

LINKING EXPERIENTIAL VALUE TO LOYALTY IN SMARTPHONE INDUSTRY

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Abstract

The smartphone industry has grown tremendously in the past years across the world, especially in Asia. The competition between smartphone brand players has been intense and involving sophisticated marketing techniques. Despite of the widespread practice of experiential marketing to market smartphones, little research has been undertaken to investigate whether this practice generate experiential value in the perception of smartphone customers. If the value is evident, the question remains whether it leads to satisfaction and loyalty of smartphone brand. This study tries to investigate whether the practice of experiential marketing drives experiential value, and whether experiential value has a direct effect to loyalty or indirectly through satisfaction. The methodology involved a survey investigating 255 responses from smartphone device user in Indonesian market. The result provides useful findings for marketers as well as supporting the direct and indirect relationship between experiential value and loyalty. The suggestion highlight feel experience as one of the driver factors of experience. Limitation and future research suggestions are explained.

Keywords

marketing; experiential marketing; experiential value; satisfaction; loyalty; smartphone

JEL Classification

M31

Introduction

The needs for information and communication have grown exponentially along with the vast development of information communication and technology (ICT). The means of communication devices have undergone various alterations in terms of models and functions; from a fixed line telephone to mobile phone to a smartphone with many features. Smartphone is defined as phone with the function of a mini-computer as it is powerful enough to deliver many functions. The market of smartphone has grown tremendously in the past decade, hence the competition between smartphones producers has intensified and requires sophisticated marketing efforts.

The market for smartphone in the world has been forecasted to grow from 1.5 billion in 2014 to 2.5 billion in 2019 (Statista, 2016). Asia Pacific region plays an important role within the traffic of smart-phone worldwide. The data obtained from e-marketer (2014) predicted in 2013 to 2018, the top four countries with the most users of smartphones are China, US, India, and Japan. Indonesia ranks seventh based on the number of smart-phone users and it becomes one of the drivers of the development of smart-phone along with China and India. It is estimated that there are a hundred million active smart-phone users in Indonesia alone in 2018 (Millward, 2014). The reality makes the market of smart-phone mobile device in Indonesia an interesting issue to be reviewed.

By the rise of need towards smartphone mobile device, the competition will go more rigorous. As the matter of fact, only certain brands which get to compete. Company as the marketer should realize that their duty is not only related to the issue of developing their high-quality products, maintaining their reasonable selling price and potential distribution channels, but also to the issue of marketing and creating experiences for the recent and future customers.

This situation has pushed marketers to employ creative marketing effort, which based on the latest thinking of value offering. Value is to be regarded as the central process in marketing (AMA, 2013). Marketing's central function involve a series of process of creating, communicating, and providing value for the customers by the means which can benefit both the organization and the stakeholders (Kotler & Keller, 2009). Kotler (2002) stated that modern marketing has moved beyond the traditional one by emphasizing the concept of customer experience and experience marketing. Experiential marketing is a process of identifying and satisfying customers' beneficial needs and aspirations by incorporating two-way communication to generate a distinct trait towards the brand in order to be able to survive and become an add value for the targeted customers (Smilansky, 2009). The subject of experiential marketing has currently developed attention as one of the latest thinking in the field and encouraged for research. According to Market Science Institute (2013), the first tier (tier 1) of research priorities in 2014-2016 is to prioritize a research related to comprehension of customers and customer experience.

Although there has been interest in experiential marketing research, a study in the context of of smartphone mobile device is rarely found. Most of the research is investigating the service sector. For example, Wang & Lin (2010) research in tourism industry, while Kim & Kim (2011) and Pham & Huang (2015) provided empirical evidence in hotel service. Similarly, Tuba (2013) investigated festival events. From the limited studies in the context of technology, research by Maghnati et al (2012) revealed that experiential marketing affected experiential value of smart-phone. Another finding by Lin et al (2009) stated that experiential marketing directly affected perceived value but not directly affected loyalty. There was no positive correlation between obtained value and loyalty. Hence, the literature review so far still lacking and a comprehensive study experiential marketing is barely found.

The scarcity of research in term of marketing smartphone is very contradictive to what is required by the practitioners of this industry. Preliminary research via In-depth interview conducted by the researcher with smartphone industry marketers revealed that the experiential marketing is a widespread practice by smartphone dealer and producers. The experiential marketing is included in marketing program mainly in the beginning of consumers' buying process in order to spark the desire of purchasing smart-phone. The wide practice of experiential marketing, yet lack of solid theoretical background study, calls for further investigation in for the topic in the marketing of smartphone industry. Therefore, the main objective of this study is to investigate whether, within smartphone market, experiential marketing can stand as competitive value that leads to customer's satisfaction and loyalty.

