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Customer Experience Driven Business Model Innovation

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Abstract

Business Model Innovation (BMI) is critical to a firm's ability to achieve growth and long-term viability. It helps improve the value of products or services and/or delivery of these offerings to customers. Much of the academic literature to date however lacks customer-driven business model innovation frameworks. As such, the aim of this investigation is to propose a customer experience driven (CX) business model innovation framework that aligns customer values and the firm's strategic needs. This paper contributes to the literature by (a) conceptualizing the way in which business model innovation and customer experience are related (b) providing managers with a concrete framework to guide business model innovation that supports customer experience-driven new services and (c) highlighting opportunities for future research to advance business model innovation research and practice.

Keywords: Business model, innovation, customer experience, service

Customer Experience Driven Business Model Innovation

Introduction

"Businesses must be able to innovate or else their competitors will render them obsolete"—Peter Drucker (2001, p. 29). Given the recent and rapid fall of many former corporate titans at the hands of more innovative competitors, few would argue with Peter Drucker's message. Most often, however, managers and researchers have focused their innovation efforts on the continuous innovation of products and services to achieve growth and long-term viability (e.g. Hjalager 2010; Horng et al. 2018; Lianto et al. 2018; Sood and Kumar 2017). While clearly firms must actively innovate their products and services to remain relevant, the heightened level of competition—often driven by new, technology-driven competitors—increasingly requires firms to adjust their business models to deal with highly dynamic market conditions. Addressing these concerns requires a different, but also essential type of innovation: Business Model Innovation (BMI) (Wirtz, Göttel and Daiser 2016).

BMI involves reinventing elements of either the value proposition ("What are we offering to whom?") or the operating model ("How do we profitably deliver the offering?") (Lindgardt et al. 2009). The ultimate goal of BMI is to grow revenue by improving the value of products or services and/or the delivery of these offerings to customers. As such, BMI's success is very often dependent upon customers' assessment of the customer experience (CX) resulting from the effort.

Despite the interrelationship between BMI and CX, however, customer-driven business model innovation frameworks are lacking in the academic literature (Wirtz, Göttel and Daiser 2016). Instead, much of the research to date involving CX and

innovation has focused on how reimagining the customer experience can drive the creation of new products or services. For example, Edvardsson et al. (2018) investigated how changes (or expected changes) in context can foster service innovation. Clearly, the identification of potential new products and services is essential, but without a robust framework for matching customer needs to the business model, optimizing the organization's value proposition and delivery system for CX-driven new services will remain elusive.

Therefore, the aim of this investigation is to provide a framework for business model innovation that facilitates and optimizes the development of CX-driven new services. This framework aligns customer values and the firm's strategic needs. As such, it allows managers to identify and develop an optimal business model while recognizing that all potential CX enhancing services will not represent a good fit (even if such an opportunity may be viable for other firms). This paper contributes to the business model innovation and customer experience literature by: (a) conceptualizing the way in which BMI and CX are related (grounded in a thorough review of the relevant literature), and (b) providing managers with a concrete, three-step framework to guide BMI that supports CX-driven new services. The proposed Customer Experience Driven Business Model Innovation (CX-BMI) aligns the BMI approach with the CX perspective with examples from company case studies (detailed in the Appendix) used to demonstrate key aspects of the process.

BMI, Service Innovation, and CX

Most discussions of innovation (in both the academic literature and in everyday conversations) focus on product or service innovations. In fact, the most prominent

rankings or indices of company innovativeness are based on criteria designed to gauge a firm's or parent brand's ability to deliver novel products or services to the market (for example, the American Innovation Index, Fast Company's Most Innovative Companies, etc.). Business model innovation, however, differs significantly from product/service innovation. Broadly, the business model consists of three components: 1) *value proposition* (specifically, the value components under the firm's control), which could be a product or a service; 2) *value creation*, which is the experience of the product or service by the customer; and 3) *revenue/resource stream*, aka "value capture" (Osterwalder and Yves 2009). This represents the manner in which the firm derives benefit (monetary or otherwise) (Ng, 2014).

Clearly, any successful business (in a competitive market) must have or have had a functional business model to sustain its operations. But a functional business model is oftentimes not an optimal business model. For example, Valeant Pharmaceuticals (now Bausch Health) found that the firm's acquisition-based growth model—combined with lowering R&D while increasing drug prices—was unsustainable despite a roster of well-regarded drugs and well-known drugs (Ogg 2016). Additionally, change is inherent in all competitive markets, often rendering not just products and services, but also the very business models upon which firms operate, obsolete. For example, the once retail industry giant, Sears, is a case study in a how a once industry dominating business model became an anachronism in the Internet age (Mourdoukoutas 2017).

Clearly, the need for BMI is often driven by changes in the external environment or context of a company. "Context is understood as framing value co-creation occurring through resource integration among a network of actors guided by institutions and

institutional arrangements … context is not considered as (only) an environmental factor. Rather, actors (e.g. firms, consumers, public agencies) and their actions are seen as part of the context. Changes within one actor can create a ripple effect throughout the entire ecosystem making up the context for future interactions" (Edvardsson et al. 2018, pp 937-938). Context dynamics has been found to foster innovation in many industries including healthcare, retail, banking, education and automotive (Edvardsson, et al., 2018). Mele et al. (2017, p. 5) argue, "Innovating is not simply the making of novel units of output but rather the designing and creating of new markets, contexts and meanings."

Looking at today's customers, demands for real-time and adaptive experiences are part of the new business reality. Many businesses are therefore looking to CX innovation to drive differentiation and thrive in today's complex and fast-changing environment.

In light of these realities, business model innovation represents an underleveraged tool to drive breakout growth for a company's core business and to address the needs of today's customers (Lindgardt and Hendren, 2014). BMI gives firms the ability to alter various business elements at the same time, in a coordinated manner. This ability gives BMI the potential to impact the customer experience to enhance competitiveness in fast-changing environments. Moreover, there are many opportunities for companies to shift from products to integrated customer experiences through BMI (Lindgardt & Hendren, 2014). For example, aircraft engine maker Rolls-Royce used BMI to dramatically enhance its relationship with its airline customers. Over fifty years ago, Rolls-Royce began a shift in its business model from being a product seller of aircraft engines to being a service seller of what it calls "Power by the Hour"—literally a seller of the thrust hours used by its airline clients (Rolls-Royce 2012). As a result, Rolls-Royce customers no

longer had to worry about engine maintenance costs (both scheduled and unscheduled) or underperforming products (Emprechtinger 2018). Moreover, because growth in Rolls-Royce's income and profits were in part dependent upon uptime of their engines, the company had a strong incentive to maintain and improve quality, and to develop systems to monitor the real-time performance of the engine. As a result, BMI dramatically improved the customer experience, product and service quality, and the market performance for Rolls Royce and its customers.

