PART IV

Enhancing Customer Experience and Value

18

Innovating the Customer Experience

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Abstract

Innovating the customer experience (CX) requires an understanding of customers' context-dependent preferences, where the context changes over time. Four factors are critical to a successful CX—the relevance of the relationship to customers' social identity, the firm's reputation (i.e., trust and brand strength), the fit or compatibility of the firm's offerings with the customer context and the alignment of the firm's goals with customers' goals. This paper contends that they have powerful moderating effects on customers' evaluations of their experiences. Customers view experiences holistically, so firms must integrate these factors to create a coherent experience that unfolds over time. Hence, firms must develop contingency-based strategies for designing and delivering superior CXs. After assessing the opportunities, challenges and emerging issues associated with each factor, this paper offers five key considerations for firms that seek to innovate the CX.

It is change, continuing change, inevitable change, that is the dominant factor in society today. No sensible decision can be made any longer without taking into account not only the world as it is, but the world as it will be.

—Asimov (1978: 5)

Since Howard and Sheth (1969) developed their landmark theory of buyer behaviour, the Information Age has transformed economies and societies. Large, powerful individual firms—such as Amazon, Google, Apple, Microsoft and Facebook—are creating new markets and transforming competition. Technology has brought us autonomous vehicles, digital personal assistants, smart homes, wearable technology, networked devices and robots in restaurants and clinics. As Jagdish Sheth (1972: 562) predicted, the theory of buyer behaviour has grown rapidly and broadened alongside these changes.

Today's managers refer to the customer experience (CX), rather than buyer behaviour, and they focus on 'staged experiences' (Pine and Gilmore 1999; Schmitt 2003). CX emphasizes that customers respond to the breadth, depth, timing and consistency of interactions vis-à-vis the target firm (Bolton 2016, 2019; Bolton et al. 2018). This paper argues that innovating the CX requires an understanding of customers' context-dependent preferences, where the context changes over time. Hence, firms must develop contingency-based strategies for innovating the CX (e.g., Verhoef et al. 2009). The paper describes four factors critical to successful CXs, as well as managerial opportunities, challenges and emerging issues associated with each factor.

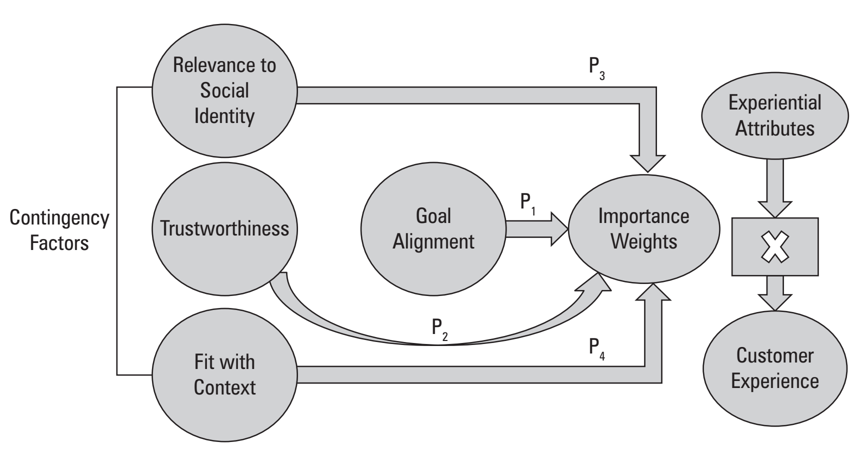
The Customer Experience

The CX is the sensory, cognitive, emotional, social and behavioural dimensions of all activities that connect the customer and the firm over time (Berry, Carbone and Haeckel 2002; Bolton 2016; Lemon and Verhoef 2016; Schmitt 2003). It encompasses all interactions and activities involving the target firm: pre-purchase (e.g., media exposure), purchase, consumption, engagement (e.g., word of mouth) and other behaviours. The CX unfolds within relationships embedded in service networks and ecosystems (Sheth and Parvatiyar 1995).