Literature Review

Experiential marketing is a marketing concept, which attempts to promote its products in order to attract customers as well as to bring about pleasant impression of the products. Schmitt (1999) explained that experiential marketing consists of sense experience, feel experience, think experience, act experience, and relate experience. This kind of marketing generates experiential value, which can be a competitive value of the marketers. Holbrook & Hirschman (1982) clarified that consumer value is an experience obtained from the process of experiencing consumption instead of from the

product purchased, the brand chosen, or the product ownership. Mathwick, Malhotra and Rigdon (2001) continue the theory of Holbrook using experiential value scale (EVS) which consists of inner/external value as well as active/passive value which are then classified into four categories: consumer return on investment (CROI), service excellence, aesthetics, and playfulness. Customer value drive satisfaction and loyalty. *Consumer satisfaction* is the consumer's fulfilment response. It is a judgment that a product/service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment, including levels of under - or over fulfillment (Oliver, 2010). Customers are considered satisfied when they have positive impression generated from the process of evaluating what is obtained to what is expected, including the decision of purchase per se as well as the needs and wants related to the purchase (Poku et al., 2013). In maintaining the customers, the company should provide optimum satisfaction for the customers. This satisfaction can be met when customers' expectations are fulfilled. In many cases satisfaction can lead to loyalty. Loyalty is defined as a commitment to repurchase consistently in the future (Oliver,2010).

Hypothesis Development

Past studies have found relationships between variables in this research as a base for hypothesis development. Mathwick et al (2001) found experiential marketing can affect experiential value positively. This finding is supported by the research of Maghnati et al. (2012) in which the conclusion shows that there is a positive effect of experiential marketing variables towards experiential value. The variable consist measurement of sense, feel, act, relate, and think experience.

H1: Experiential Marketing affects Experiential Value positively

Wang & Lin (2010) stated that there is a positive effect of experiential value on consumer satisfaction. It is also verified by the research of Yazici (2013) which statistically and theoretically supports the importance of experiential marketing and value on consumer satisfaction and behavioral intention in the future.

H2: Experiential Value affects Satisfaction positively

Nevertheless, in current competition environment, to make the customers satisfied is not enough. Even-though customers satisfaction is essential to generate loyalty, the main goal of the company. According to Kotler & Keller (2009), when customer satisfaction meets their expectations, the customers will carry on purchasing and this will generate customer loyalty. Wang & Lin (2010) and Wu & Tseng (2014) found that there is a positive relationship between customer satisfaction and customer loyalty. Experiential marketing aims to increase long-term loyalty of the consumers by providing distinct and unforgettable experience when they use the products.

H3: Satisfaction affects Loyalty positively

Griffin (2005) exclaimed that customer loyalty is a strong commitment of the customers that they are willing to consistently purchase products or services in a long-term period of time without being influenced by the situation and other products' marketing. Obonyo (2011) stated that there is a significant and positive between experiential marketing and experiential value as well as between experiential value and customer loyalty. Brakus et al. (2009) suggested that brand experience affected consumer satisfaction and loyalty.

H4: Experience Value affects Loyalty positively

The hypotheses developed a model that investigate the relationships between Experiential Marketing, Experiential Value, Satisfaction and Loyalty.

Methodology

The research design used is descriptive research, which aims to describe the nature or characteristics of particular phenomenon. This descriptive research is classified as cross sectional design due to its samples and research period; it means that information was collected from any source of population and managed only once. The data were used using survey quantitative approach.

In drawing the samples, the researcher utilized judgment sampling (or widely known as purposive sampling) of non-probability sampling method. The criteria of the respondents are smartphone users in Jakarta city, Indonesia. The city is selected since it dominates total numbers of mobile phone in Indonesia. In 2014, there were 270 million mobile phone users in which the greatest ratio of mobile phone ownership was found in DKI Jakarta by 1.8 mobile phones per person.

The instrument used to collect primary data in this research is questionnaires organized in the form of Likert scale covering these following operational variables: the observed variable of experiential marketing includes sense experience, feel experience, think experience, act experience, and relate experience (Schmitt, 1999) The observed variable of experiential value includes consumer return on investment (CROI), service excellence, aesthetics, and playfulness (Mathwick et al., 2011) Variable of satisfaction was referred to the concept of Oliver (2010) which termed Consumption Satisfaction Scale. Lastly, variable of Loyalty was based on the concept of Oliver (2010). The analysis of result is conducted using SEM- PLS with the help of Smart-PLS Software.

