EQUITY DRIVERS AND THE CUSTOMER EXPERIENCE

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ABSTRACT

Customer experience has become a top priority for business managers and marketing scholars. However, research on this topic remains relatively scarce, particularly with regard to the drivers of the customer experience. To bridge this important gap, we propose a unified framework to understand the customer experience that integrates the customer's perceptions of value, brand and the relationship, i.e. the three equity drivers, and test it empirically in a service setting. This study intends to demonstrate that the three equity drivers are central to explaining the way individuals perceive their experiences with the firm and its products and services.

Keywords:

Customer experience, equity drivers, financial services

1. Introduction

Gaining competitive advantage in today's highly competitive and technologically advanced environment requires that firms adopt a customer-centered transformation. It starts with acknowledging the importance of the value being delivered to customers (Kumar and Reinartz 2016), and the need to provide superior shopping experiences (Lemon and Verhoef 2016). As a result, understanding and managing the customer experience, conceptualized as the customer internal and subjective response to a set of interactions between the customer and the firm (and its products and services) (Gentille, Spiller, and Noci 2007), has become a top priority for business managers and marketing scholars (MSI 2016). According to a recent research by Accenture (2015), improving the customer experience was ranked as number one by the majority of respondents when executives were asked about their top priorities for the next 12 months. Multiple firms, such as KPMG, Amazon and Google, now have chief customer experience managers responsible for creating and managing customer experience of their customers (Lemon and Verhoef 2016). In a research realized by McKinsey about customer journeys, it was found that organizations able to skillfully manage the entire experience reap enormous rewards: enhanced customer satisfaction, reduced churn, increased revenue, and greater employee satisfaction (Alex Rawson, Ewan Duncan and Color Jones 2013).

However, despite the importance of delivering satisfactory and personalized experiences to build successful relationships with customers, research on this topic remains relatively scarce, particularly with regard to the drivers of the customer experience. While a number of conceptual papers have made their way and have provided important insights into the nature, drivers, and consequences of the customer experience (e.g. Lemke, Clark, and Wilson 2011; Lemon and Verhoef 2016; Melero, Sese, and Verhoef 2016; Verhoef et al. 2009), empirical studies have not followed suit. The few existing studies tend to investigate specific aspects, such as products features (Gentille, Spiller, and Noci 2007), and website design (Novak, Hoffman, and Yung 2000) as drivers of the customer experience. Similarly, Grewal, Levy and Kumar (2009) evaluate the role of macro factors in the retail environment (e.g., promotion, price, merchandise, supply chain and location) on shaping customer experiences and behaviors. However, the customer experience is a multidimensional and holistic concept (Verhoef et al. 2009) and, thus, the various relevant facets that shape customer experiences should be simultaneously considered to understand their overall impact as well as their relative importance.

Given this lack of research, this study intends to fill an important gap in the literature by investigating the customer experience and its antecedents. Specifically, our research offers a unified framework to understand the customer experience that integrates the customer's perceptions of value, brand and the relationship, i.e. the three equity drivers (Rust, Lemon, and Zeithaml 2004). We argue that the way in which customers evaluate their experiences with companies are a function of (1) the assessment they make about the utility (i.e. benefits vs. sacrifices) of the good/service (i.e. value equity), (2) the subjective and intangible assessment of the brand (brand equity), and (3) the customer perceptions about the relationship with the firm (i.e. relationship equity). We test empirically the framework in a service setting.

The reminder of this work is organized as follows. In the next section, we show the origin and evolution of customer experience. In the following section, we present our conceptual framework about the drivers of the customer experience, and develop the research hypotheses. We will continue with the description about data, variables and methodology. Finally, we present the preliminary findings and discuss the implications of our research for theory and practice. Further research lines are also detailed in the last section to encourage academics to investigate this topic in the future.

