion.

At the same time, it is important to know when *not* to change a successful formula. Looking to the Oz show, we see an example of this as well. After touring in the last third of 1902, the production opened in New York in January 1903. There was much concern that sophisticated audiences in New York would look down on the play so attuned to nonliterary audiences, but Mitchell was confident that the American theater-going public of the time was essentially the same and he stuck with his basic formula. In fact, one of the few changes he made was *not* to make the play more sophisticated but to enlarge the working-class motif. The reviews were mixed, with some reviewers especially critical of the low-brow aspects of the show, but the audience reaction was unequivocal. New Yorkers loved the musical as much as did audiences in Chicago and elsewhere (Swartz 2000, pp. 103–104, 110). This is an important lesson for retailers too. If customers' needs seem similar despite geographic dispersion, sticking with the basic offering may prove worthwhile, as Walmart's low-priced superstores exemplify.

Another strategy for ongoing modifications is related to the practice of market segmentation. Although unfamiliar with such terminology, the Oz production seems to have used this approach as well. In early 1903, while playing in New York, casting began for a second company for future touring. The first company would still tour, but it would play in the major cities, while the second company would cater to smaller cities and towns, with lower ticket prices. The second company cast was carefully selected to include highly talented but less known actors. This ensured the established quality of the show, while keeping salaries manageable. When touring started in the summer of 1903, the first company typically played in a given location for a week or two, whereas the second company generally played for one or two nights and consequently had a far more hectic schedule in terms of travel and adapting to different venues. Nevertheless, both companies turned out to be moneymakers (Swartz 2000, pp. 131–133, 136).

It appears that because the second company actors were less known and eager to establish their careers, they were unlikely to complain about issues such as grueling schedules. In addition, given that these actors were not paid as highly as those in the first company, this strategy seems to have allowed the producers of *Oz* to charge lower ticket prices in the secondary market, making the show more affordable to these audiences. This two-pronged approach to different segments is directly applicable for retailing even today. To use the Walmart example again, despite its tremendous success with its low-priced superstores, the retailer is experimenting with a small, higher-end grocery store called Fresh Market designed to appeal to more affluent customers. Other retailers can follow similar strategies to widen their market base.

Yet another way to modify an offering is to make changes from time to time. For example, when the *Oz* show returned to Chicago in 1904, many songs as well as dialog and jokes had been changed over time. Critics in the windy city were not pleased with this tampering of the original production, but Chicago audiences loved the fresh look and the show continued its success. The fresh look concept was continued across the country through the years that followed, with new songs added and old songs dropped each time the show opened for a season, which gave audiences added reason to keep going back. This formula of ongoing modifications was continued right until 1912 and led to much repeat business (Swartz 2000, pp. 140–141, 144, 156). The implications of such modification strategies used by the *Oz* production apply directly to many type of retailers. Restaurants or retail stores often change their "look" or make modifications in their offerings to please customers and encourage repeat business. Even online retailers can keep fine-tuning their look, format, live support, and other features based on ongoing customer feedback as to what is most effective or appealing.

Promotion that Captivates

Having a winning offering to start with and yet continually modifying it as needed achieves most of what is required for success – whether in the theater or in retailing. At the same time, making customers aware of what you have to offer is critical in getting them to purchase. Today, the majority of retailers know the importance of creating awareness and interest, but they do not seem to be better at this than the *Oz* promoters. It is informative to examine in detail how the show was promoted to learn how retailers can emulate some of their strategies.

Fred Hamlin, the producer, and Townsend Walsh, the business manager, were responsible for the promotion of the show, with Walsh playing a key role. Much before the play first opened in Chicago in June 1902, they arranged for a series of newspaper articles about the production and the cast that was being put together. The articles mentioned that two well-known comedians were hired to play the roles of the Scarecrow and the Tin Woodsman, but did not mention their names in order to pique the public's curiosity. For balance, Hamlin and Walsh deliberately revealed who would play Dorothy and the Wizard, and extolled their successes as well as mentioned how much they were sought after by other producers (Swartz 2000, pp. 60–61). This varied but intense focus on the principal actors corresponds to highlighting the front-stage aspect of services and applies to different types of retail contexts. For example, doctors' offices can use this approach in highlighting the skilled physicians in their group to create awareness of the high level of expertise they offer.

The *Oz* production engaged in other promotional efforts that also proved effective. Recognizing the importance of the visual aspect, they announced the names of the prestigious firms from which the costumes and sets were being procured. Shortly before the opening, Walsh developed an eight-page booklet to promote the play, which included pictures and write-ups of the cast, emphasized their long preparation and talent, and stressed that even though based on a children's book, the play was "sufficiently spicy and alluring" for an adult audience (Swartz 2000, p. 61). Such promotions focused on behind-the-scenes elements and the service outcome and can apply to a variety of retailers. For example, high-end restaurants can canvas their talented chefs to entice customers to visit and try their unique dishes.

When the *Oz* production formed a second company for touring in 1903, the first company was now promoted during its own touring as the "original cast," in order to differentiate it from the other company. In line with this emphasis, even when principal actors had to be replaced due to illness on the road, the first company did not advertise the fact, but quickly acquired and trained good substitutes. Audiences in different cities across the country were unaware of such switches and loved the talented substitutes just as well (Swartz 2000, pp. 134–136). Although this strategy would not apply to doctors' offices, it is applicable to high-end restaurants where the celebrity chefs work backstage and a talented substitute chef may work wonders.

The stage show was promoted in New York in 1903 exactly as it was for the first season in Chicago, including newspaper articles about the opening. Later, after the show opened, newspaper articles included personal stories about the cast, what they did for their complexions, how they reacted to love notes from fascinated audience members, how they suppressed sneezes on stage, and so on. Nothing was "too trivial" if it kept the show visible (Swartz 2000, p. 127). These types of promotional strategies may apply to a variety of retailers. For example, a car dealership could interest a newspaper in writing an interesting story about its hybrid offerings, a hair salon may be able to get a write-up from the customer's perspective of being pampered, and a home improvement store could convey how they helped some consumers build unique home projects. Some small retailers are already following this approach by going to national media such as NBC's Today Show with a story based on a customer's thank you letter or using online social networks such as Twitter by generating a buzz with free samples and then letting customers "blog" to spread the word (Flandez 2009). The important thing for all retailers is to constantly look out for opportunities to keep their service offerings on the public's mind.

The *Oz* production also constantly placed newspaper fillers during the 1903 New York run mentioning that many people had seen the *Oz* show repeatedly; some of the fillers mentioned that many viewers knew the songs and could sing along during a performance (Swartz 2000, p. 128). References to repeated viewings seem to have been aimed at encouraging others to do the same. This type of promotion appears to be practiced by some of today's retailers, who emphasize the level of their repeat business in all possible venues, including online promotions.

Another interesting aspect of the *Oz* promotion was the continued emphasis that the show not only contained old, familiar songs that the audiences could sing along with and old familiar routines they could laugh at, but also many new songs to enjoy and many new jokes that would have them rolling in the aisles (Swartz 2000, p. 141). In essence, they promoted the show as an attractive mix of the familiar and the new, which is a strategy many retailers can emulate with respect to their own service offerings. For example, a casual restaurant can emphasize *familiar* aspects such as its cozy atmosphere or tried-and-true menu favorites, but also stress *novel* things for patrons to enjoy such as new menu items, a band on a certain weeknight, or outdoor seating.

Conclusion

Three men were key to the remarkable success of *The Wizard of Oz* theater production in the 1900s. Producer Fred Hamlin recognized the importance of procuring highly talented actors as a solid foundation for the show and expended great effort and money to secure the best possible casting. Backed by Hamlin, business manager Townsend Walsh was extremely creative in his myriad promotional efforts so that the public was constantly eager to partake of this exciting theatrical experience. Director Julian Mitchell's central role in the success of the show is obvious in its creation, the superb training of the cast, the dazzling stage spectacle, and the ongoing modifications which generated repeat business.