As the Rolls Royce experience makes clear, BMI can materially alter the customer experience. But BMI does not ensure that customers will perceive that the experience has improved. Linking customer experience mapping to the firm's business model enables managers to focus on key elements of the business model (e.g., strategies, processes, even employees' jobs) for each stage of the customer experience (Seppänen and Laukkanen, 2015). In this way, BMI serves as a driving force for service innovation. Service innovation can be defined as institutionalized change grounded in reconfiguration of resources, actors and institutional arrangements, enabling actors to integrate resources and co-create value in novel and useful ways (Edvardsson, Tronvoll & Gruber 2011). Thus the changes brought about by service innovation must by definition impact the customer experience.

Customer Experience

De Keyser et al. (2015) define customer experience (CX) as the cognitive, emotional, physical, sensorial, and social responses evoked by a (set of) of market actor(s) (De Keyser, Lemon, Klaus, & Keiningham, 2015). There are three basic tenets of CX. The first basic tenet of CX is its interactional nature, meaning that a CX always

stems from an interaction between a customer and a (set of) market actor(s) through various interfaces, both human (e.g., frontline employees) and non-human (e.g., self-service technologies). The second basic tenet holds that a specific level of uniqueness marks every CX. The third basic tenet of CX relates to its multidimensional nature.

So that managers can easily grasp the ethos of this definition of CX, these dimensions can be viewed as addressing the following issues (Keiningham et al. 2017):

- Cognitive: What people think
- Physical: How people interact
- Sensory: What people experience (via their senses)
- Emotional: How people feel
- Social: How people share

By framing the dimensions in this way, mangers can develop solutions to enhance the various components that comprise the customer experience. Moreover, it reflects the widely held view of many managers that customer experience is becoming an important point of competitive differentiation. This view is also held by some in the academic community (e.g. DeKeyser et al. 2015; Lemon & Verhoef 2016; Klaus & Maklan 2012 & 2013). For example, Schmitt and colleagues (Schmitt 1999, 2003, 2010; Schmitt, Brakus & Zarantonello 2015) persuasively argue that experiential marketing is the way forward to firms. To date, however, the academic community has not provided concrete guidelines for implementation. Therefore, while the general message of the academic community of the importance of the customer experience resonates with managers, most customer experience constructs based in the scientific literature are not widely used in practice. For this to change, managers must have a clear framework for linking the

customer experience to the business model.

Customer Experience Driven Business Model Innovation (CX-BMI)

As noted in the prior literature review, BMI would typically be expected to influence the customer experience. Similarly, efforts to differentiate significantly the customer experience often requires changes to the business model. Despite this interrelationship, however, no formal framework exists for aligning these domains in the scientific or management literatures. The goal of this paper is to provide such a framework so that business model innovation is linked closely to customers' desired experiences. As such, the following section describes and elaborates on this new framework, hereafter referred to as the Customer Experience Driven Business Model Innovation (CX-BMI) Framework (See Figure 1).

INSERT FIGURE 1 HERE

The CX-BMI Framework in Figure 1 is bounded by two distinct profiles: 1) a CX Profile that focuses on the dimensions of the current (and potential) customer experience, and 2) a Strategic Orientation Profile that focuses on the three generic strategies identified by Mintzberg et al. (1998) for achieving above average performance in an industry: specifically cost leadership, differentiation, and focus (i.e. narrow scope). While the CX and Strategic Orientation Profiles each provide valuable insight for managers, knowledge of one or both is not enough for ensuring CX driven business model innovation. Clearly, not every opportunity to improve the customer experience is a good fit with a firm's strategic orientation and vice versa. Therefore, a critical

component of the CX-BMI Framework is the alignment of the two profiles. This is done by answering what, when, who, and why questions proposed by Girotra and Netessine (2014, p. 9): specifically, what decisions are made, when these decisions are made, who makes these decisions, and why these decisions are made.

CX-BMI borrows from the BMI literature and integrates elements of the current thinking on customer experience domain resulting in the *three-step* process described below.

Implementing CX-BMI: A Three Step Process

Step 1: Customer Experience (CX) Profiling

The first step in the proposed CX-BMI approach is to create a Customer Experience (CX) Profile. The CX Profile is built around De Keyser et al. (2015, p. 14) definition of customer experience, specifically "the cognitive, emotional, physical, sensorial and social elements that mark the customer's direct or indirect interactions with a (set of) market actor(s)". The aim of a CX Profile is to help understand customers' experiences with a specific company.

Brakus et al. (2009) offer important insight into how firms can measure these experience dimensions. While the labelling of the brand experience dimensions proposed by Brakus and colleagues (2009) do not align perfectly with the five customer experience dimensions of De Keyser et al. (2015), there is a great deal of overlap in the constructs.

Layering Competition onto the Customer Experience Profile

There is a large body of research that confirms that customers base their perceptions of a brand or organization in part upon competitive comparisons (e.g. Dick and Basu 1994, Gardial et al. 1994, Jacoby and Chesnut 1978, Rust et al. 2000, Woodruff

et al. 1983). For example, Woodruff et al. (1983) argues that experiences with brands within a product category represent better reference point than expectations for a particular brand. This view was confirmed in separate studies by Cadottee et al. (1987) and Gardial et al. (1994). Moreover, Hardie et al. (1993) demonstrated that relative choice models are superior in predicting customer loyalty. This research aligns well with the "reference point" proposed in prospect theory (Kahneman and Tversky 1979); specifically, perceived outcomes above a particular reference point are considered to be gains, while those below the reference point are considered losses (Kahneman 2011).

