# BUSINESS IS PERSONAL.
# INSIGHTS FROM EXPERIENTIAL MARKETING AND S-D LOGIC

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**Abstract**

　　*The paper investigates the antecedents of customer loyalty described in the three marketing logics: G-D Logic, Experiential Perspective and S-D Logic. Empirical research was conducted through a questionnaire-based survey involving the customers of 12 hotels (N = 362). SEM analysis shows that the value in use is the most powerful direct predictor of customer loyalty. Yet, the cumulative effect of direct and mediated influences exerted by the customer experience exceeds in importance the direct influence of the value in use.*

***Keywords:*** *customer loyalty, customer experience, value in use, Experiential Perspective, S-D Logic*

***JEL classification:*** *M310*

## 1. Introduction

　　A key strategy adopted by firms to meet increasingly competitive business environment is the pursuit of customer loyalty (Wahab and Cooper, 2001).

　　Customer loyalty is seen by some authors as a more profitable strategy in the long term than increasing market share since it involves not only keeping the customer a longer period of time, but also increased purchases from that provider (Donnelly, 2009 , Griffin, 1995). In the same vein, Peppers and Rogers (2004) argue that profitable customer retention is necessary since they will buy more on the long-term and will pay a premium price to be in a relationship with a company that they like and trust.

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Therefore there is a general consensus among researchers that the behaviour of the customer loyalty leads to positive results - augmented sales, reduced costs, more profits, competitive advantage - being critical for the survival and growth of the company (Reicheld, 1996, Terrill and al, 2000; Verhoef, Franses and Hoekstra, 2002; Petrick, 2004). Reichheld and Sasser (1990) argues further that attracting a new customer is five times more costly to the firm than keeping an existing customer. Loyal customers are also perceived to contribute to strengthening the market position of the supplier through positive word of mouth (Griffin, 1995).

In this paper, we have investigated through a questionnaire-based survey (N = 362) the antecedents of the customer loyalty according to the three marketing logics that can guide marketing theory and practice: Goods Dominant Logic (G-D Logic), Experiential Perspective and Service Dominant Logic (S-D Logic). The research results show that the strongest direct predictor of customer loyalty is *value in use,* a central concept in S-D Logic. However, the cumulative influence of customer experience shows that firms aiming for customer's loyalty should ensure the personal relevance of all dimensions of customer experience.

## 2. Theoretical background

In the marketing scientific research and practice have emerged over time few paradigmatic frameworks. These sets of assumptions are governing both the theoretical developments and practical applications. Until now marketing thinkers have established the legitimacy of adopted paradigm in the market logic understood from different perspectives: of the goods, of the customer experience or of the service. In each of these marketing logics marketing, how firms should pursue customers' loyalty is understood differently.

*Customer loyalty from Gods Dominat Logic perspective*

According to G-D Logic in the process of buying, consumer choice is goal-oriented, planned and conscious (Holbrook, O'Shaughnessy, and Bell, 1990; Belk, 1985). Products and services include a priori value embedded in them during the production and markets change this value from the producer to the consumer based on the consumer's cognitive assessment (Webster, 1994). Customer loyalty is seen as a result of customer satisfaction. Customer satisfaction is understood according to the disconfirmation models as a function of the deviation between the expected performance of the output unit

(product or service) and its actual performance. Loyal customers are those fully satisfied as the result of fulfilled expectations. There are also authors who denies the predictive power customers satisfaction. Reichheld (1996) notes that although customer satisfaction is a necessary component of customer loyalty, is not necessarily guarantee for it. Similarly, Frow and Payne (2007) and Bennet and Rhundle-Thieles (2004) show that although loyal customers are necessarily satisfied, satisfied customers are not necessarily loyal.