The best compliment to Mitchell's approach and proof of his astute understanding of customer needs came from the author of the original story. In a letter to the Chicago Tribune in 1904, Frank Baum wrote that he "took occasion to protest against several innovations that I did not like, but Mr. Mitchell listened to the plaudits of the big audiences and turned a deaf ear to my complaints"; Baum acknowledged that after witnessing the enormous success of the play, he realized that Mitchell was right and that, "The people will have what pleases them." (Swartz 2000, pp. 58–59).

In this classic example of successful marketing of a stage show over a century ago, it is seen that without using modern-day terminology, the people behind the production of *The Wizard of Oz* understood their customers well, and were able to reach them and win them over with an outstanding offering. There is much to learn from their approach. The ability to create memorable experiences for patrons, the willingness to be open to constantly modify one's offering to satisfy customer needs, and the perseverance in working to keep this offering on the public's mind has direct application to retailing, especially for the numerous settings (offline or online) that are built around encounters with customers where service performance is vital.

Discussion Questions

1. What are the different ways that the director of *The Wizard of Oz* stage show understood customer needs? Find current-day examples of marketers showing a similar understanding of customer needs.
2. What are the different ways that ongoing modifications were made in *The Wizard of Oz* stage show for continued success? Find current-day examples of marketers making ongoing modifications for continued success.
3. What are the different ways that creative promotion was used in marketing *The Wizard of Oz* stage show? Find current-day examples of marketers using creative promotion to create high awareness and interest.

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Chapter 16
Paradigm Shifters in Retailing

Jay Kandampully

In this global market of intense competition, some retail firms consistently stand out as market leaders. These firms have achieved success in spite of the intense competition; they appear to have assumed a different and more compelling strategic orientation – the "service." This conceptual but organization-wide orientation to "service" has helped them to orchestrate and focus on the "customer" from a fundamentally different perspective than that of their competition. We call these firms "paradigm shifters," – firms that operate within a different paradigm of thinking. These paradigm shifters appear to perceive their "service concept" as their "north star," the guiding principle that drives all strategies, principles, and directions. The unique advantage gained in the market by these paradigm shifters is the effect of a meticulous and consistent focus on the "customer" – the ability to "think for the customer" – and therefore the focus on exemplary service.

Most firms focus or concentrate on attracting customers as a means to ensure continued growth. However, relationship marketing stresses the importance of nurturing and strengthening the relationship with existing customers since marketing is a more effective reinforcement and illustration of a firm's competency following customers' actual experience of service. The increasing role of customer-to-customer advocacy, through both online and off line communities, has transformed the role of marketing to that of a "relationship builder," with customers constituting an integral part of the brand.

The capacity to market effectively is dependent on customers' experience during the three distinct stages of customer–firm interaction (1) pre-consumption, (2) during-consumption, and (3) post-consumption (see Fig. 16.1).

Most firms' marketing efforts tend to be focused at the pre-consumption stage of the customer's experience. However, within the service context (service cannot be pre-tested), the pre-consumption stage actually provides limited opportunities for a

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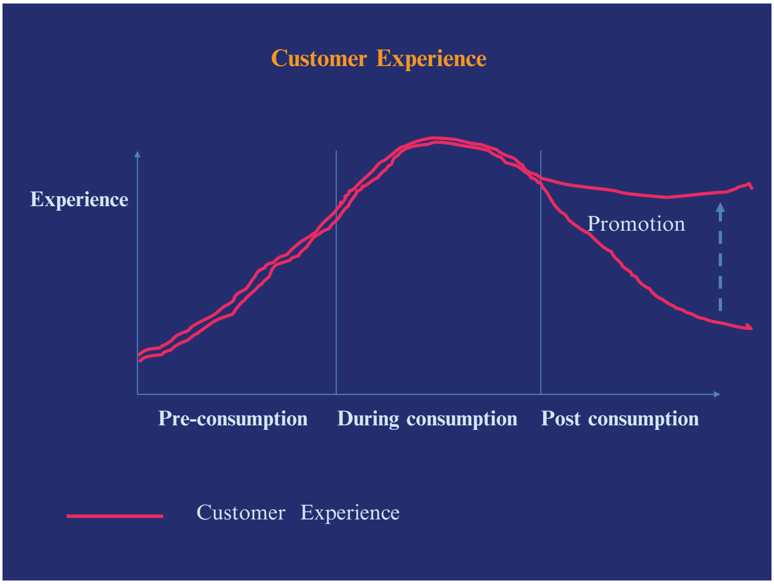

Fig. 16.1 The three stages of customer experience

firm to effectively promote its competency, expertise, and quality and/or strengthen its relationship with existing and prospective customers. That said, it is, however, important to inform customers about the products and services offered, particularly for those firms new to the market.

At the during-consumption stage, on the other hand, both marketing and operations have a prime opportunity to convince customers of the firm's capability and to engage and establish an emotional bond. During-consumption is the most impactful and influential stage, given the inevitable context of interaction between the firm and the customer. Promotion at this stage reflects the firm's commitment to create memorable moments of truth for the customer.

At the post-consumption stage, the interaction and, therefore, the relationship between the firm and the customer tend to diminish. Hence, this stage is largely disregarded by traditional marketing principles. However, it is argued here that once the firm has created a favorable impression on the customer, it is possible to engage the customer to promote the firm to prospective customers. Customer-initiated promotion is one of the firm's most valuable assets. There is also growing recognition of the importance of the role played by social media and customer communities in communicating the credibility and reliability of the firm's message. Customer engagement and customer-to-customer communication of positive word of mouth can thus be considered the outcome of an effective "promotion" at the post-consumption stage of the customer experience. Moreover, the positive endorsement (word of mouth) of post-consumption customers invariably has a direct, positive impact on pre-consumption marketing. Through our research, we found that firms that we identified as paradigm shifters clearly operated within this conceptual notion. The paradigm shifters consistently provide customers with superior service at the during-consumption stage, gaining the all-important emotional commitment from customers to engage with the firm and to serve as the firm's ambassadors. They maintain this practice with their internal and external customers, thus creating committed customers, both within and outside the organization. It is the consistent focus on service that allows the paradigm shifters to provide an environment conducive to nurturing the service culture within the organization. They believe that their brands' sustainable growth is the outcome of a consistent effort to engage effectively with their customers, and not a result of attracting new customers.

In this chapter, we have discussed various paradigm shifters within the retailing industry. These case examples illustrate how the paradigm shifters used customer focus, service orientation, employee orientation, and leadership practices to help them gain a competitive advantage and market leadership.

Nordstrom

Nordstrom's founders, Carl Wallin and John Nordstrom, used their Alaskan gold rush earnings to start a shoe store "Wallin & Nordstrom." Nordstrom Inc. had its humble beginnings as a shoe store located in downtown Seattle, in 1901. Carl's expertise was in shoe repair while John provided the core business principles that held the firm together. Even today, those core business principles serve as the foundations of their success, namely: "exceptional service, selection, quality, and value." Under the founders' leadership, Nordstrom become a successful shoe store. When both John and Carl retired in 1933, they sold the company to Nordstrom's three sons. By the 1960s, Nordstrom's Seattle store was known as the largest shoe store in the country. They then opened eight other stores in Oregon and Washington. It was at this time that they decided to sell clothing in their store. In 1973, Nordstrom was recognized as the largest volume west coast fashion specialty store. During the late 1980s, Nordstrom established retail outlets nationwide. Today, Nordstrom ensures that its fashion departments carry a wide range of sizes and apparel to meet the needs and lifestyles of any customer that visits their store.