Therefore, a profile of how the company is doing with respect to the aforementioned CX elements would need to be positioned within the competitive context in order to provide valuable direction to practitioners regarding which dimensions of their customers' experiences they should be innovating around. To illustrate how this maybe done within the CX-BMI framework, we focus on enhancement of the CX components of dimensionality including cognitive, emotional, physical, sensorial and social perceptions of CX in a grocery context.

There are a variety of approaches for approaches for incorporating competitive reference points (Keiningham et al. 2014). One approach that has been shown to link strongly with customers' share of category spending is the use of relative perceptual metrics, especially when these metrics are used in conjunction with certain power laws (Keiningham et al. 2015). For the purpose of this examination, the authors incorporate the Wallet Allocation Rule (WAR) as it has been rigorously examined in the scientific literature (e.g. Keiningham et al. 2015) and extensively used in practice (e.g. Keiningham et al. 2011) although other proven approaches (for example, the Zipf Distribution) should

perform similarly (Louw and Hofmeyr 2012). The WAR allows managers to link their CX metrics to the share of category spending that customers allocate to the brands they use (aka share of wallet), and to identify the key drivers that impact share (Buoye et al. 2014).

The first step in this approach is to have customers rate their overall perceptions regarding their experiences with the various brands that they use in a category. These ratings will be transformed into relative ranks, and then converted to share of wallet estimates via the WAR formula. (For a thorough discussion regarding application of the WAR, see Keiningham et al. 2011.)

Additionally, customers are asked to provide insight regarding the performance of these firms on the five components of CX dimensionality. Because it would be burdensome to ask customers to rate all competitors in a category across all dimensions, however, the WAR approach proposes using a “share of best” grid instead of ratings scales (Buoye et al. 2014, pp. 337-339; Keiningham et al. 2015, pp. 121-123). Specifically, customers are asked to identify which firm (or firms) they consider best on a particular dimension among relevant firms in the category (see Table 1). To demonstrate Table 1 provides a hypothetical example of an individual customer’s share of best grid. In this example, Tesco represents the focal firm with “best” ratings relative to its main competitors Sainsbury, Asda, Lidl and Morrisons along the five dimension components: cognitive, emotional, physical/behavioral, sensorial and social.

INSERT TABLE 1 HERE

Using the overall relative ranked CX perceptions data as the dependent variable, and the share of best data as independent variables, the next step is to conduct a key driver analysis to identify areas which hold the greatest opportunity for improving customers' spending with the firm. Simplistically, the goal of such an analysis is to determine which of the five component dimensions are most strongly linked to the focal firm being selected by customers as "best" from among all firms in category. (For a thorough discussion regarding key driver analysis on relative ranked data, see Buoye et al. 2014.) Figure 2 provides a hypothetical example of the results of key driver analysis.

INSERT FIGURE 2 HERE

Building on the "Jobs to be Done" approach from the BMI literature (e.g. Christensen et al. 2016), managers can then decide what actions to apply to the different CX dimensions. Specifically, managers can take one of four approaches to achieve CX driven business model innovation:

1. *Defend (Yellow)*: The firm actively works to maintain current levels of performance as perceived by customers. Defend occurs for CX dimensions that drive customers' perceptions of the current overall CX level, but which offer little upside if improved
2. *Improve (Green)*: The firm seeks to advance performance on current processes to increase customers' perceptions of performance. Improve applies to CX dimensions where increases in customers' perceptions of a CX dimension results in substantial improvement in customers' overall CX perceptions.

3. *Build (Green)*: In situations where improving current processes will not significantly improve customers' perceptions of a CX dimension, new capabilities are built (or bought) to enhance the firm's capabilities and thereby improve customers' overall CX perceptions. As with Improve, Build applies to CX dimensions where increases in customers' perceptions of a CX dimension results in substantial improvement in customers' overall CX perceptions.
4. *Ignore (Red)*: The firm focuses resources elsewhere. Ignore applies to CX dimensions that have little impact on customers' perceptions of current or potential overall CX levels.

What does the chart in Figure 2 tell managers at Tesco? Tesco customers' current CX perceptions are being driven largely by the cognitive and physical/behavioral dimensions. Maintaining customers' perceptions of performance are therefore critical, however, there is little upside in improving customers' perceptions on these dimensions. As such, Tesco could decide to defend and keep track of customer needs, feedback, global trends, emerging competitors and fundamental changes to strategy may not be required. The greatest upside potential for Tesco to improve customers' perceptions of CX is with the emotional and sensorial dimensions even though these dimensions currently account for a smaller contribution to Tesco's current CX level. Therefore Tesco may need improvement to build on what is already there and differentiate. Finally, the social dimension contributes relatively little to Tesco's current or potential CX levels. This does not necessarily mean that the dimension is unimportant, but given that all firms must prioritize limited resources based upon their expected impact to the firm's

performance, this dimension represents a low priority for action.

A key benefit of this approach is that managers can quantify the expected impact on customer spending. The rank scores can easily be converted to expected 'share of wallet' allocation using the Wallet Allocation Rule methodology thus providing a direct link to financial performance (Buoye et al. 2014, Keiningham et al. 2011).

As is evident in the description above, the Defend (yellow), Improve/Build (green), and Ignore (red) classification system is akin to a traffic light. As such, it is easy to understand and communicate, which is often critical to the successful implementation of any strategy. At its core, it captures the potential magnitude of changes to the business model associated with any Defend, Improve, Build, and Ignore decisions and the need to ensure alignment with company strategy.

Step 2: Company Strategic Orientation (SO) Profiling

This step aims to develop the SO profile by identifying the company's strategic orientation and associated implications for changes to the business model (i.e. priorities around investment vs. cost-savings, desired position within the given market). Strategic orientation is defined as a concept that encompasses an active management process that includes: motivating people by communicating the value of the target; leaving room for individual and team contributions; and using intent consistently to guide resource allocations (Mintzberg et al., 1998). A strategic orientation sets general direction and defines emerging market opportunities, subsequently providing an orientation that on account of its clarity can be pursued with consistency over the long term for the achievement of competitive advantage. In developing and pursuing a strategic orientation the organization is following a deliberate process of strategy making, comprising planned

behavior and action. In creating competitive strategy, Porter (1997, p. 12) identifies three fundamental steps to strategy formation:

1. Identify the current business strategy (implicit or explicit) and define the industry structure and company position that this strategy assumes.
2. Analyse the actual structure of the target industry and the position of the company relative to this and its competitors.
3. Compare strategic assumptions with reality, evaluate the current strategy along with feasible alternatives and choose the strategy that best reflects the industry structure and the position of the company within it.