2. Background of customer experience

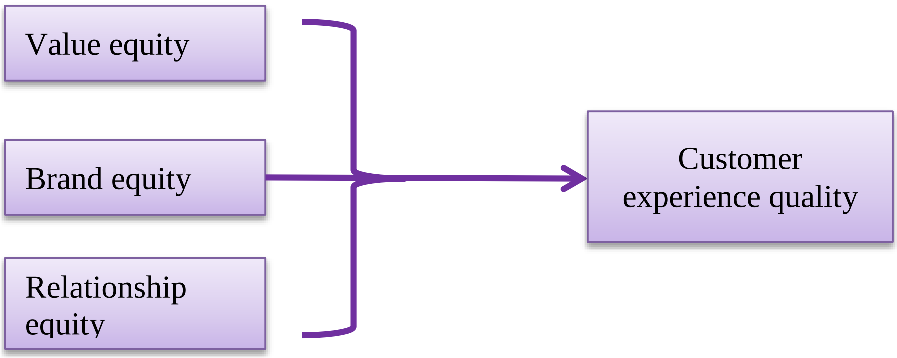
The customer experience is not a new concept in marketing literature. Hirschman and Holbrook (1982) theorized already that consumption has experiential aspects. In the 1980s, experiential theorists (e.g., Hirschman and Holbrook 1982; Holbrook and Hirschman1982; Thompson, Locander, and Pollio 1989) encouraged a broader view of human behavior, especially recognizing the importance of the emotional aspects of decision making and experience, since until then marketing researchers were focusing mostly on the cognitive aspects. Despite these initial sparks, the concept of customer experience come more relevantly to the 1990s with Pine and Gilmore´s book on the Experience Economy (1999). These authors present the "experience" as a new economic offering (Gentile, Spiller and Noci,2007). Pine and Gilmore (1998) conceptualized for the first time the idea of "experience" emphasizing the important role of experience to achieve consumers´ engagement with the company. Following this path, there are multiple definitions of customer experience in the literature (see for example Lemon and Verhoef 2016), since it has been defined from different perspectives, for instance co-creation, brand and technology, etc. In general, scholars and practitioners have come to agree that total customer experience is multidimensional, holistic and dynamic. Thus, theoretically it is a perfect concept to guide managerial implications and marketing theory development due to its main characteristics. However, these characteristics mentioned above also become "burden" in terms of measurement. Klaus and Maklan (2011,2012) highlight that the main problem of conceptualizing customer experience is that it is defined so broadly, so "holistically" that it is little use to managers. Hence, the methodological challenges of measuring customer service experiences are closely linked with the complexity of this concept (Jüttner, Schaffner, Windler and Maklan, 2013).

Ideally, we would like to measure and assess customers' overall experience with the firm, at each stage in the customer journey and for all touch points. However, the reality is that customer experience is generally measured by focusing on specific elements instead of being treated as an integrated unit (Jüttner, Schaffner, Windler and Maklan, 2013; Lemon and Verhoe 2016). Palmer (2010) explains the main reason of this phenomenon. He states that "probably the greatest problem in developing and operationally adaptable measure of customer experience is the complexity of context specific variables" (Palmer 2010 pp.202-203), illustrating the gap between the understanding of the conceptual domain and the methodological knowledge of customer service experience.
Customer experience quality based on value-in-use introduced by Lemke, Clark and Wilson (2011) shed new light to this central issue toward customer experience measurement, since quality is conceived as a global assessment, defined by Zeithaml (1988) as a perceived judgement about an entity's overall excellence or superiority. Hence, in this work, we follow Lemke, Clark, and Wilson (2011) and focus on the concept of customer experience quality. According to Lemke, Clark and Wilson (2011) customer experience is the customer's subjective response to the holistic direct and indirect encounter with the firm, and customer experience quality is conceptualized as its perceived excellence or superiority of the customer experience.

3. Conceptual framework and development of hypothesis

We propose a unified framework to understand the customer experience that integrates the customer's perceptions of value, brand and the relationship, i.e. the three equity drivers (Rust, Lemon, and Zeithaml 2004). We argue that the way in which customers evaluate their experiences with companies are affected by the assessment they make about the utility (i.e. benefits vs. sacrifices) of the good/service (i.e. value equity), the subjective and intangible assessment of the brand (brand equity), and the customer perceptions about the relationship with the firm (i.e. relationship equity). Together, these three equity drivers capture all relevant aspects of the interactions that ultimately determine the way individuals perceive their exchange with the company. Next, we conceptualize the three equity drivers and present the research hypotheses.

FIGURE 1
Customer experience conceptual framework



3.1. Value equity

Value equity captures customer's objective assessment of the utility of goods or services based on perceptions of "what is given up" for "what is received." Value equity is the keystone of the customer's relationship with the firm (Lemon, Rust and Zeithmal, 2001). Expectation- disconfirmation theory (e.g. Homburg, et al, 2006) argues that when value equity is perceived as high, customers are more satisfied with the firm's offerings. Moreover, when a customer receives exceptional value in his or her consumption experiences via the direct sales channel, he or she will seek to maintain the relationship with the direct seller leading to high relational commitment (Musa, Pallister and Robson, 2005). Finally, equity theory maintains that perceived equity produces positive affective states that lead to positive attitudes, such as trust and loyalty (Adams, 1965; Homans, 1965, Walste,Walster and Berscheid 1978). Based on these arguments, when customers perceive high value equity, customer experience quality is expected to be higher. More formally,

H1: Perceived value equity has a positive impact on customer experience quality.