Nordstrom is a socially responsible company that knows how important it is to have the full trust of its customers and it is on this grounding promise that they have created lasting relationships. Nordstrom's success is based on the value they place on their relationships with customers, employees, vendors, and communities. Nordstrom was one of the first retail companies to offer profit sharing and donates millions of dollars to nonprofit partners every year, based on feedback from some of their best customers and employees.

The company has maintained its pace of customer orientation throughout the 100 years since its foundation. Its reputation for service quality is upheld by its commitment to satisfying the customer – whether by ensuring customer convenience or by the smallest of gestures. Nordstrom's lenient return policy, friendly and helpful staff, and wide selection are some of the ways it consistently satisfies its customers.

Nordstrom's priorities are based on an inverted pyramid: Customers occupy the top portion of the pyramid, followed by the sales and support people, and department managers; next down are the store managers, buyers, merchandising managers, regional managers and general managers; and, finally, at the bottom of the pyramid is the board of directors.

> Joyce Johnson states in the book "The Nordstrom Way" that even when you process returns, you have to smile because that person will always come back to you. That is precisely what the Nordstrom boys wanted when they created their "warranty back," at a time when Nordstrom was just a two-store operation. They concluded that the business would be more enjoyable if they could pass off the responsibilities of dealing with complaints and irrational returns.

Nordstrom has a very generous return policy, accepting returned merchandise with no time limit and no matter what – even if the damage was caused by the customer. There are numerous stories circulating in the press about Nordstrom's return policy. One often cited example is that of a disoriented customer who tried to return a set of tire chains to Nordstrom, even though Nordstrom does not sell tire chains (some stories suggest it was tires). The employee, following the company's focus on customer satisfaction, accepted the chains, and gave the customer the refund! Nordstrom's philosophy is that its policy is aimed at the 98% of customers who are honest! Nordstrom not only "accepts" returns, they actually *encourage* them. For example, all mail orders through Nordstrom contain a completed exchange/return packing slip – just in case! Nordstrom employees are consistently reminded about the company's commitment to customers by the note at the bottom of their paychecks (or stubs) which reads, "from Bruce Nordstrom, on behalf of the customer."

Nordstrom is different from its competitors in that their focus on customer service is the main pillar of their business. They endeavor to hire the best people for the job in the knowledge that the business they run is not a perfect fit for everyone. Nordstrom relies on its employees to make good decisions based on their own judgment, and Nordstrom is willing to live with those decisions. Employees are trained to ensure that each customer leaves the store as satisfied as possible and are willing to go above and beyond the expected to make a customer happy. Nordstrom tries to appeal to everyone, maintaining as full an inventory as possible, with a wide range of sizes – including the less popular sizes. Nordstrom considers that its focus on quality, employees, and a good selection of stock is what separates them from their competition.

Nordstrom treats its customers as extended family and keeps track of customer's wants and needs. Nordstrom's main goal is to service all their customers in the best way that they can, with the intention that every person's contact with Nordstrom be as pleasurable as possible. Nordstrom understands the "moments of truth" – that every time a customer comes into contact with some aspect of their business, it gives Nordstrom the opportunity to form a good impression. This ideology encourages repeat purchase and increases profits by enlarging the loyal customer base. Employees are trained in courtesies, such as walking the customer to the fitting room, and walking around the counter to give the customer their bag. Employees also send thank you letters and keep track of customers' requested items, notifying them of if/when they become available. Customers are encouraged to talk to anyone regarding their experience in a Nordstrom store or online. On occasions, Nordstrom employees will also include comment cards in a customer's order to obtain their feedback on their experience. Nordstrom's ability to establish trusting relationships with customers helps to ensure that customer feedback is honest and constructive. Nordstrom helps its employees to develop and maintain personal relationships with their customers and their fellow employees by encouraging both teamwork and individual achievement.

Nordstrom rule #1: Use good judgment in all situations. There will be no additional rules

By having one rule, Nordstrom is able to truly empower its people to do what is right for the customer. It is very important for Nordstrom that its employees feel that they are treated with respect since happy employees are motivated to provide a genuinely customer-oriented and services-minded performance.

Nordstrom offers two additional ways for customers to shop for their merchandise, online at Nordstrom.com or by catalog, thus providing additional convenience. Nordstrom's direct customer contact center comprises a team of professionals with a range of skills and talents who provide a personalized shopping experience over the phone or Internet.

Any customer walking into a Nordstrom store will know that Nordstrom prides itself in putting its customers first. Nordstrom's superior customer service policies go above and beyond the typical "The Customer is Always Right," even if it means spending extra time on the customer and Nordstrom losing money in the transaction. They know that the money lost will be made up by the customer continuing to return to Nordstrom for their purchases and that an impressed customer is very likely to share their positive experiences of Nordstrom with their relatives and friends. Nordstrom is one example of a service provider with a high degree of employee engagement. Consistently voted as America's top 100 Best Companies to Work for, Nordstrom can boast more than 3,000 employees with a minimum 10-year tenure, many of whom started their careers as students, progressed through the ranks, and stayed.

Costco

Costco is a leader in the retail industry head quartered in Issaquah, Washington and founded in 1984. Ranking in the top five in the retail industry and accounting for about half the market in the warehouse industry, Costco is focused on quality and customer satisfaction. Costco was formed as a joint venture between Jim Sinegal and Jeffery Brotman. In 1982, Jim Sinegal was working as an executive for Price Club, which was the original pioneer of warehouse discounters based out of California. Jeffery Brotman was an everyday attorney with a vision. Brotman had recently returned from a trip to Paris, and while on vacation, he became obsessed with the idea of importing the retail concept of "hypermarkets" to the United States.

The French had embraced "hypermarkets" for many years, and they represented the fusion of a supermarket and a department store. Brotman and Sinegal believed that most US grocery chains sold overpriced goods, mistreated their employees, and focused too much on the shareholder and not enough on the consumer. Their plan to capture the market was very simple: they believed that every aspect of the company from the top down has focus on customer satisfaction.

Jim Sinegal is widely recognized in the industry for developing the company's strategy for employment and obtaining customer loyalty by continually increasing product quality while decreasing prices and expanding the products offered by the company. Costco's service vision is to provide customers with the lowest possible prices for high-quality products through extraordinary efficiency and service. They seek to do all this while maintaining a strict set of corporate ethics by providing their employees with above-average wage and benefits. They build a sense of trust between their customers and their employees. They are able to achieve their service vision though their service strategy consisting of continuous quality improvement and reduction in costs.

Costco is committed to provide their customers the best value through Costco. This can be reflected by considering two factors: their Kirkland dress shirt and one of Jim Sinegal's cardinal rules. When Costco first signed a contract with Kirkland, it committed to selling 100,000 units per year; the price of each unit was $17.99 in their warehouse. After 2 years and the realization that Costco was selling over one million units per year, they renegotiated the deal with Kirkland and in turn, the cost of the Kirkland dress shirt in their warehouse dropped from $17.99 to $12.99. Contrary to supply and demand, Costco took the additional savings they received from the manufacturer and passed it on to the customer. Most companies would have simply had the price remain the same, to gain more profit. However, Costco believes that by passing the savings on to the customers they will make up the difference in profits by an increase in volumes. This is the Costco way and they believe this will prove to be the most profitable in the long run. Secondly, they provide savings to the customer by following a rule that Sinegal firmly believes. He does not allow branded items to be marked up by more than 14% and no private label items by more than 15% compared to average supermarket mark-ups of 25% and department stores of 50%. This reverts to the idea of providing customer's superior value in turn obtaining their loyalty. A retailing analyst commented on this by stating, "They could probably get more money for a lot of items they sell." Sinegal's response was, "On Wall Street, they're in the business of making money between now and next Thursday. We want to build a company that will still be here 50 and 60 years from now." Another uniqueness to this company is that they do not market at all. They believe that by not marketing, they can pass the savings along to the customer, which is just another way Costco is able to deliver quality service and gain customer loyalty.