Strategic orientation is typically considered in the context of the overall generic strategy which an organization is pursuing (Porter, 1980). Although there are many other generic strategy formulations, this research relies on Porter's (1985) generic strategies in which two basic types of competitive advantage from which strategy should be formulated is outlined: low cost or differentiation. These combine with the range of market segments targeted to produce three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus (namely narrow scope) (Mintzberg et al., 1998). The generic strategies are approaches to outperforming competitors and each involve a distinguishable route to competitive advantage but share the underlying principle that competitive advantage is at the heart of any strategy. Porter (1985) argues that firms must make a choice among these to gain such an advantage, or otherwise become 'stuck in the middle'. This argument is based on the logic that "each generic strategy is a fundamentally different approach to creating and sustaining a competitive advantage, combining the type of competitive advantage a firm seeks and the

scope of its strategic target" (Porter, 1985, p. 17).

Extending Porter's typology, Faulkner and Bowman (1992, p. 496) emphasise "action that is visible to the customer, and thus actions that will influence the buying decision" rather than costs to the organization. They introduce *price-based* and *hybrid* strategies that represent a departure from Porter's typology. These strategies are developed on the basis that customers may choose to purchase from one source rather than another because either the price of the product or service is lower than that of another firm, or the product or service is more highly valued by the customer from one firm than another (Faulkner and Bowman, 1992). *Price-based* strategies achieve competitive advantage within a market segment when (a) low price is important, and (b) an organization has cost advantage over competitors operating in that segment (Johnson et al*.,* 2008). The *hybrid* strategy challenges Porter's mutual exclusivity argument as it simultaneously provides perceived differentiation at lower prices than comparable product or service offerings from competitors through a cost base that permits low prices which are difficult to imitate (Capon, 2008).

Established strategic orientation typologies such as those above and others (e.g., Miles and Snow) typically follow the mutual exclusivity argument that each strategy orientation type is independent of the others and cannot be combined, a view which has empirical support (see Thornhill and White 2007). Indeed, even the hybrid strategy of Faulkner and Bowman (1992) is another independent strategy category (price and differentiation). Yet Mintzberg et al. (1998) suggest treating different strategy types as complementary such that firms may display characteristics of each but emphasise these to lesser or greater degrees in practice. As DeSarbo et al. (2005) explain, a firm's strategic

orientation is shaped by its particular internal strengths (capabilities) and external (environment) circumstances, and consequently the strategy pursued may not cleanly fit into only one box or category of strategy type, as presented by strategy typologies.

Following this combinative argument, the types of strategic orientation summarised in Table 2 are viewed as different ingredients than can be mixed together and combined by firms i.e., we do not force firms to fit into only one of several categorical boxes. Rather than treat strategic orientation as categorical, then, we expect firms' strategies to reflect a combination of these different strategy dimensions. Rating the degree to which the firm's strategy corresponds to the strategy descriptors in column one of Table 2, the multidimensional strategic orientation profile of the firm can be mapped.

INSERT TABLE 2 HERE

Step 3: Alignment of Customer Experience Profiling and Strategic Orientation Profiling

The appropriateness of a firm's strategic orientation is "defined in terms of its fit, match, or congruence with the environmental or organizational contingencies facing the firm" (Zajac et al. 2000). As emphasised by Venkatraman (1989), strategy thus acts as a means to align an organization with its environment through long-term adaptation for sustainable competitive advantage. Specifically, a service organization's strategy profile will be positively related to performance when there is a high level of setting–strategy fit, or in other words, when there is fit between strategy and its environmental context (Chari et al. 2017). In contrast, weakness in setting–strategy fit, or 'misfit', will result in negative performance effects (Vorhies and Morgan 2003). For service organizations

specifically misfit between CX and the firm's strategic needs "…can lead to combative (as opposed to cooperative) relationships—characterized by behaviors that actively disrupt or seek to interfere with the goals and priorities of the other" (Bundy et al. 2018, p. 478). Strategic misalignment or misfit is therefore an undesirable competitive position for firms to be in.

The concept of strategic alignment is not a static consideration but one that requires dynamic fit over time (Zajac et al. 2000). In an assessment of alignment, it is therefore necessary to distinguish between intended strategic orientation and the realized strategy of firms' and specifically whether strategy at the realized level is a version of the strategy that reflects intended plans or not (Chari et al. 2017). In situations where the firm is required to redefine its strategic orientation based on misalignment, firms require a strong degree of organizational flexibility in order to respond promptly to environmental change and market signals, and quickly reconfigure actions and activities (Hughes and Morgan, 2007). In other words, to ensure alignment firms must be responsive and reactive but also have the capacity to model, shape and transform their environment (Brozovic, 2016). Alignment between the firm and its environment should guide the initial development of a firm's strategic orientation (Porter, 1997), and this should be a continuous and ongoing *process* of reflection and assessment. In turn, by engaging with the process of alignment firms can redefine their strategic orientation over time.

Extending this logic to stakeholder management and individual-level relationships, Bundy et al. (2018, p. 480) propose the organization-stakeholder fit model. O–S fit is defined "as the compatibility that exists between an organization and a stakeholder when their characteristics are well matched," i.e. the values and needs of both

parties are aligned. While in principle this seems perfectly logical, the process of alignment (or fit) has been deemed ambiguous for practice, such that for firms and managers specifically "it is not obvious that an organization should change its strategy to achieve better fit with environmental conditions if such changes would imply a clear 'misfit' with established organizational strengths" (Zajac et al., 2000). This is why in many instances despite the environmental conditions faced, firms typically adhere to a predetermined path (Fox-Wolfgramm et al. 1998, p. 87):

Organizations do not typically attempt to maintain alignment through flexible and agile behaviors on an on-going or continuous basis, but rather are more reflective of the behaviors associated with persistence and commitment to the status quo. This is interesting as strategic fit is central to the premise that organizations' adapt to environmental changes in order to remain competitive. Understanding why fit is abnormal rather than normal in the firms' strategic praxis may be explained by the forces operating at the contextual level and the capacity of firms to consider the multiple environmental and organizational contingencies that affect strategic fit continuously (Zajac et al. 2000). Though tools such as a SWOT analysis are intended to address this problem of ambiguity, this is not an appropriate resolution, as noted by Zajac et al. (2000) among many others, due to its internal-focus when applied by decision-makers. As Ansari et al. (2010, p. 73) observe, "While traditional discussions of fit have tended to emphasize the static matching of organizations to a particular context variable, more recent advances have accentuated how fit can also be conceptualized dynamically and multidimensionally". The contemporary alignment dilemma facing service managers becomes how to operationalize strategic alignment?