Discussions

The research samples consisted of 255 respondents; they are the inhabitants of DKI Jakarta who use smart-phone. There were 101 male respondents (39.6%) and 154 female respondents (60.4%). The sample was dominated by 112 respondents within the age group of 20-25 years old (43.9%). The level of education varied; the majority of respondents (117 people or 45.9%) hold a bachelor degree, followed by 85 people (33.3%) who are senior high graduates. All of the respondents own smartphone. The brand that dominates smartphone ownership is Samsung (45.9%) which makes it the most dominant brand in the sample.

The analysis consisted of measurement (outer) and structural (inner) model analysis. Outer model analysis was managed to verify that the utilized measurement is valid and reliable. This analysis focuses on the correlation between latent variable and its indicators. The tests which were carried out within outer model analysis are convergent validity (CV), discriminant validity (DV), composite reliability (CR), average variance extracted (AVE), and Cronbach's Alpha. These tests follow the criteria and the requirements proposed by Hair et al. (2014). The criteria are minimum CV of 0.5, minimum CR of 0.7, minimum AVE of 0.5, and minimum Cronbach Alpha of 0.6. Among all indicators, 50 indicators met those criteria and qualified the measurement model test. Therefore, those indicators are valid and reliable ergo they can measure the data and the questionnaires can serve consistent answers.

Inner or structural model analysis was administered to assure that the structural model developed is robust and accurate. The evaluation of inner model in this research is conducted by assessing the determinant coefficient (R²) and Predictive Relevance (Q²). The result of R² analysis shows latent experiential value and customer satisfaction towards latent customer loyalty is 0.448 or 44.8%. The rest (55.2%) is influenced by other unobserved variables beyond the model. While, the effect of latent experiential value towards latent customer satisfaction is 0.576 or 57.6%. The rest (42.4%) is affected by other unobserved variables beyond the model. Lastly, the effect of latent experiential marketing towards latent experiential value is 0.585 or 58.5%. The rest (41.5%) is affected by other unobserved variables beyond the model.

The value of Q2 is used to determine the relative effect of structural model towards the observational measurement of latent, endogenous variable. The value of $Q2 > 0$ provides an evidence that the observed values have been well-reconstructed. The calculation shows result of 0.902 for the model. Hence, it can be stated that the model used in this research is acceptable and that the model has predictive relevance for its value of Q2 is 0.902. Based on the examination on R2 and Q2, it can be inferred that the model developed is robust. Therefore, hypothesis investigation was administered.

Hypothesis Testing Result

The value of t-statistics was obtained from bootstrapping procedure in which the value is used to draw conclusion during hypothesis testing. Hypothesis testing is administered by comparing the value of t-statistics of each correlation of each latent variable to t-table with the level of confidence of $\alpha = 5\%$; the result is considered significant when the value of t-statistics of correlation of each latent variable is $\geq 1,96$ (Hair et al, 2014).

Hypothesis Test Result

The study found all four hypotheses to be accepted (Figure 1). The first hypothesis (H1) test revealed that that the relationship between experiential marketing and experiential value is significant with t-statistics of 28.049 (> 1.96). The value of the path coefficient is 0.765, which implies that experiential marketing has positive effect towards experiential value. This is in line with the research conducted by Maghnati et al. (2012) which implies that the better experiential marketing developed by producer of smartphone, the higher experiential value of the users of smartphone.

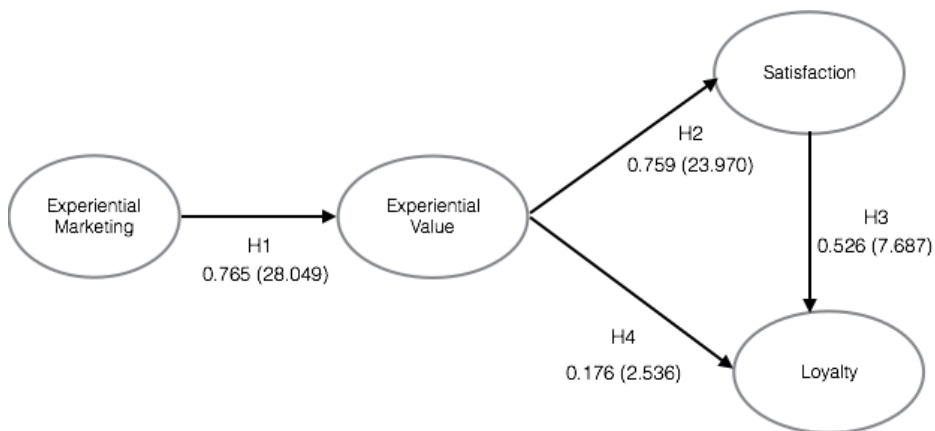


Figure 1. Research Model Result (loadings, T-Values)