Costco operates about 470 membership warehouse stores serving 45 million card-holders in 37 US states and Puerto Rico, Canada, Japan, Mexico, South Korea, Taiwan, and the UK, primarily under the Costco Wholesale name. They focus on providing the customer with the lowest price for the highest quality product. They achieved this by reducing overhead expenses on items such as fancy display cases, as also salespeople, advertising, and billing. Pricing and mixing product are Costco's niche. Costco stores offer discount prices on 4,000 products (many in bulk packaging), ranging from alcoholic beverage and appliances to fresh food, pharmaceuticals, and tires.

Costco's focus to offer its customer guaranteed high quality with low errors is achieved by stocking a small number of selections for each category. According to Jim Sinegal, Costco is able to offer lower prices and better values by eliminating virtually all the frills and unnecessary costs, including salespeople, fancy building, delivery, billing, and account receivable. Costco runs a tight operation with extremely low overheads, which enables them to pass on saving to their members. Costco is also uniquely different from its competitors. Its membership fee, which is paid annually, is a little more expensive than that of Sam's Club or BJ's Warehouse. This allows the customers to receive product that other wholesalers do not offer: auto and homeowner insurance, real estate and mortgage services, long-distance telephone services, auto buying, personal check printing, and financial planning. For business customers, Costco offers merchant credit card processing, health insurance, business lending, payroll process, communication solution, and check printing at substantially reduced rates. Costco has "Costco's Risk-Free 100% Satisfaction Guarantee" service for customers. They guarantee customers' satisfaction on every product they sell, with a full refund. For the membership, they also refund customers' membership fee in full at any time, if they are dissatisfied. Another customer service is a monthly magazine sent to all members that covers a broad range of topics. This magazine offers advice about everything from how to buy a perfume to ideas about listening to employee suggestions to save costs to keeping customers informed of Costco's movements within the market.

Costco places a large emphasis on their employees and treats them as their "most important asset." Costco employees receive an average of $16.72 dollars an hour, which exceeds the retail industry average of $10.99 an hour. Employees are rewarded with incentives and bonuses in addition to generous health benefits. Both full-time and part-time employees are covered by Costco's health insurance coverage, after only 6 months of employment. Over 82% of their employees have Costco's health insurance coverage. Costco pays 92–95% of their employees' premiums for health insurance premiums. In addition to health care, Costco offers dental care, pharmacy service, short-term and long-term disability, vision care, a generous 401(k) matching program, a dependent care tax-free reimbursement account, generous life insurance, employee stock purchase opportunities, a health care tax-free reimbursement account, long-term care insurance, and two unique counseling programs. Costco's pro-employee strategies are rewarded generously by the most productive and loyal workforces in the retailing world. The majority of Costco's employees believe that it is the best place to work in and that they are well taken care of. Apparently, only 6% of Costco employees leave after the first year, compared to 21% in competing firms. "Taking care of your employees and turning inventory faster than your people is good business," says CEO and retail veteran Jim Sinegal. Good wages and benefits are why Costco has extremely low rates of turnover. "From day one, we've run the company with the philosophy that if we pay better than average, provide a salary people can live on, have a positive environment and good benefits, we'll be able to hire better people, they'll stay longer and be more efficient," says Richard Galanti, Costco's chief financial officer. Costco's employees work hard to make their customers happy; however, it is their service systems and policies that really show how customer centric Costco really is. Costco's management team is said to embody an almost religious, unwavering dedication to loyalty and frugality. When an organization and its senior management are surprisingly humble, they will rally a loyal, motivated, and empowered team to support them.

Costco's service orientation is well reflected in its business model: Providing quality goods at a low price. In the words of Richard Galanti, "The mantra around here has always been, how can we improve the quality while lowering the price? If we can do that, we'll sell more, which will allow us to go back and get a better discount, which will lower the price again." Costco's leadership is committed to keeping prices low and thereby increasing sales volume. Costco believes that preserving the quality and value of their offering is the best way to do business. Low prices and high volume are common themes in big-box retail. However, Costco is led very differently than your average big-box retailer. Costco's leadership differs greatly from that of other companies. Rather than operating the company with the sole mission of profit maximization, Costco is greatly committed to its service model and its employees. Costco is not committed to increasing its margin in the interest of investors. Costco keeps around an 11% margin on most of its items, significantly less than other retailers and grocery stores. Costco believes that passing on cost savings to the customers whenever possible is the best business model in the long run, as it will lead to greater sales.

All nonelectronic items can be returned to Costco at any time if the customer is dissatisfied. This even includes the membership fee, which can be returned up to the day the membership expires. Costco's service system integrates technology to allow better service. All transactions are linked to a membership account. The database of all Costco transactions is maintained at a national level, rather than at a store level. If a customer does not have a receipt, it is not a problem. The customer can go to any Costco store and return any item they purchased, even if the store is not even in the same state. In lieu of a receipt, a customer can always simply present their membership card. This means that even without a receipt, an item can be returned for a full refund. For electronic items, Costco not only has an excellent return policy, it adds an additional year to the manufacturer's warranty on all of their electronics through their Costco Concierge service, free of charge. The Concierge service also includes technical support for all electronics sold by Costco. This is one of the many ways Costco goes out of their way to be customer obsessed.

Costco strives to build customer loyalty and satisfaction by only taking their fair share of profit from the products and services they sell. When asked by a reporter whether it's tempting to not reduce prices when a supplier discounts their product, Mr. Sinegal responded, "There are all sorts of opportunities where you can try to sneak in a little more margin here and little more profitability there, but that's not what we're about. When you start suggesting that it's not important to save the customer money on this because they'll never know the difference, you start to fool yourself. Our customers trusts us. You don't want to give up on that type of reputation." Indeed, Costco greatly values its reputation of trust it has built up with its customers and employees.

Costco must remain efficient in order to deliver on their promises to employees and consumers. That is why another part of the Costco strategy is a no-frills experience. Their warehouses have concrete floors, tall ceilings, and feature minimalist displays and little shelving. They do not have signs pointing out where things are in the stores. Instead, they encourage customers to simply wander around the store. Costco calls it a "treasure hunt." Their service system would break down if it were not for their hard-working employees. By keeping their employees happy, they keep productivity high and stores running smoothly. This allows Costco to deliver consistently on its vision of low prices and high quality. Costco's retail success has largely depended on offering enough perceived value to get potential customers through the door, allowing them to see the value firsthand, providing them with a friendly shopping experience, and backing it up with a no-strings-attached 100% money back guarantee. To add further merit to the argument, it is clear that Jim and Jeff are doing something exceptional with their company.

L.L. Bean

The L.L. Bean Incorporation was founded in 1912 by Leon Leanwood Bean. It all began with a camping trip in 1911. Bean was not satisfied with how his shoes handled the great outdoors, so he found someone to make a pair, which became known as the "Marine Hunting Shoe." He started selling them to the locals. He then obtained a list of residents outside the State of Maine; in 1912, he sent them a three-page flyer about the shoes. This was also the beginning of his mail-order retail company. As his company grew, Bean built a factory and by 1934, the factory encompassed over 13,000 square feet; by 1937, his sales had hit $1 million.

L.L. Bean's values and principles had a significant impact on the company's strategy and business operations, which is true, even today. He believed in the golden rule, "Sell good merchandise at a reasonable profit, treat your customers like human beings, and they will always come back for more." He believed in this principle so strongly that he made it the foundation of his business. L.L. Bean understood the benefit of offering his customers 100% satisfaction guarantee for the products they purchased from him. L.L. Bean's motto is "Guaranteed. You Have Our Word." Their guarantee states that the products sold by L.L. Bean are guaranteed to give 100% satisfaction in every way and that anything purchased from them can be returned at any time if it proves otherwise. In 1916, L.L. Bean posted a note in company offices stating, "I do not consider a sale complete until goods are worn out and the customer still satisfied." L.L. Bean's philosophy that "the customer is the most important person ever in their company, either in person or by mail" is as important to the company's success now as it was when he started the company in 1912.