When the marketplace is changing rapidly, companies must develop 'adaptive foresight' to predict the future and exploiting changes in the business environment (Zeithaml et al. 2006: 168). Cisco has a manager charged with 'detecting discontinuous change early, developing plausible futures, interpreting the consequences for the company, as well as defining "future avenues for innovation"'.[1] Managers must supplement traditional metrics with 'forward looking metrics' (Fink et al. 2005). Zeithaml et al. (2006) identify three strategic success factors: the relevance of the relationship to customer's social identity, the firm's reputation (i.e., trust and brand strength) and the fit or compatibility of the firm's offerings with the

[1] https://blogs.cisco.com/author/stephanmonterde (accessed on 27 September 2018).

Figure 18.1 *Moderating Effects of Goals, Trustworthiness, Relevance and Fit with Context on Antecedents of the Customer Experience*



customer context. In my view, a fourth factor is important: the alignment of firm's goals with customers' goals (Bolton 2016).

Prior research has emphasized the direct, favourable effects of these four factors on the CX. However, I contend that they have powerful moderating effects on customers' evaluations of their experiences (see Figure 18.1). This paper offers propositions about how each factor influences the CX. Then it identifies opportunities, challenges and emerging practices for firms seeking to leverage these factors.

Alignment of Firm Goals with Customer Goals

Customers and firms co-create experiences within a value network (Prahalad and Ramaswamy 2004; Vargo and Lusch 2004). Their goals, role clarity and capabilities influence their co-creation behaviour (Bolton and Saxena-Iyer 2009). Experiments have shown that customers weigh goal-congruent attributes more heavily than goal-incongruent attributes in preference formation relative, that is, goals have a positive moderating effect (e.g., Chernev 2004). In a global field study, Tarasi et al. (2018) have shown that customers' hedonic and utilitarian goals can magnify the importance of experiential attributes in retail service encounters. Customers' goals direct their attentional mechanisms towards congruent cues, influencing how they respond to their experiences.

P_1: Goal-congruent experiential attributes will have a large and favourable effect (i.e., a positive moderating effect) on customers' evaluations of their experiences.

Opportunities

Many firms have embraced customer centricity to innovate the CX. Customer centricity is a prerequisite to customer–firm goal alignment. Customers have multiple goals linked through a goal hierarchy. Recreational Equipment, Inc. (REI) understands customers' goal hierarchies.[2] It offers expert advice and gear for people who enjoy outdoor activities, such as camping and cycling, thereby aligning with focal shopping goals. REI also sponsors activities (e.g., backpacking), travel opportunities (e.g., volunteer vacations) and a community centred on environmental stewardship to align with customers' high-level goals.

Challenges

Goal alignment does not imply yielding complete control of the experience to the customer (Bolton 2018). Research has revealed the 'paradox of choice', whereby more options for customers lead to poorer outcomes (Scheibehenne, Greifeneder and Todd 2010). Customers can be impulsive or develop habits that are not conducive to their well-being (e.g., finances and health). Faulty judgement processes influence their perceptions and behaviour. Customers might not share information that might improve the firm's ability to co-create value. Their goals can change; goals can be conscious or non-conscious and can be triggered internally (e.g., hunger) or by the environment (an appealing scent). Moreover, customers can accomplish the same goal in many ways, so firms must assess which goal has priority at a specific point on the customer journey and how best to create a successful CX.

Emerging practices

Firms can leverage pertinent information about customers to innovate and produce better CXs, using predictive analytics, recommendation systems, geo-targeting and mobile solutions. However, these solutions are often unconnected with customer goals and are poorly timed. A customer journey has a purpose and a chronological order; it is not a

[2] www.rei.com

series of disconnected moments. Managers must go beyond big data and leverage deep data, that is, the fusion of longitudinal data from many contexts (Kramer et al. 2004). Many firms rely on simple descriptive analytics to track high-volume, high-velocity customer data (Wedel and Kannan 2016). In contrast, firms such as Google and IBM are leveraging artificial intelligence (AI) (i.e., cognitive systems) and deep learning to extract actionable customer insights from their data.

Managerial insights about the goals of a market segment do not necessarily generalize to other customers, but innovative approaches transfer to other market segments. Firms must be flexible and develop service modules that customers can assemble in real time as they co-create experiences. Amazon uses this approach to innovate and co-create unique customer journeys.