3.2. Brand equity

Schmitt (1999) emphasized the importance of brand equity on customer experience. Zarantonello and Schmitt (2013) suggest that brand equity has been widely searched over the years and two main perspectives have emerged. One perspective, which is centered on firm-based brand equity, deals with the financial value of brands. The other perspective focuses on consumer based brand equity and refers to consumers´ responses to brands. We adopt the later perspective in this work. Brand equity refers to the customers' subjective and intangible assessment of the brand image (Lemon et al., 2001). And the classical conceptualization developed by Aaker (1991) determines brand equity as a set of brand assets and liabilities linked to a brand, its name and symbol that add to or subtract from the value provided by a product or service to that firm´s customers´ and/or to that firm. Based on this conceptualization, the essential dimensions of brand equity are brand awareness, brand association and brand loyalty. Brand awareness indicates customer's capability to recall or recognize a brand (Aaker, 1991). Brand associations portray image dimensions that are positive, favorable and unique to a brand (Aaker, 1996; Keller 2003). Brand loyalty indicates the customer ' s attachment to a particular brand (Aaker,1991).

Brands that are perceived to be strong usually obtain higher levels of satisfaction and trust (Baldauf, Carvens and Binder 2003).Aaker (1991) describes brand equity in terms of confidence in the purchasing decision. Moreover, characterized in terms of the memory of an individual consumer, customer-based brand equity is regarded as a consequence of knowledge that is stored about the brand (Keller 1993, 1998). The level at which knowledge toward brand gets stored in memory affects the degree of influence on new experience related to that brand (Kerin, Jain and Howard, 1992). Thus, these arguments suggest that higher perceived brand equity will result in higher customer experience quality.

H2: Perceived brand equity has a positive impact on customer experience quality

3.3. Relationship equity

Given the significant shifts in the new economy-from goods to services, from services to experiences (Pine and Gilmore 1999), it is not sufficient for companies to offer products with its strong brand and keep customers by meeting their expectations consistently. What's needed is a way to glue the customers to the firm, enhancing the stickiness of the relationship. Relationship equity represents the glue. Specifically, Rust, Zeithaml, and Lemon (2000) define relationship equity as the tendency of the customer to stick with the brand, above and beyond the customer´s objective and subjective assessment of the brand or the company. If a perceived relationship is strong, customers believe that they are well treated and handled with particular care. In addition, customers feel familiar with the brand, the store, or the employees of the store. As consequence, they will trust the quality of the products or accuracy of the service (Vogel, Evanschitzy and Ramaseshan, 2008). A number of studies by Gwinner, Gremeler and Bitter (1998), Reynorlds and Beatty (1999), Smith (1998), and Hennig-Thuraum Gwinner and Gremeler (2002) conclude that there is strand relationship among the relationship construct, trust, involvement and satisfaction. Therefore, high perceived relationship equity will lead to a higher customer experience quality.

H3: perceived relationship equity has a positive effect on customer experience quality

4. Methodology

To test empirically the proposed conceptual framework, we carried out a survey among customers from a collaborating bank that sells financial services in different categories (e.g. certificates of deposit, savings accounts, mortgages) to individual customers (B2C). A final effective sample of 2,000 questionnaires was obtained. To measure the three equity drivers we followed Rust et al. (2004) and Vogel (2008), while the customer experience quality is measured by borrowing items from a large list of constructs developed by Lemke et al.(2011) for customer experience quality and from Parasuraman, Zeithaml and Berry et al. (1985, 1986) study of service quality. As for the next step, and after taking carrying out initial analyses to demonstrate the reliability and validity of the studied constructs, we will use linear regression analysis to evaluate the relative impact of the three equity drivers on the customer experience.

5. Results and contributions

After applying these techniques, we expect to find a significant impact of the three equity drivers on the customer experience. Importantly, we will also explore their relative impact, to identify which of the three drivers contribute the most to shaping the customer experience. With this empirical investigation, this study will try to contribute to current knowledge in three main ways. First, by proposing an integrative framework that considers simultaneously customer perceptions about value, the brand, and the relationship in shaping the customer experience we are advancing our current understanding of how experiences form and develop. Second, with an empirical test of our proposed framework in a service setting (banking), we are expected to offer insights into how to manage the customer experience more effectively to build successful and long-lasting profitable relationships. For example, this study might suggest that some equity drivers (e.g. relationship equity) are better predictors of the experience and, thus, they should be promoted when firms proactively try to manage the experience.

For future research, it is recommended to analyze these aspects jointly with the social environment, as the influence exerted by others on each individual affects the strength with which equity drivers determine the nature of the customer experience, that is social effects, given that the customer experience is determined not only by elements under the control of the company, but also by other factors that fall outside the company's control (Verhoef et al. 2009; Lin and Liang 2011).

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