The L.L. Bean brand now encompasses online ordering and retail stores in the northeastern United States and Japan. L.L. Bean currently employs approximately 5,700 employees year round. The company remains a recognized leader in the mail order and retail industry, while maintaining a superior level of service to their customers across all their channels. The company has received numerous awards for both customer service and quality: ranked #1 "online leader" by Women's Wear Daily; #1 provider of customer service by the National Retail Federation Foundation; ranked #2 by Business Week magazine; and named top business to consumer multichannel merchant.

L.L. Bean has practiced a customer-orientation approach since its beginnings, strived to maintain customer satisfaction at any cost, and to introduce innovative ways to improve its customer service. In 1930, the company's product flyers evolved into a 52 page catalog, designed to make shopping easier for customers. In 1951, the company started its flagship store in Freeport, and Maine introduced its "open 365 days a year, 24 hours a day" policy. In 1976, the company introduced credit cards, and in 1985, a customer service and toll-free number was added in response to the increasing number of shoppers by phone. In 1988, an L.L. Bean outlet was opened that offered merchandise at a discounted cost to the customers. In 1995, L.L. Bean ventured into the Internet market, and launched its website, http://www.llbean.com, which has received several awards for its ease of use and outstanding customer service. Other customer service features include: interactive shopping guide, 24 h live customer service, and Internet features such as order tracking, order history, and up-to date product availability.

L.L. Bean has also gained a competitive advantage and a reputation for excellence for its employment practices and empowering employees to go the extra mile to serve and satisfy their customers' needs. A well-known example of this concerns a canoe purchase. One L.L. Bean employee actually drove 500 miles from Maine to New York to deliver a canoe to a customer who was leaving on a trip. The company was recognized by the American Association for Retired Persons (AARP) as one of the best companies to work for, in terms of a person over 50 years of age. Indeed, 42% of its workforce are over the age of 50. L.L. Bean senior placement agencies target mature workers and retirees. L.L. Bean currently practices a voluntary employee program called Healthy Lifestyles in which employees are offered free health screening, coaching, and assessment. The company was also recognized by the American Heart Association when it won Gold for the most "Fit Friendly" company to work for, in recognition of its commitment to employee's well-being. Wellness programs including smoking cessation programs, exercise programs, flu shots, weight loss programs, and stress management programs are available to both full- and part-time L.L. Bean employees. L.L. Bean ensures employee satisfaction by paying competitive wages, offering extensive benefits, and ensuring the mental and physical well-being of their employees by providing a life/work-balanced lifestyle. LL Bean also offers learning and development programs to its full-time and part-time employees; and a tuition reimbursement program is offered exclusively to those employees working at least 20 h per week.

L.L. Bean has always been committed to environmental stewardship, believing that its products enhance its customers' relationship with the outdoors. It continually seeks to minimize the adverse impact that producing, marketing, and distributing products have on the environment. L.L. Bean, as a firm, is involved with energy conservation and the use of renewable energy, energy efficient, and environmentally friendly building design, corporate recycling programs, use of organic products and biodegradable packaging, and they generously support environmental charities.

In 2001, Leon Gorman, became chair of the board, handing over his position to the first ever nonfamily member, Chris McCormick. L.L. Bean president, Chris McCormick, states that "Superior customer service has always been and always will be the cornerstone of our brand and heritage and an attribute that differentiates us from the rest of the pack. New selling channels and increasingly sophisticated consumers create more need than ever before for attention to service, which starts with listening to customers and acting on their requests." L.L. Bean understands that in the service industry, it is only through superior customer service that a competitive advantage will be created and the continued success of the organization ensured.

Amazon.com

Amazon.com was founded as an online bookstore by Jeff Bezos in 1994. Over the years, Amazon has expanded its selection of merchandise to include items other than books; for example, CDs, DVDs, clothing, shoes, and many other personal items. Bezos revolutionized the retail industry by creating a nonstore business model that bore no resemblance to existing retail model. Time magazine named Bezos Person of the Year in 1999 and, more recently, in 2008, US News and World Reports identified him as one of America's best leaders.

Bezos' company philosophy is based on his "Six Core Values." The first of these is "customer obsession." The customer always has to come first and the customer is the most important person in Amazon's business model. The second core value is "ownership." The owners of the company ultimately determine what the company will become, meaning that there must be great emphasis on who has ownership in the company. The third core value is "bias for action." Even if it takes ten failures to find one success, that is better than zero failures and zero successes. The fourth core value is "frugality." It is important to practice money saving techniques and pass those savings onto the customers. The fifth core value is a "high hiring bar." Employees are a company's most important resources and finding the right employees is crucial. The final core value is "innovation" and the reason that Amazon has succeeded against all odds.

One of their customizing strategies is the "EYES" program, through which new customer members are sent e-mails about books on offer and other related items. Amazon also allows independent retailers to use its site; for example, Nordstrom and Gap merchandise is sold on Amazon.com. Amazon is no longer just about books but has evolved to cater to many different aspects of a customer's day-to-day life.

Amazon's goal is to offer everything from A to Z. Amazon has truly become a world retailer, offering items such as: books, music, software, video games, consumer electronics, kitchen items, tools, lawn and garden items, jewelry, apparel, shoes, health and beauty, and gourmet food, with many more categories being formed on a regular basis.

Amazon links the world between the retailer and consumer even further by offering the option of buying new or gently used items. New products are offered through Amazon, while gently used products are offered through a verified third party company, allowing the customer the option to save even more. If Amazon does not carry a product, they will aid the customer in finding the product on the Web. Amazon's service concept is "We seek to offer the Earth's biggest selection and to be the Earth's most customer-centric company, where customers can find and discover anything they may want to buy online."

Three things separate Amazon from its competitors: customer service, trust, and the user friendliness of its website. There is nothing more frustrating than buying something online and then having to go out of your way in order to track the order, view order information, contact customer service, and/or return merchandise. Amazon makes it easy for customers to find any information they need, from invoice to tracking information, to return. Customers simply click on "Your Account," which takes them to a self-service screen that enables customers to access any information they might need and handle a wide range of customer service tasks. This easy, quick, and convenient process increases the likelihood that the customer will return.

Customers come back repeatedly to Amazon because they know that it is a trusted website. Security has always been a big concern for online retailers, and it will only become more so as technology advances. Amazon collaborates with millions of associates around the world and provides features to support both sellers and customers. There are also metrics to monitor how frequently customers complain about a merchant and how often a merchant cancels an order because the product is not in stock. Amazon's partners, who exhibit problems with more than 1% of their orders, can be removed from the site. These customer-focused standards have helped Amazon to maintain customer trust in its website, shopping experience, and the products offered.

Amazon offers its customers a personalized shopping experience through technological innovation and reinvests a large proportion of its profits to ensure that its website and processes provide value and remain user-friendly. For instance, on the Web page of each product offered by Amazon, users are able to rate a product and see the ratings given by other customers of the same product, by submitting their own personal review. This system also enables Amazon to determine which products are the most and least popular and, thus, which ones to keep, and which to replace with other products that might better fit customers' needs. Since early 2006, Amazon Web Services (AWS) has provided companies of all sizes with infrastructure web services on a virtual platform. AWS offers Amazon's business customers computing support, power, storage, and other services. Customers pay only for what they use, with no up-front expenses or long-term commitments, making AWS the most cost-effective way to deliver application.