Trust and Reputation

A trustworthy reputation is essential to firms in an era of viral infections, security breaches and a lack of data privacy. Trustworthiness is the customer's confidence that his/her needs will be satisfied in the future by a firm; it includes his/her perceptions, benevolence and credibility (Ganesan and Hess 1997). A customer's trust provides a foundation for future customer–firm relationships (Geyskens, Steenkamp and Kumar 1998). Customers' trust plus confidence in their beliefs have a positive influence on preferences and behaviour (e.g., Bearden, Hardesty and Rose 2001). Bennett and Harrell (1975) found that confidence magnified the relationship between customer beliefs and behaviour. I believe that customers with high trust in a brand pay more attention to its favourable experiential attributes.

> P_2: Customers who have high trust in a brand will place more weight on its favourable experiential attributes in evaluating their experiences, relative to customers who have low trust (i.e., a positive moderating effect).

Opportunities

Firms can build trust by ensuring that CXs match the brand promise (credibility) and yield fair outcomes for customers (benevolence). Consumers ranked Kimberly-Clark among the 10 most reputable firms due to its emphasis on environmental issues (Strauss 2017). Firms also build trust by creating brand equity and leveraging employees' actions. GE has featured its high technology employees in its advertising to demonstrate how they (and GE) create value for customers (O'Donnell 2016).

Challenges

In turbulent markets, firm actions can quickly destroy trust. In 2017, customers' trust in Wells Fargo was betrayed after employees opened unauthorized accounts to meet sales goals (damaging credibility); the bank overcharged some auto-loan and mortgage customers (damaging perceptions of fairness and benevolence). Firms can work to rebuild trust by clarifying customer roles during interactions, reducing perceived risk and designing interactions to meet customer goals and expectations (Bolton and Saxena-Iyer 2009). However, firms must innovate to build trust and overcome trust violations.

Emerging practices

Customers' trust partially depends on firms' transparency over how they collect, share and protect data and customers' perceptions that they have control over the information use and management of their data (Martin, Borah and Palmatier 2017). Corporate social responsibility—voluntary activities taken by firms to enhance economic, social and environmental performance—can also increase perceptions of credibility, benevolence and trust. Customers gave Lego the highest survey ratings for ethical behaviour, fair business practices, transparent operations and environmental sustainability (Strauss 2017).

Relevance to the Customer's Social Identity

Each customer has a set of unique social identities evoked by different contexts. Customers identify with a firm when it supports and affirms a salient identity, shares their values and creates overlap among their social identities. PetSmart has grown rapidly by capitalizing on people's enthusiasm for their pets. In 2015, it used social media to celebrate family pets on National Dog Day, supporting and affirming families in ways congruent with the customer's role as a pet parent. Customers' perceptions of relevance—how appropriate a brand is for consumers and how much it fits into their lives—predict shareholder value and influence the magnitude of marketing mix elasticities (e.g., Datta, Ailawadi and van Heerde 2017).

P_3: Customers who believe that a brand is highly relevant to their lives will place more weight on context-compatible attributes in evaluating their experiences than customers who perceive that brands are less relevant.

Opportunities

Empirical work has shown that customers' identification with a firm increases their product utilization and participation, likelihood to recommend and willingness to pay (e.g., Ahearne, Bhattacharya and Gruen 2005). Social identities are especially salient in collective experiences (e.g., sports and entertainment), knowledge-intensive services and collaborative networks. Collaborative networks involve three parties: a platform provider (e.g., Uber and Airbnb) that enables exchange, a customer who seeks access to assets (such as a car or place to stay) and a peer service provider that grants this access (Benoit et al. 2017). Customers can pursue identity-relevant goals, where the platform aligns participants' social norms. New retail formats have emerged that reinforce social identities, such as the sharing (e.g., toy libraries) and renting (e.g., Rent the Runway), rather than buying.

Challenges

Observational learning and word of mouth are important to the CX, so most firms engage with customers on social networks and product review sites. Sephora supports and affirms customers' social identities online, through its community forums and beauty insider programme. Other small details of the CX are important, such as responsiveness, ease of interactions, a human touch, appealing sensory cues, consistency of brand message and touch points suitable for different interactions (Bolton et al. 2014; Grewal, Levy and Kumar 2009; Schmitt 2003). However, managers need to know more about how the social aspects of the CX fulfil customers' needs.