The second hypothesis (H2) found that the relationship between experiential value and customer satisfaction is significant with t-statistics of 23.970 (> 1.96) and path coefficient is 0.759. The result proved that experiential value has positive effect towards customer satisfaction. This result supports the work of Wang & Lin (2010) and Yazici (2013). The result implies that if customer's perception of experiential value is high, the most likely they are satisfied with the smartphone.

Hypothesis 3 proved that the relationship between customer satisfaction and customer loyalty is significant with t-statistics of 7.687 (> 1.96) and path coefficient is 0.526 which translate to customer satisfaction has positive effect towards customer loyalty. Wang & Lin (2010) also Wu & Tseng (2014) provide the same result.

The fourth hypothesis (H4) found a positive and significant relationship between experiential value and customer loyalty (t-statistics of 2.536) and path coefficient is 0.176. This is contrary with finding from Lin et al (2001), however, in line with Brakus

et al (2009) and Obonyo (2011). The test proved that experiential value has direct relationship to loyalty, thus the higher perception of experiential value translates to higher loyalty from the customers.

In addition, a mediation test is conducted to test whether experiential value also have indirect relationship to loyalty thru satisfaction. A mediation effect takes place when the third variable intervenes the other two related constructs (Hair et al., 2014). The test of mediation effect can be carried out by using Variance Accounted For (VAF) developed by Preacher and Hayes (2008). Based on the results of mediation test, the calculation value of VAF is 0.575; it shows that 57.5% correlation of experiential value to customer loyalty is justified by customer satisfaction as the mediator. Since VAF is greater than 20% yet smaller than 80%, the customer satisfaction is regarded as partial mediation.

Implications

The study has implications to the practice of marketing in smartphone industry. Marketers should design their marketing program to include experiential aspects, which are: sense, feel, think, act and relate. These efforts of experiential marketing will generate the experiential value of customers toward the brand. In more depth, the study infer that the highest experiential marketing is excitement indicator within the dimension of feel experience. This has practical value that the producer of smart-phone must increase and maintain feel experience by creating appealing moods and emotions. The research highlights that feel experience is the main benchmark used to determine whether experience marketing created by the producer is good or bad. This particular experience can be represented through ideas and excitement as well as reputation of customer service.

In addition, the marketing program could also align the experience created in order to achieve one of these values: playfulness, aesthetic, service excellence and customers return on investment orientation. Third implication is that marketers should realize that to maintain loyalty, the experience marketing program and values should not only create excitement but also satisfaction. This implies that the engagement should occur not only at the time of the buying process but needs to continue throughout the usage of the device. In addition, the study also adds to literature discussion experiential approach, with the replication in the context of smartphone industry.

Limitations, future studies and conclusion

There are limitations and room for improvement for future research regarding topic of this study. There are many factors that might affect the consumer behavior of the current research, but not yet considered in the current study. First, the respondent only evaluates the device experience only. Especially in smartphones, applications availability, operation system and telecommunication provider might as well determine experience. Secondly, this study has not differentiated between high end and low-end smartphones. In the market, in fact, the price range is quite substantial as the result that technology in present can be cheaply acquired by certain brands. Moreover, the study has not taken into account the typologies of consumers. For example, there are consumers that are more experience focused (hedonic) and others are more task focused (utilitarian). Future studies can explore how this consumer typology affect the result of consumers in evaluation their experiential value and loyalty.

Nevertheless, the study adds to the literature on the experiential marketing topic in the context of smartphone industry. It concluded that, the experiential marketing is important to create experiential value and leads to loyalty. However, the products still need to satisfy the customers as satisfying customers have bigger propensity to drive

loyalty. The marketing of smartphone is no doubt should be conducted experientially and practice should follow the purchase with engaging services which drives satisfaction to brand loyalty. The Experiential marketing practice is considered important to establish the goals of the company thus it is essential that effective experiential marketing strategy be organized and implemented genuinely in order to create experiential value which will affect the customer's satisfaction and loyalty.

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