Aware of customers' changing lifestyles, increasing technology savvy behavior, and desire for access and portability, Amazon launched "Kindle" – essentially, an electronic bookcase. With the click of a button, customers can download a book and begin reading it. Customers are able to download from a library of 300,000 items that includes many top newspapers, magazines, and even blogs. The Kindle screen simulates paper, meaning that it is glare free, even in bright sunlight. It also costs much less to download a book to the Kindle than to purchase the book in a store. Customers can store over 3,500 books in Kindle, which can be transferred, should the customer decide to buy a newer version of the Kindle in the future. New Kindle DX provides a number of customer-focused features, including Wi-Fi, and displays in six different font sizes for reading comfort.

Bezos' human resources motto is to "hire people who mirror them in their viewpoint or skill sets." Amazon.com currently employs more than 20,000 people around the world; Amazon associates are given the chance to work with great people and the opportunity to grow. One of the fundamental policies established by Amazon within its distribution centers is the concept of safety. Amazon provides a full range of benefits to its employees and families, such as health-care and dependent-care systems. Amazon also has time-off policies in which salaried employees can earn 2 or 3 weeks paid vacation, depending on the number of years employed. Relocation assistance (for certain positions) is another of the programs available to Amazon associates. These measures help to ensure a respectful and appreciative working environment, which is reciprocated by the associates' work ethic.

Amazon's fundamental service strategy is that "the customer is always right." This is true for its internal customers, B2B e-commerce (such as Target), and external customers. By growing strategic alliances and committing to excellent customer service, Amazon is able to establish customer loyalty and trust. Bezos' focus on the customer and service is clear: "We are not a business about selling things, but rather a business about helping people make decisions". "… we are not trying to be a book company or trying to be a music company – we' re trying to be a customer company." Amazon's non auction-style site has become a juggernaut of its industry; from your first visit to the webpage, Amazon not only assists you, but makes itself responsible for getting to know you. The success of Amazon cannot be attributed to any one thing but, rather, to its continual innovation and reinvention in an effort to provide ever better value and convenience for its customers.

Zara

Amancio Ortega began producing housecoats and lingerie from his sister's home in 1963. In 1975, Ortega opened his first Zara store in La Coruna, Spain, with the concept of "instant fashion" that would eventually grow into a worldwide chain of fashion stores known as Zara. The success of Zara cannot be explained without talking about Ortega. Zara's success is due, in large part, to Ortega's unique style and his ability to anticipate trends. When he opened the first Zara shop, Ortega learned that the secret of success lay in being able to give customers what they want before they asked for it. He believed in flexibility and learning how to adapt to harsh changes. The idea behind Zara is to feature the newest, hottest fashions at a low affordable price. Zara has 1,444 stores in 77 countries. Zara is a division of and the flagship store for the Inditex Group, which focuses on innovation and flexibility, and is "the fastest growing retailer of the world. Inditex is also a vertically integrated apparel organization and, unlike other large apparel corporations, the company owns all of its retailing, designing, and manufacturing operations. This structural difference allows Zara to break some of the norms traditionally inherent within the apparel industry.

Everyone knows there is no such thing as permanent fashion; fashion changes every season, can be instigated by a celebrity, something seen on the street, or on a whim. Zara recognizes this integral aspect of fashion so well that instead of trying to predict what customers will want 4–12 months ahead, it gauges the trends happening on the street, creates a design, and immediately submits it for production. New items arrive in Zara stores twice weekly – approximately 12,000 new styles per year. Zara produces more than half of its own clothes in northwestern Spain, where the first store was opened. Zara also makes 40% of its own fabric, far more than most if its rivals, with the pieces sewn at 400 cooperatives run by local seamstresses. While this gives Zara a tremendous amount of flexibility and control and cuts down on shipping costs and lead time, it does mean having to contend with higher labor costs, which amount to 17–20 times more than if it were outsourced. However, in-house design and production also means that Zara is able to create a new product line from start to finish in 2–5 weeks and to be responsive to fashion items that may not sell well in stores during a particular season. Instead of offering products that take a year to plan and sell, Zara is able to produce collections that the customer demands.

One of the company's notable achievements is that it has managed to become famous without having to resort to advertising. They do not have ad campaigns because their collections change so frequently – clothing advertised on Zara's website may go completely go out of stock by the end of the week. All Zara's marketing is to be found in its shops. It always chooses the best premises, strategically located in prime retail locations, on the most active shopping streets. Everything is thought out, including the smallest details – the shop decorations, the window dressing, and the staff. Window displays change weekly; the displays are developed in Spain and duplicated in all its stores. The goal is to attract clients in the store regularly by having incessant stock turnover They follow the principle that short lead time equals more fashionable clothing, lower quantities equals scarce supply, and more styles equals more choices for the customer. Zara has gained its reputation for excellence by delivering fashion when it is "hot," having exclusive merchandise produced in small quantities, and at a fraction of the price charged by designer brands. This practice also reduces the volume of discounted merchandise at the end of a season. Zara discounts only about 18% of its products, which is about half that of their competitors.

Included in Zara's mission statement is an environmental policy, and the company is continually searching for opportunities to make their offices, manufacturing plants, deliveries, and stores more eco-friendly. Stores have developed that are built with materials intended to reduce 20% of the wasted energy that goes into the construction of the average building. All Zara retail stores practice recycling and use the material to produce hangers and clothing sensor tags. The company has also begun using organic cotton blends that are free of pesticides and chemicals combined with ecological fabrics and manufacture PVC-free footwear. Zara has even extended its "going green" efforts to the transportation of its products and owns trucks, which use biodiesel fuel.

From a service standpoint, it is all about customer wants and demands. Instead of trying to predict what the customer will want, Zara designs and distributes what the customer *does* want, and wants now. In order to achieve this, Zara relies heavily on its front-line employees, who are perceived as key to the company's success. By analyzing sales data, the retailer increases staff during periods when there is heavy traffic in the store. Employees are also expected to provide feedback on any fashion trends they see or hear about – including what's "hot," what's "cold," and/or what's missing from the current collection. Employees are responsible for reporting to headquarters what has and has not sold. Every employee is equipped with a PDA that is used to gather opinions about its product and what customers want to see in the stores. This data is gathered on a daily basis and reported back to headquarters. The information is then used to decide which product lines and colors are kept or altered and whether new lines are created. Products that are not selling well can be removed from shelves instantly. In other words, customers provide the direct link to what will be in Zara's stores the next week via a phone call or e-mail. Zara has proven to the retailing world that it is possible to build a massive brand by doing no more than meeting a market need and understanding your customer.

dm

The trading company *dm-drogerie markt GmbH & Co (dm)* was founded by Götz W. Werner in Karlsruhe, Germany in 1973. Werner's aim was to differentiate his store as a discount drugstore. Werner grew up in a family of drugstore owners; from 1968, he worked in a company led by his grandfather and, later, by his father. Today, *dm drogerie markt* operates in 11 European countries, has approximately 33,600 employees in 2,251 branches, and is clearly one of the leading companies in their market segment within Europe.

The company owes much of its success to the social dedication of its founder, Werner. He describes himself as anthroposophic, meaning that he has an interrelational view of human beings and the world. Werner's personal values significantly influence how the company operates. The organizational hierarchy is deliberately low, encouraging employee engagement at every level, both individually and as part of a team. dm allows its branches as much self-autonomy as possible in the way that they operate. Branch managers have some flexibility on the salary they offer to their employees and while employee remuneration varies locally, in general, *dm*'s salaries are high relative to their competitors. Every employee also receives a share of the profits. Superiors are often elected by members of staff rather than appointed by the management. However, all staff members are given the opportunity to voice their opinions; every branch has a monthly team meeting. Additionally, there is a branch manager meeting approximately six times a year. Changes that do not have strong impacts on the whole company can be introduced by the branches without permission from the head office. As Werner said in an interview, "The revenue is not the goal but a consequence of our teamwork."