There is a need, then, to capture both demand-side and supply-side characteristics in the assessment of strategic alignment. Given that fit is "the degree to which the needs, demands, goals, objectives, and/or structures of one component are consistent with the needs, demands, goals, objectives, and/or structures of another component" (Nadler and Tushman 1980, p. 45), scholars and practitioners need to better determine the match between a firm's strategic orientation (supply-side) and customer experience (demand-side). In the context of business model innovation, Girotra and Netessine (2014, p. 9) offer a step in this direction by emphasising the need for firms to "make their innovation processes more systematic and open, with business model reinvention becoming a continual, inclusive process rather than a series of isolated, internally focused events". They state that the key to successful business model innovation lies in eliminating inefficiencies by changing the four W's of the decisions that lead to them. Specifically, they focus on finding the answer to *What* decisions are made, *When* these decisions are made, *Who* makes these decisions and *Why* these decisions are made.

Alignment between a firm's CX and SO is, therefore, dynamic and multidimensional. However, the field still lacks an appropriate and actionable tool to capture this fit in practice where the integration of sub-contextual considerations are embedded, as called for by Zajac et al. (2000). Table 3 provides a CX Alignment Framework that facilitates bringing together the three steps of the CX-BMI framework using Girotra and Netessine's (2014) approach using the Four W questions.

INSERT TABLE 3 HERE

The CX Alignment Framework forces managers to understand their firms' current performance as perceived by customers relative to competitors. Furthermore, it demands that managers ask the right questions regarding how the business model can be altered to capitalize on opportunities that customers want and are willing to alter their category spending to obtain, and that differentiate the firm from its competitors.

Discussion

Customer Experience (CX) and Business Model Innovation (BMI) are topics of high interest and importance to both managers and researchers. Both have strong points of overlap—a new business model would typically influence customers' perceptions of their experiences with the firm. Moreover, customers' perceptions of the new experience resulting from BMI—either favorable or negative—would be expected to materially impact the firm's success or failure.

While BMI proponents may argue that enhancing the customer experience is a self-evident reason for its implementation, its use in practice has tended to be inwardly focused. Specifically, managers frequently conducted BMI efforts based upon their perceptions of what the market would accept, and what they believed would achieve their business objectives. Moreover, the scientific literature has largely ignored the customer experience implications of BMI.

By contrast, CX proponents have tended to ignore the need for BMI entirely (in both the management and scientific literature). Rather, the literature on CX overwhelming focuses on uncovering customer needs and wants, but fails to account for the firm's business model or capabilities. The result is that managers often find that their

best opportunities to enhance the customer experience fall outside of their firms' core competencies.

The three-step process outlined in this investigation helps to alleviate these problems. It begins by forcing managers to understand what drives customers' current perceptions of their customer experience, and the greatest opportunities for improving the experience. Moreover, it does so in the competitive context in which the firm operates. It even provides the opportunity to estimate the change in share of category spending associated with efforts to Defend, Improve, Build, or Ignore different dimensions of the customer experience.

Step 2 follows with a clear understanding of the firm's strategic orientation. It provides managers with a clear view of the different ingredients at the firm's disposal that the firm can combine to influence customers' buying decisions.

Step 3 demands that managers consider the key questions that must be answered to align the firm's strategic orientation with opportunities to differentiate the customer experience. As such, it forces managers to consider both the demand-side characteristics typically lacking in BMI initiatives, and the supply-side characteristics typically lacking in CX initiatives. It also helps managers precisely articulate the boundaries and capabilities within its domain. Most importantly, it provides a framework for a continual, systematic process.

CX is at a crossroad. Its lack of connection to the firm's business model has made failure the norm. As Bob Thompson (2018), CEO of CustomerThink—one of the leading voices for managers in the CX space—observed, "less than 1/3 of CX initiatives are successful … [it's time to] start working on solutions."

This investigation provides that solution. By aligning CX and BMI, managers finally have the necessary frameworks for identifying and acting on opportunities that enhance the firm's competitive position through improved customer experiences.

Limitations and Future Research

Although this investigation reflects much of the current thinking and tools used in both the customer experience and business model innovation literature, there are limitations that should be noted. The current state of CX research and practice is still in development. This investigation focused on the elements of CX dimensionality—i.e. cognitive, physical, sensory, emotional, and social—as the primary levers for linking CX and BMI. While there appears to be a general consensus around these elements, it is clear that other factors influence perceptions of CX that fall outside of its dimensionality (e.g. Edvardsson et al. 2018). For example, the purchase stage (e.g. pre-purchase, etc.), the temporality of the service (e.g. long or short duration), and the specialness of the interaction all would be expected to impact customers' perceptions of their experiences. Moreover, purchase stage, temporality, etc. would appear to be components of larger macro-level conditions within which the CX dimensions operate. To date, however, there is no unifying (or easily actionable) framework in the literature that incorporates the CX dimensions within these macro-level constructs. Therefore, there is a clear need for research that provides a more holistic and manageable framework for understanding and identifying opportunities for improving the customer experience.

Given the complexity of CX, it is also highly likely that new metrics are needed to better gauge aspects of the customer experience. Although there have been some advances in this regard (e.g. Klaus and Maklan 2012 & 2013), recent advances in

technology and associated new tools (e.g. unstructured data analysis, facial recognition of emotions, etc.) would appear to offer significant advancements in monitoring customers' experiences. Therefore, there is a need for research that explores the benefits and limitations of these new tools (and the new metrics which derive from the use of these tools) to monitor the customer experience.