*Customer loyalty from experiential perspective*

In addition to the rational component of consumer behaviour, experiential marketing is taking in consideration the customers emotions and affect (Hirschman and Holbrook, 1982). Experiential perspective is based on the concept of customer experience understood as the foundation of economic exchange (Pine and Gillmore, 1998). The customer experience has a multidimensional structure and comprises the cognitive, affective, sensory, social and even spiritual customers' responses (Verhoef et al, 2009). The purpose of experiential marketing is to emotionally attach the customers to the firm. It is widely accepted in the experiential marketing literature that customer's emotional attachment to a service provider and customer delight (by exceeding his expectations), are more strongly related to future purchase intentions than highly cognitive constructs such as quality and satisfaction (Fournier , 1998; Arnould and Price, 1993, Price, Arnould and Deibler, 1995, Mattila, 2001). For the experiential marketing practitioners' only happy customers can be considered as truly loyal. Therefore practitioners aim to create memorable experiences for customers through their emotional, physical, intellectual and spiritual involvement.

The theorists have examined the effects of customer involvement in powerful immersive experiences described as extraordinary experiences. Extraordinary experiences are comparable to peak experiences conceptualized by Maslow (1964) in combination with religious ecstasy. The key element of the extraordinary experiences is the state of flow. The flow is characterized by a total concentration on the activity and extreme pleasure or joy derived from it (Ghani and Deshpande, 1994). Flow occurs when both customer's skills and the challenge he must face are maximum.

In marketing literature, the relationship between emotional commitment, customer delight, memorable customer experiences and loyalty are unclear and insufficiently studied empirically.

*Customer loyalty from the Service Dominant Logic* perspective

Unlike the traditional marketing paradigm oriented to goods, S-D logic explains economic exchange and value creation in terms of the service provided (Maglio et al, 2009). Centred on service, S-D logic focuses on the concept of value co-creation and not on value or utility embedded in goods (Vargo and Lusch, 2004). People are no longer perceived as buyers of units of output (goods or services) that incorporated value, but buyers of products that provide a service and value that depends on the customer experience (Vargo and Lusch, 2004; Grönroos, 2006) .

Firms cannot create and deliver value. They can only make value propositions and deliver services as inputs for customer value described as *value in use* (Vargo and Lusch, 2004). Value in use is always uniquely and phenomenological determined by the beneficiary, being "idiosyncratic, experiential in nature, contextual and full of meanings" (Vargo and Lusch, 2008). By emphasising the importance of the value in use, S-D logic theorists suggest that this is the main antecedent of customers future behavioural intentions. Yet this assumption has not been proven empirically.

Based on this theoretical background, we have formulated and empirically test the following two hypotheses:

*H1: The customer experience is a stronger predictor of customer loyalty than satisfaction.*

*H2: The value in use is an antecedent of customer loyalty more influential than extraordinary  experiences, customer delight, memorable customer experience or emotional commitment.*

The construct "customer lived experience" consists of 45 variables were divided into nine dimensions: pragmatic (8 variables), peace of mind (6 variables), empowerment (7 variables), aesthetics (9 variables), relational (6 variables), fun (2 variables),  escape (3 variables),  surprise (one variable) and nostalgia (3 variables).

## 3. Method

Research hypotheses were tested in the hotel sector. Hotel services were chosen because they are complex and balanced in terms of experiential and functional characteristics (McIntosh and Siggs, 2005). However, this type of service has the potential to generate strong emotional and experiential reactions from customer (Dimanche and Samdahl, 1994; Wakefield and Blodgett, 1994).

*Hotels sample*

The sampling of the research participating hotels (N = 12) was a non-probabilistic one. In order to obtain consistent and comparable results four sampling criteria were used:

(1) Type of tourism: urban (N = 5), spa (N = 3), seaside (N = 2) and mountain (N = 1). These forms of tourism are varied enough to cover and describe a comprehensive range of travel experiences. They differ from each other in terms of length of stay and the average size of which is focused customer experience.

(2) The hotel classification: the sample included 3, 4 and 5 stars hotels.

(3) The hotel size: to reduce costs and increase efficiency of the survey have been included in the hotel sample only hotels with more than 50 rooms.