Emerging practices

Social presence can occur digitally via computer chat, robots, interactive devices and augmented or virtual reality, as well as via human presence (Van Doorn et al. 2017). However, we do not know how high digital/social environments will transform the CX (Bolton et al. 2019). Machines will likely take on repetitive tasks while humans will carry out creative and emotional roles. Li (2018), a noted computer scientist, has argued that AI is made by humans and intended to behave like humans—so it should be considered 'human centred'. Machines lack aesthetic awareness and other aspects of human perception, so researchers must unite AI with insights from psychology and sociology to innovate the CX. Firms must deploy technology and employees in synergistic ways to create favourable CXs. Technology can sometimes interfere with employees' attempts to build rapport (Giebelhausen et al. 2014), so more work is required on how to create socially relevant CXs.

Fit with the Customer's Future Context

Customer–product fit contributes to successful CXs. Hence, firms must anticipate alternative future scenarios and develop offerings to fit them. IDEO has undertaken design challenges targeted for very different futures, such as tackling childhood obesity for the Center for Disease Control and delivering clean water in the developing world for a non-profit. In customer–firm relationships, a product's fit with the customer's context magnifies the effect of service quality on repurchase decisions (Bolton, Lemon and Verhoef 2008).

P_4: Customers who believe that a product is a good fit for their consumption context will weigh compatible experiential attributes more heavily in assessing their experience than customers who believe that product fit is a poor fit.

Opportunities

Firms can offer localized, real-time services—often delivered by mobile devices. Consumers manage smart homes; businesses manage field staff remotely; service representatives use information from sensors embedded in equipment. These advances enable market segmentation based on time, such as designing and executing service encounter sequences, CXs and journeys that anticipate customer participation (Bolton 2018). Lowe's, IKEA and American Express are experimenting with augmented and virtual reality, inserting products/services into content (e.g., gaming environments), and creating 'experience stores'. In these ways, firms learn and help customers envision how using a new product will fit into their daily lives. Innovation also requires the consideration of future scenarios arising from changes in demographics, economics, generational shifts, geography, institutions and regulatory conditions.

Challenges

In the short run, firms must anticipate when and at what touch point customers will seek to interact. Prediction is difficult in today's omni-channel marketplace. Sheth and Sisodia (2012) advise managers to 'think like a customer' and deliver value along four context-specific dimensions—acceptability, affordability (monetary and non-monetary costs), accessibility (availability and convenience) and awareness (product knowledge, brand awareness). To fit the customer's future context, the firm must understand the customer's past purchase journey, capabilities, goals, expectations, risk perceptions and situational factors. These information requirements are challenging but increasingly feasible.

Emerging practices

Location-based, retail and self-service technology are helping firms deliver offerings that are relevant to customers at a particular time and place. People routinely use travel, navigation, weather and fitness applications on their smartphones. Second, advances in diagnostic and predictive analytics are helping firms leverage customer data to improve CXs and develop long-term customer–firm relationships. Firms can provide more timely service with automated business processes, and AI is enhancing many services (e.g., law and medicine). Third, a firm's employees can provide personalized and customized interactions that create favourable CXs. Soon, robots will carry out similar roles. Lowe's has experimented with using customer service robots in its stores.

Implications for Practice

This paper has discussed four strategic factors—goal alignment, trust, relevance to social identity and fit to context—as if they were independent elements of the CX. However, customers view experiences holistically, so firms must integrate these factors to create a coherent experience that unfolds over time. This perspective suggests five key considerations for firms that seek to innovate the CX:

1. Managers should ensure that CXs are integrated and consistent across all dimensions—akin to designing or choreographing events in real time, rather than managing experiences.
2. Firms must create meaningful consumption experiences with emotional engagement—where these experiences should unfold in social contexts that resonate with customers.

3. Firms must have a deep understanding of the customer journey—past, present and future—so they can evolve the CX to remain relevant as he/she develops new goals, preferences and social identities or moves into new situations.
4. Innovating the CX entails leveraging technology, employees and network employees in synergistic ways to fit customers' emerging needs and new situations.
5. Managers must experiment and remain flexible, so that customers can co-create in ways that fit their needs and context.

Concluding Remarks

I am delighted to contribute a paper in honour of Dr Jagdish N. Sheth and his contributions to our field. As a member of the Board of the Sheth Foundation, I have first-hand knowledge of how the foundation supports young scholars and emerging fields of scholarship. The foundation epitomizes Dr Sheth's commitment to innovation in marketing science and practice.

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