There is also a need for research that strengthens the alignment between strategic orientation (i.e. cost leadership, differentiation, focus, and hybrid) and the dimensions of CX. For example, research could examine which sensorial elements have been shown to work best with different strategic orientations. This would greatly assist managers in determining an acceptable range of options to improve perceptions of the customer experience the do not detract from the firm's overall strategy.

As many of the tactics used to enhance the customer experience target the subconscious—for example, scents designed to enhance perceptions of quality (e.g. Fiore, Yah and Yoh, E. 2000; Liljenquist, Zhong, and Galinsky2010; Spangenberg et al. 2006), and sounds designed to impact the taste of food (e.g. North 2012)—researchers should explore the ethical limits of such stimuli on customer perceptions and behaviors. Clearly, managers should optimize ambient conditions to enhance the customer experience. However, it is also clear that in the near future, advancing technology (e.g. artificial intelligence, machine learning, etc.) and extensive behavioral data monitoring will make it much easier for firms to identify unconscious signals given off by customers that will allow for greater manipulation similar to the "tells" (i.e. cues) poker players seek to identify to assess the strength of an opponent's cards.

Related to these advances in technology, there are also more long-term

implications regarding how service processes are evolving that will directly impact business model innovation and customer experience. Research by Huang and Rust (2018) argues that artificial intelligence will replace much of the mechanical and analytic tasks that are currently performed by employees. The end result is that intuitive and empathetic skills will become the prominent abilities demanded of employees. To date, however, there is almost no guidance from the scientific literature regarding how this transition will impact business model innovation or the customer experience. As glimpses of the transformation articulated by Huang and Rust (2018) are already occurring, there is a clear need for researchers to advance our understanding of the opportunities and obstacles to guide both managers and policymakers.

In spite of these limitations, however, this this investigation provides insight into a rigorous and viable approach that researchers and managers can apply to guide CX driven innovation.

FIGURE 1: Customer Experience Driven Business Model Innovation – CX-BMI Framework

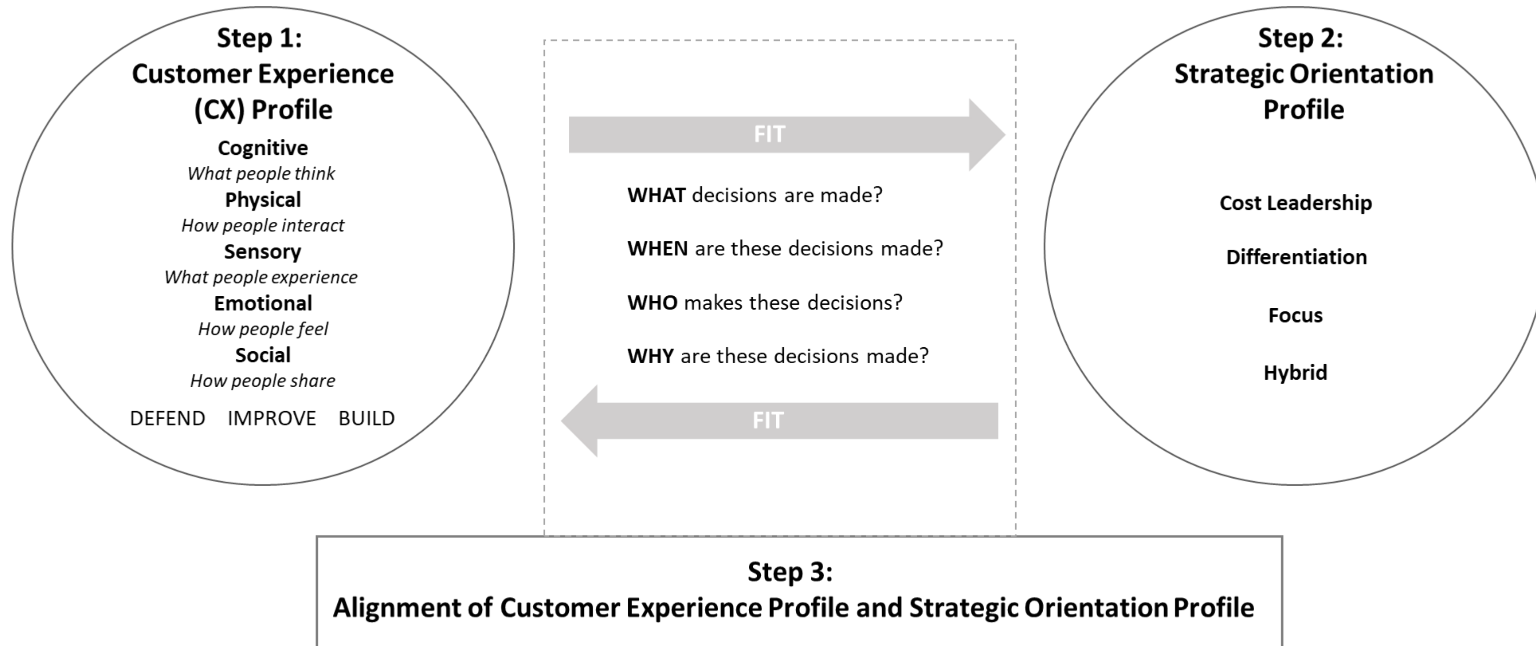
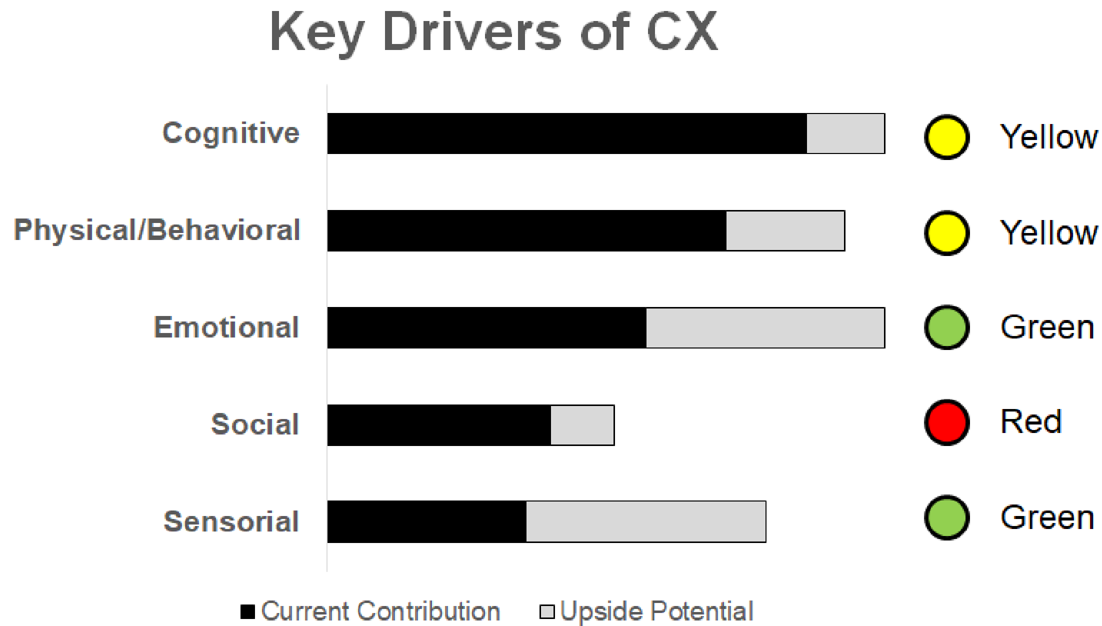