Throughout the years, the company has received several awards for their apprenticeship policy and special customer care initiatives. The German annual customer satisfaction and loyalty survey "Kundenmonitor 2010" (conducted by Servicebarometer) rated *dm* as one of the most customer loyal firms in Germany. *dm*'s knowledge of their customers and their needs enabled them to introduce gluten-free and lactose-free products, organic food, special teas, and food supplements into their product range much before their competition. *dm* actually developed their own brands over 15 years ago; these products are not only of high quality but are also approximately 40 % cheaper than comparable branded products. In fact, *dm* was the first drugstore discounter to offer its own eco "green" brands "Alverde" and "Alana." Every month, institutes such as Stiftung Warentest or Ökotest test *dm's* products and consistently award them high scores.

Some of *dm's* own labels brands include:

alverde	Natural beauty products based on plant extracts
Balea	Skin and hair care
Balea Men	Skin and hair care for men
SUNDANCE	Sun protection products
Jessa	Female hygiene products
Soft&Sicher, Sanft&Sicher	Tissues and toilet paper
Donto Dent	Oral hygiene
babylove	Products baby care
Prinzessin Sternenzauber	Shower creams for girls
Denk mit	Cleansing agents

In addition, *dm* developed extra services for their customers; namely, the *dm* – hairdresser's, the *dm* – cosmetics studio, the *dm* – health studio, and the *dm* – paradies foto service.

Werner indicates four main reasons for their drug store's success: expansion, investment, quality, and the professional expertise of their employees. These four issues cannot be perceived as separate from one another; expansion and investment is fundamentally based on the company's ability to deliver quality and employees' professional expertise. To this end, Werner ensures that his employees receive every opportunity to make the most of their potential. He introduced numerous training and further educational programs, rendering them accessible to all members of staff. The courses range from workshops that support employees' day-to-day work at dm to those designed to enhance social and personal development. All programs are offered free of cost and during normal working hours, meaning that employees get paid to attend the educational programs. *dm* focuses on establishing good working conditions and a friendly atmosphere, a strategy that seems to pay off, as *dm* maintains a very low staff turnover. Goetz Werner and his executive board practice so-called "dialogic leadership." It is based on respect and appreciation, where the company is seen as a working team with permanent communication and interaction between the executive board, the executive managers, and the employees. As a learning organization, *dm*'s management is always open to suggestions for improvements, from both their managers, and directly from their employees.

Werner follows the principle that economic success is a result, rather than a target, of high employee and customer orientation, which has led to the companywide service focus that constitutes one the keys to *dm's* success.

dm management maintains three basic principles:

- Customer principle: We want to satisfy the needs of our customers and increase the number of regular customers.
- Employee principle: We want our employees to identify themselves with our products and give them the opportunity for self-development.
- Partner principle: We want to create a long- term, reliable, and fair cooperative relationship with our partners to fulfill our mutual interests.

dm provides numerous types of programs and resources to ensure the satisfaction and loyalty of their customers. These initiatives include, for example: a service center, *dm* – active beauty card, *dm* – active beauty magazine, *dm* – journal, *dm* – baby bonus, and competitions. In addition to maintaining clear standards and guidelines for their employees to follow to ensure customer satisfaction, *dm* also offer a customer hotline (Monday to Friday), which customers can call if they have any questions or problems with products and to receive expert advice. *dm* has promoted sustainability since their foundation in 1973. The *dm* management organizes events and projects to support sustainable trade, and they worked with UNESCO to establish the initiative "Ideen Initiative Zukunft" (ideas for sustainable future). The aim of this initiative is to encourage awareness about a good and healthy future for humankind, with *dm* offering 1.5 million Euros for the selected projects and events proposed. A jury of *dm* experts and UNESCO members make the initial nomination of projects, but it is *dm*'s customers who vote for the winning project.

LEGO

LEGO is a line of construction toys manufactured by the LEGO Group, a privately held company based in Billund, Denmark. The company's flagship product, LEGO, consists of colorful interlocking plastic bricks and an accompanying array of gears, minifigures, and various other parts. LEGO bricks can be assembled and connected in many ways, to construct objects such as vehicles, buildings, and even working robots. Anything constructed can then be disassembled and the pieces used to make other objects. Originally designed in Denmark in the 1940s, the toys have attained an international appeal and are now supported by an extensive subculture of LEGO movies, games, video games, competitions, and four LEGO-themed amusement parks.

LEGO began in 1932 in Denmark, when Ole Kirk Christansen founded a small factory for wooden toys in the unknown town of Billund in the south of the country. To find a name for his company, he organized a competition among his employees. As fate would have it however, he himself came up with the best name: LEGO – a fusion of the Danish words "LEg" and "GOdt" ("play well"). It expanded to producing plastic toys in 1947. In 1949, LEGO began producing the now famous interlocking bricks, which they named "Automatic Binding Bricks." Later, Christiansen discovered plastic, which he perceived as the ideal material for his LEGO toys. However, the use of plastic for toy manufacture was not highly regarded by retailers and consumers at that time. Many LEGO shipments were returned, and it was thought that plastic toys could never replace wooden ones. Over the years, LEGO perfected the brick, which remains the basis of the entire LEGO game and building system, even today. In 1954, Christiansen's son Godtfred Kirk Christiansen joined his father to strengthen the firm's international reach. Godtfred saw the immense potential in LEGO bricks as a vehicle for creative play. The modern LEGO brick was patented in January 1958.

The next chapter in the LEGO Group's history was the creation of the LEGO figure in 1974. The little yellow figures added a different dimension to play, enabling children to role play and inject their personalities into their LEGO creations. To date, 4 billion LEGO figures have been produced and outfitted in countless disguises, ranging from basketball players to Star Wars characters and pirates. The LEGO Group's motto "det bedste er ikke for godt," meaning "the best is not too good" was created by Ole Kirk to encourage his employees never to compromise on quality, a value he strongly believed in. The motto is still used within the company today.

The rise in popularity of LEGO bricks can be attributed to their ability to induce play that is limited only by a child's creativity and imagination. Not surprisingly, in 2000, LEGO was named "Toy of the Century" by both Fortune magazine and the British Toy Retailers Association, beating other well-known classics such as the teddy bear and Mattel's Barbie. In addition, the company continues to maintain its untarnished image and is admired by parents and children alike – a recent study by the Reputation Institute found LEGO's corporate reputation to be ranked fifth highest in the world, following such companies as Google and Apple. Together with Disney, LEGO was the only toy company to feature in the Top 100.

In the world of toys, LEGO has come a long way from the simple artisanal toys of its origins to today's wide range of the LEGO Group. Over the years of building up the brand, the LEGO Group has tried to cater to a wide range of age groups – from the Duplo series for infants to robots for adults. In 1968, the company opened the first of its Legoland theme parks, near its Billund birthplace. Parks in Windsor, England, Carlsbad, California, and Günzburg, Germany followed, each using around

50 million bricks to create replicas of monuments and landmarks such as the Eiffel Tower, Mount Rushmore, and the Sydney Opera House. Each park receives around 1.4 million visitors per year. Moreover, the increasing popularity of LEGO products among adults led the company to begin to exploit a more adult market niche toward the mid-1970s, with 1977 seeing release of the Expert Builder Series sets, an improvement on the Expert Series released 2 years earlier. These technical sets featured moving parts such as gears, levers, and axles, permitting the construction, for example, of realistic cars. The succeeding years saw further product line expansion, with the creation of sets based on the space theme.

In 2004, the company launched Legofactory.com, which enabled anyone to download a LEGO Digital Designer to build their own LEGO model. Either this could then either be saved in a gallery or the pieces purchased and delivered to their home so they could build it in real life. LEGO also has a licensing deal with publisher LucasArts for creating video games, which have become tremendously popular. The video game, LEGO Star Wars II: The Original Trilogy, has been a top-selling game since its release. Developed for eight different gaming platforms, the game sold 1.1 million units in its first week of release and continues to be a bestseller.