(4) The location of the hotel.

Hotels selection also depended on managers' willingness to participate.

*The respondents' sample*

The purpose of research is to test the statements of truth developed through systematic review of the literature and not to generalize results to the entire population. For this reason sampling was a non-probabilistic, opportunistic, being included in the research sample the tourists accommodated in the selected hotels during the empirical study. In determining the sample sizes were considered two matrixes developed on the basis of socio-demographic and travel behaviour characteristics. To meet all the cumulative restrictions a minimum sample size was set at 300 respondents. Based on the response rates recorded in previous studies that investigated the tourists experience in hotels (Donnelly, 2009) the number of questionnaires that were administered was established at 2250. After collecting the questionnaires, the number of usable questionnaires was 362.
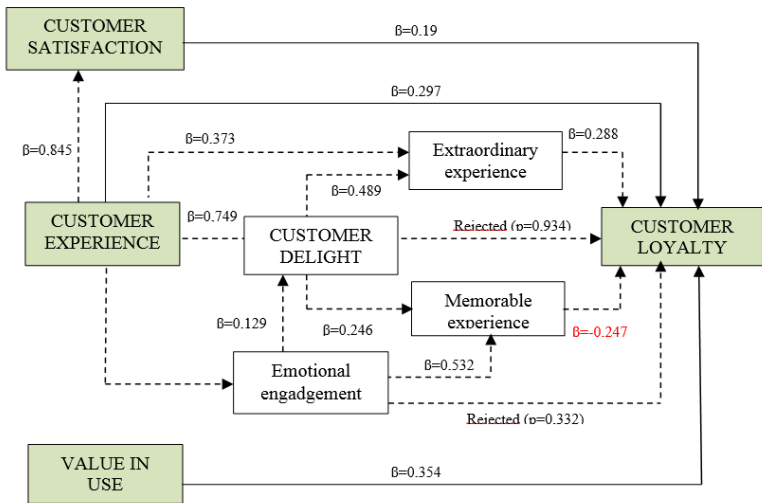
*Measuring instrument*

The research instrument used was the questionnaire. In the context of this research were used nominal scales for measuring socio-demographic explanatory variables and those related to the travel behaviour. To measure the constructs and variables included in the measurement model were used Likert scales with 7 steps (strongly disagree, disagree, slightly disagree, neither agree

/nor disagree; slightly agree, agree , strong agree and null option "n" - do not know cannot answer).

Testing reliability of measurement scales was performed using SPSS software. Scales were considered reliable for a Cronbach alpha of at least 0.5. Statistical testing of the research model was done by modelling the structural equation (SEM) using AMOS software.

**Figure 1. Research measuring model**



### 4. Results

The results of the research hypothesis testing are shown in Table 1. Hypothesis 1 was tested by SEM analysis of the relationships between the independent variables "customer satisfaction" and "customer experience" on the one hand and the dependent variables "customer loyalty" on the other hand (Table 1). SEM analysis shows that hypothesis 1 is accepted. The customer experience is a stronger predictor of customer loyalty ($\beta = 0.297$) than customer satisfaction ($\beta = 0.19$).

Hypothesis 2 was tested by SEM analysis of the relationships between the independent variables "customer delight," "extraordinary experience" "memorable experience" "emotional commitment" and "value in use" on the one hand and the dependent variable "customer loyalty" on the other (Table

1). SEM analysis shows that hypothesis 2 is also accepted. Value in use is the strongest direct predictor of customer loyalty ($\beta = 0.354$).