FIGURE 2: Example of Key Driver Analysis for the Five Components of CX Dimensionality



Current Contribution: Contribution of driver's performance on current CX levels
Upside Potential: Opportunity to increase CX levels by increasing to the maximum possible

TABLE 1: Example of "Share of Best" Grid for the Five Components of CX Dimensionality

Dimension	**As someone who has experience of [shopping at supermarkets], please tell us: (if more than one company is equally the best, please select them both)**	**Tesco**	**Sainsbury's**	**Asda**	**Lidl**	**Morrisons**	**N/A – Not Impor tant**
Cognitive What someone thinks as a result of their interaction(s)	Which [supermarket] best meets (all of) your needs.	√					
Emotional What someone feels as a result of their interaction(s)	Which [supermarket] makes you feel the most positive [when you're shopping?]		√				
Physical/ Behavioral How someone acts as a result of their interaction(s)	Which [supermarket] helps you [shop] in the best way.					√	
Sensorial What someone senses as a result of their interaction(s)	Which [supermarket] provides the best atmosphere? OR Which [supermarket] provides the best environment.	√	√				
Social How someone shares or relates as a result of their interaction(s)	Which [supermarket] is best for encouraging you to communicate with other people, (be they staff members, other customers, or friends and family.)	√			√		

TABLE 2: Porter's Generic Strategies - Strategic Orientation Profile

Strategic Orientation Profile Dimensions	Advantages	Disadvantages
Cost leadership involves the ruthless pursuit of economy and efficiency in all business operations with the aim of providing the product or service to the buyer at the lowest possible price. Although this does not preclude an attention to quality and detail, these are not the primary considerations. This strategy will involve amassing market share in pursuit of efficiencies of scale, keeping tight control of overheads and maximising the cost benefits of industry experience and new technology. The company will avoid unprofitable or marginal customer accounts and minimise running costs or investment in processes seen as ancillary, such as research and development, salesforce, advertising and customer service.	The company is defended against cost cutting by less efficient competitors since its profit margin will be greater at any given price. Equally, the company is best placed within the industry to defend against substitution or new entrants. The strategy allows for sufficient price flexibility to minimise the impact of supplier demands, while price-sensitivity on the part of the buyer actually works in favour of the company in terms of market share.	The strategy may require an initial competitive advantage - a head start – to be successful, such as a high initial market share, access to cheap raw materials or an extensive distribution network. The existing product line may require redesign, either to optimise ease of manufacture or to provide a range of related products to serve as broad a customer base as possible. As a result the start-up costs may be substantial, involving extensive process redesign and investment in the latest technology. The price differential must be maintained through continual streamlining and reinvestment in processes, to the potential detriment of product quality. Other players in the industry may reduce their own costs through imitation of technology and production processes, this will inevitably drive down overall industry profitability.
Differentiation involves developing one significant aspect of a product in order to set it apart from its competitors. One or more product functions, such as brand image and identity, technology and features or customer service and dealer network, is developed to a high quality level and the resultant added value perceived by the customer offsets the impact of higher price.	This strategy defends against buyer price-sensitivity through brand loyalty and perceived added value. Increased profit margins should deflect the impact of cost leadership by the opposition. Similarly, higher margins will absorb pressure from suppliers.	Differentiation may result in perceived exclusivity and limit market share. Because of the need to invest in such areas as research and development, high quality materials or intensive customer support, differentiation is also likely to involve a cost trade-off that may lead to defection of existing customers. The strategy involves high start-up and running costs. The company runs the risk of imitation by competitors and a fall in demand if the buyers' need for a differentiated product declines.
The *focus differentiation* strategy involves targeting the product specifically towards the needs of a highly defined market segment. The company aims to provide an exhaustive service to a precisely identified buyer group, product line or geographic market. Ideally the product will achieve both a differentiated and low cost position with respect to its chosen market segment.	The targeting of a specific market segment should avoid altogether the threats of competition, substitution and new entrants. The strategy feeds brand loyalty and raises switching costs. The company is able to focus exclusively on profitable market segments. The company's share in the target market should increase substantially as the company is able to monopolise its selected distribution channels.	Focus differentiation involves similar cost and investment considerations to the generic differentiation strategy. Non-focused products begin to meet the demands of the focused market segment. Fragmentation of the target market may lead to competitors outflanking the company by identifying even more tightly defined market segments. The target market may not follow the same growth pattern as the overall industry market.
The *cost focus* strategy seeks a cost advantage in a chosen target segments. The firm aims for low costs allowing for low-priced	The targeting of a specific market segment should avoid altogether the threats of competition, substitution	Cost focus involves similar cost and investment considerations to the generic cost leadership strategy.