It is NOT just “kids” who are fans of LEGO. The LEGO community is also strongly represented by TFOL (“Teen Fans Of LEGO”) and AFOL (“Adult Fans Of LEGO”). The process of identifying and working with an increasingly wide range of users and communities has transformed LEGO’s business. It still makes bricks and toys designed and sold in the “traditional” fashion. However, in parallel, a new business has grown which engages users at the front end – innovating, designing, and co-creating their own products.

Things started, not surprisingly, with a very “command and control” model, with LEGO both developing and publishing anything that had to do with the brand. Over time, however, they have moved beyond mere engagement, to a model where fans have created entire businesses around extensions to the LEGO system, and LEGO actively supports those businesses. Designs by one user might be attractive to others; so it is not simply a version of “vanity publishing,” but an interesting extension of design and marketing into the open source world.

In adopting an open approach, LEGO has managed to bring users into its world, as opposed to having a growing body of users designing and exchanging ideas outside. Although this was perhaps the big leap into mainstream consciousness for the LEGO community, both online and offline LEGO fans have been getting together for decades. LEGO’s relationship with its fans and community has evolved substantially over the years. In fact, LEGO encourages and supports true “user-to-user” community interactions. For example, there is a vibrant independent LEGO User Network called LUGNET (http://www.lugnet.com), which holds various events, fairs, and contests to facilitate LEGO fan involvement. The latest development brings several of these strands together: LEGO Universe is a Massive Multiplayer Online Game (MMOG), such as “World of Warcraft” and others. However, the characters and creatures in LEGO Universe are digital models created by the children who play the game. Through projects such as LEGO Factory, LEGO can create custom toys and user designs, meaning that it is now not only possible to have your own digital character play in a virtual game but to also have its physical representation play within the physical world. This process enables LEGO to unite its storytelling tradition with its brick-making and platform advantages, while allowing the creativity and imagination of its users to shape the real and virtual elements in the game.

LEGO stresses eight key aspects to positive collaboration with fans. Those aspects are:

1. Set expectations
2. Be respectful
3. Ensure win–win
4. Be inclusive
5. Be reliable
6. Ensure transparency
7. Limit secrecy
8. Fair compensation

Previous successful examples of LEGO's collaboration with fans include "MadeByMe," which allowed fans to order custom LEGO sets using software built specifically for the purpose. Fans have uploaded more than 700,000 videos of their creations to YouTube and have attended 180 "Brickworld" LEGO events in 30 countries. In fact, LEGO actively ventures into crowd sourcing and co-creates products with consumers. The brand's products such as "LEGO Architecture" and "LEGO Jewellery" are actually co-run by fans.

LEGO's community success can be attributed to the brand's philosophy "System in Play"; it relies on systematic creativity. The LEGO Brick is a perfect social object in a networked society, and this is why the LEGO Brick is so popular amongst people. Secondly, according to afaqs.com, the brand puts consumer engagement at the heart of its business strategy.

LEGO's Customer Community and Customer Engagement

LEGO recognizes the need to be close to their customers, and the company utilizes a variety of venues to strengthen its relationship with its customers. It is important for LEGO to build personal relationships with LEGO fans and to have dialog with those who are interested in their products. LEGO is operating many customer clubs or communities. To its users, these brand communities are platforms in which customers can share ideas and show off their designs; however, to LEGO itself, the platform is a strategic marketing tool that allows the company to understand and segment its customer base in order to implement successful customer-oriented marketing strategies. Although LEGO has long targeted children, they began paying attention to adult fans (AFOL: Adult Fans of LEGO) who tend to have more purchasing power and can sometimes provide a more important source of customer opinions. The customer engagement strategy allows LEGO to tailor their products and marketing message to better meet customers' needs and ultimately enhance the LEGO experience.

LEGO has established a number of different touchpoints to facilitate interaction with consumers, including:

- The LEGO Ambassador Program
  The ambassador program comprises LEGO fans, aged 19–65 from around the world. LEGO has built personal relationships with these fans and turns to them for ideas and advice. Becoming a LEGO ambassador involves closer contacts with the company. For example, LEGO ambassadors evaluate and provide input on product development and other topics regarding future LEGO product assortments. Through this program, LEGO has opened up a channel for conversation with its biggest fans – something every brand should be doing. If firms do not open up their conversations, they are missing out on helpful suggestions from the people who matter most – their customers. The program is also a way to cultivate influential opinion leaders capable of reinforcing the LEGO brand.
- LEGO Click (http://www.legoclick.com)
  LEGO recently launched its official community website called LEGO Click. This is a collaborative website where a variety of LEGO fans, including fans, artists, designers, and inventors, can also read recent Tweets about LEGO, or download the free LEGO Photo and iPhone application that transforms your photos into LEGO creations. Users can also login to the site using their Twitter account and fly a Mini LEGO man around the screen. The website encourages users to share content, such as photos and videos created with LEGO, with other users. LEGO Click is tied to various social media such as Facebook, Twitter, and Flickr, providing tags so that users can take ownership of and post their new ideas. Social media is one of the best vehicles for opening a channel of communication between the firm and the customers. The LEGO Click community opens new channels for fans and is an innovative way to get customers to try out new things and create viral content that spreads the word about LEGO. This fan-created content is essentially free advertising for the company. It would appear that LEGO is aware that people are often more interested in the social links that come from brand affiliations than in the brands themselves.
- LEGO Education (http://www.legoeducation.com)
  As shown in their mission statements, LEGO aims to create growth in the area of educational materials for pre-schools, schools, and educational institutions all over the world. LEGO Education offers a solution to day care professionals and schoolteachers who want to bring more innovation and creativity to their classroom practice. From pre-school and beyond, LEGO provides content to help educators create engaging and enriching learning experiences. Through this program, LEGO emphasizes that LEGO is not only a toy, but also a means to inspire students to develop into responsible members of society through fun and learning creative play activities. LEGO Education also conducts the Robotics Competition in which students work together to build functioning robots from LEGOs. In addition, LEGO frequently conducts training and educational events that demonstrate how professionals and teachers can effectively utilize the toys to develop students' ability and creativity.

- LEGO Club (club.lego.com)
  LEGO Club is possibly the largest and most active customer community of the LEGO brand. More of a global user community than a loyalty program, the club's membership is comprised of millions of people whose common feature is their love of LEGO. Members receive numerous benefits: for example, LEGO Club Magazine, a free customer magazine mailed out five times a year, and packed with information on different products, updates on new launches, comics, competitions, and puzzles. Members also receive the LEGO Club e-mail newsletter, access to the safe and secure LEGO Club website, and can sign up to attend exclusive member events.
- LEGO Factory/LEGO DesignByMe (factory.lego.com/designbyme.lego.com)
  The most distinctive feature of LEGO products may be its diversity (range of options); the potential configuration of even a small number of bricks is huge. For instance, with just two bricks, there are 24 different combinations; and with six, there are 915,103,765 possibilities. In other words, LEGO is not only designed by the company but also by the end users. LEGO Factory offers this opportunity online – users submit designs and LEGO calculates the bricks and other components required and generates the building instructions needed. Alternatively, users can use design tools on the site to develop their own ideas and LEGO simply acts as a service provider, packing the relevant pieces and sending them out to the users/designers. LEGO Factory allows users to create their own designs for manufacturing, or to simply share them with the world using the digital gallery. This has proved a very effective way of encouraging customer involvement in the LEGO concept.
- LEGO Universe (universe.lego.com)
  LEGO Universe is a Massive Multiplayer Online Game (MMOG) for all ages. The characters and creatures in LEGO Universe are digital models created by the users who play in the game. Going beyond the typical and often passive faming experience in which players consume content created by others, LEGO Universe allows the creativity and imagination of its users to create and share their own worlds and stories.

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