**Table 1:The results of research hypotheses testing**
(antecedents of customer loyalty)

| Dependent variable | | Independent variable | β | p | Result |
|---|---|---|---|---|---|
| Customer loyalty | <--- | Customer satisfaction | ,19 | 0,006 | accepted |
| Customer loyalty | <--- | Customer delight | ,005 | 0,934 | rejected |
| Customer loyalty | <--- | Customer experience | ,297 | 0,002 | accepted |
| Customer loyalty | <--- | Value in use | ,354 | *** | accepted |
| Customer loyalty | <--- | Extraordinary experience | ,288 | *** | accepted |
| Customer loyalty | <--- | Memorable experience | 0,247 | *** | accepted |
| Customer loyalty | <--- | Emotional engagement | -0,05 | 0,332 | rejected |
| Customer delight | <--- | Customer experience | ,749 | *** | accepted |
| Customer delight | <--- | Expected experience | ,05 | 0,214 | rejected |
| Customer delight | <--- | Emotional engagement | 0,129 | *** | accepted |
| Customer satisfaction | <--- | Expected experience | 0,111 | 0,002 | accepted |

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|---|---|---|---|---|---|
| Customer satisfaction | <--- | Customer experience | ,845 | *** | accepted |
| Memorable experience | <--- | Expected experience | ,016 | 0,73 | rejected |
| Memorable experience | <-- | Customer delight | ,246 | *** | accepted |
| Memorable experience | <--- | Customer experience | ,107 | 0,123 | rejected |
| Memorable experience | <--- | Emotional engagement | 0,532 | *** | accepted |
| Extraordinary experience | <--- | Customer experience | ,373 | *** | accepted accepted |
| Extraordinary experience | <-- | Customer delight | ,489 | *** | accepted |
| Extraordinary experience | <--- | Expected experience | ,085 | 0,015 | accepted |
| Extraordinary experience | <-- | Customer experience | ,373 | *** | accepted |
| Extraordinary experience | <-- | Customer delight | ,489 | *** | accepted |

1. *\*\*\* describe a significance level of 0.000*
2. *If the "significance level" is less than 0.05, the link is significant*
3. *"Standard parameter of the regression function" shows how much the dependent variable is affected by the independent variable. The "sstandard parameter of the regression function " has a higher value, the influence of the independent variable on the dependent variable is greater*

No statistically significant relationship was identified between "customer delight" and "customer loyalty" (p = 0.934). Customer delight influence loyalty but this influence is mediated by extraordinary ($\beta$ = 0.489) and memorable ($\beta$ = 0.246) experiences. The direct influence on loyalty of emotional engagement is statistically insignificant (p = 0.332). Emotional engagement influences customer loyalty through the mediated effect of memorable experiences ($\beta$ = 0.532). Extraordinary experiences are a direct predictor of customer loyalty slightly stronger ($\beta$ = 0.288) than memorable experiences ($\beta$ = -0.247).

## 5. Conclusions

Research shows that the strongest direct predictor of customer loyalty is the value in use conceptualized in the S-D logic. Since the value in use is determined uniquely and phenomenological by the customer, to achieve the loyalty of their customers companies will have to ensure the personal relevance of the value proposal made to them. To ensure consistently the personal relevance of their value proposals firms will have to become learning organizations. An effective way of learning about what value in use means for customers is to increase their empowerment.

Results of testing hypothesis 2 demonstrate that negative emotions experienced by the customer during his interaction with the company has the potential to negatively affect his loyalty if the intensity of these emotions turns the experience in a memorable bad one. Consequently, companies will need to proactively manage the experience continuum for customers. This is possible through the empathic skills of the staff that interact directly with customers.

According to research findings customer delight does not depend on exceeding customer expectations but by the experience chemistry lived holistic and phenomenological on all levels of involvement described in the experiential marketing literature. As a predictor of extraordinary experiences research results suggest that customer delight depends on the level of customer involvement in the experience.

Research also shows that extraordinary experiences depend on exceeding customer expectations and is a direct predictor of customer loyalty. Since the customer experience has a significant influence on satisfaction, customer delight and extraordinary experiences its cumulative impact (direct and indirect) on loyalty is stronger than that of the value in use. Therefore, in order to retain customers, companies will have to actively manage the

customer experience in all its phases, from anticipation to the nostalgic remembering in order to increase the personal relevance of their value proposal.

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