products and services to be delivered to price sensitive customers and exploits differences in cost behavior in some segments.	and new entrants. The strategy raises switching costs. The company is able to focus exclusively on price-sensitive market segments. The company's share in the target market should increase substantially as the company is able to monopolise its selected distribution channels.	Non-focused products begin to meet the demands of the focused market segment. Fragmentation of the target market may lead to competitors outflanking the company by identifying even more tightly defined market segments. The target market may not follow the same growth pattern as the overall industry market.
Price based strategies require that costs are kept in check and are at least as low or lower than competitors. Positioning as the low price supplier requires strong inside-out and spanning capabilities. Effective cost control systems (through employing techniques such as activity based costing) are needed not only within the firm's own operations but also within suppliers. The procurement of raw materials and other factor inputs is organized around keeping costs to a minimum. Distribution logistics are similarly managed for minimum cost. There is a constant need to work at keeping costs down, in particular when new competitors enter the market with new operating methods or unique assets that can be used to undercut the costs of incumbents. (Hooley et al. 1998).	The strategy creates products and/or services that are as good as the competition, but at lower prices. (Faulkner and Bowman, 1992). Customers perceive high value for money if they get high perceived value at a price below that which they are willing to pay. (Hodgkinson, 2013). Through adopting a lower price than competitors, whilst maintaining similar service benefits, a performance advantage can be achieved. (Johnson et al., 2008).	The perception of quality drops below an acceptable threshold unbalancing the perceived price differential between the firm’s offering and that of competitors. (Faulkner and Bowman, 1992). If the firm offers lower prices than the industry average to ‘make the sale’, there is no guarantee that lowest costs would lead to above average profitability. (Faulkner and Bowman, 1992). Becomes unfeasible if the firm cannot ensure the necessary conditions such as good cost control, economies of scale, economies of scope, experience curves or superior technology effects, or low cost inputs like raw materials or labour. (Faulkner and Bowman, 1992).
Hybrid strategy provides products and/or services that are perceived by customers as being better than the competition and at lower prices. (Faulkner and Bowman, 1992). This strategy depends on the ability to deliver enhanced benefits to customers together with low prices whilst achieving sufficient margins for reinvestment to maintain and develop bases of differentiation. (Hodgkinson, 2013). To enable a performance advantage this strategy provide a unique service offering whilst restricting costs in other areas that are less integral to the product and/or service offering to enable lower prices relative to competitors. (Hodgkinson, 2013).	The firm is able to offer products and/or services that are better than the competition and at lower prices. (Faulkner and Bowman, 1992). This strategy should lead to high market share. (Faulkner and Bowman, 1992). The hybrid approach is considered by some as the only sustainable strategy available to firms. (Faulkner and Bowman, 1992).	Some value disciplines or configurations of value activities (i.e., strategies) are mutually exclusive. Trade-offs are involved. Doing one set of things precludes doing another with purer strategies. Hybrid strategies are common and occupy a heavily contested or crowded region of strategic space—a situation unlikely to result in high performance. Hybrid strategies are complex, making it difficult to set priorities and causing confusion and loss of direction and may require the adoption of costly and difficult-to-manage matrix-like structures. (Thornhill and White, 2007).

Note: Adapted from Porter, M.E. (1997) “Competitive Strategy”, Measuring Business Excellence, Vol. 1 Issue: 2, pp.12-17.

TABLE 3: Creating the Linkage between CX and BMI

	Fundamental Issue	"What, When, Who, Why" Questions to Identify Possible Solutions	Example of Potential Solution Goal
Cognitive	What do customers think about when evaluating their experiences (e.g. convenience, value for money, etc.)?	• What elements of the customer experience do customers evaluate primarily by intuition, and what elements do they evaluate by analytic processes? • When do customers tend to invoke rational, analytic processes into their evaluations? • Who is the consumer making these intuitive/rational evaluations (i.e. what are the distinguishing characteristics of the customer segment)? • Why does the customer switch between intuitive and analytical decision making at different stages of the customer journey?	Pre-empt customers' analytic processes. Where necessary, do the math for them to make it easy for customers to anchor their experience relative to alternatives; provide the backup so that even a skeptic can see the value.
Physical	What aspects of the customer-firm interaction lead to behavioral outcomes (i.e. to what extent does it lead to actions by the customer) and thereby impact customers' perceptions of the experience?	• What elements of the firm-customer interaction (e.g. spatial layout, functionality, signs/symbols, etc.) lead customers to engage in physical actions/behaviors when interacting with the brand? • When do customers encounter these elements of the physical environment during the customer journey? • Who is most likely to be impacted both positively and negatively by different aspects of the physical environment? • Why are customers impacted by specific aspects of the physical environment?	Modify/enhance the physical environment to better serve specific customer segments (for example, clear large type signage, easily accessible stores/branches; physical interfaces (ATMs, phones, computers, tablets). For example, integrate augmented reality mirrors that allow customers to browse new items, virtually use them, and purchase them.
Sensory	What sensorial elements are activated when customers interact with the firm and its offerings?	• What sensorial elements throughout their customer journey are clearly perceived by customers, and what sensorial elements are subconsciously perceived by customers that impact their perceptions of the experience? • When do customers experience these various sensorial elements? • Who is most likely to be influenced (both positively and negatively) by these different sensorial stimulations? • Why are customers impacted by specific sensory stimuli?	Align the sights, smells, sounds, tastes, and tactile experiences that impact the conscious and subconscious decision-making processes of customers to enhance the perception of quality of merchandise offered.
Emotional	What aspects of the current customer experience elicit strong positive or strong negative emotions?	• What are the emotional aspects of the consumption experience (e.g. thrill seeking, contentment, fear, etc.) that influence customers' perceptions of the experience? • When are the most critical touchpoints in generating positive or negative emotions?	Identify specific points in the current customer journey that through enhanced service offerings have the potential to delight customers.

		• Who are the primary actors that impact customers' emotional reactions during the customer journey? • Why do customers react positively/negatively to different elements of the current customer experience?	
Social	Who influences customers' perceptions of the experience (e.g. staff, other customers, customers' wider social network, etc.)?	• What are the social wants (e.g. status, belonging, companionship/connection, etc.) that influence customers' perceptions of the experience? • When are the most critical social touchpoints in the customer-company interaction? • Who are the key social influencers? • Why do different social conditions influence consumers' CX decisions?	Incorporate customers' primary social influencers into the messaging throughout the customer journey, and where possible incorporate influencers into brand advocate/ambassador roles. Train staff to have authentic, positive interactions with customers.

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Customer Experience Driven Business Model Innovation

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