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# The role of customer experience management in the purchase decision process

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The purpose of this research was to explore the concept of customer experience management and identify the effects it has on customer loyalty, customer satisfaction, and purchase behaviour. In research, the impact of customer experience management on these variables is not well understood and this study aims to fill in the gaps and explore the topic in more detail.

The study was conducted solely based on secondary data, which was collected from books, reports, journals, and other academic references.

Results of this research showed that customer experience management can impact purchasing behaviour both directly and indirectly. Customers who participate in experiences are more likely to make purchasing decisions. The results also showed that there is a connection between customer experience management, customer satisfaction, and customer loyalty. Organizations that can provide complete experiences across all touchpoints can yield great results in form of customer satisfaction and customer loyalty.

The biggest challenge is understanding customer emotions and states of mind. Acquiring this information for customer experience management processes requires data collection and big investments. Some customers might react to experiences in a different way than others and therefore, it is important to identify the target audience and design the marketing mixes accordingly.

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# 1 Introduction

## 1.1 The Topic

Over the years marketing has slowly shifted to a more customer-oriented approach. Old practices are not as effective as they used to be, and markets are becoming more fragmented and competitive. In this environment it hard to differentiate one business from another and achieving a competitive advantage is a challenging task. However, despite these challenges, there is an approach that seems to be one of the most promising ones: customer experience management (Homburg et al., 2017).

Customer experience management (CEM) focuses on enhancing experiences between the customer and the business. If this is done correctly, customers form an emotional bond with the brand (Nasution et al., 2014). It is no secret that customers would want to have positive experiences that provoke interest and curiosity. After all, everyone has had a negative interaction with a company at some point in their lives, and they wish that the business they were dealing with would have handled it differently.

From a monetary perspective, this topic and the concept of customer experience management are also really important. Customer experience management can help organizations to achieve differential advantage (Joshi, 2014). Furthermore, it can have a positive impact on many other aspects as well, which will be presented in this study. Furthermore, while conducting this research the findings provoked curiosity from the author as well. Recent studies show that an increasing number of individuals are feeling lonely and in response to this issue organizations are focusing on bringing people together, by creating communities and opening more physical stores (Cigna, 2018; James, 2019). Moreover, due to the COVID-19 epidemic people are feeling lonelier than before (Seifert et al., 2020; Groarke et al., 2020; Tiilikainen., 2020). This is one of the main reasons why this research is important especially now.

A positive experience can also have a very big impact on customer attitudes and recommendations. Furthermore, as The Internet is becoming easily accessible everywhere and social media channels are growing rapidly, customers can now share

their stories and experiences with others easily. Furthermore, it also allows businesses to interact and communicate with consumers through different channels. Although the increasing number of touchpoints makes the planning and designing stage of the customer experience management more complicated, it also allows organizations to engage with the customers in new and innovative ways.

Memories of our experiences shape our worldviews and perceptions of ourselves and the people surrounding us. They are an essential part of our everyday life. It is more than likely that many of our decisions have been influenced by experiences. Whether it is a positive interaction at the local store or a story of a memorable experience that a friend told you, people tend to pick up on things and make their decisions based on that. However, to understand customer experiences and how people react to them we must look at the concept in more detail.

## 1.2   Research Question

Businesses and researchers believe that experiential marketing is the key to competitive advantage as markets are becoming more competitive (Same & Larimo, 2012). However, many organizations find it challenging to shift from old models to a customer-oriented approach. One of the biggest obstacles is the lack of information about emotions and states of mind that impact customer purchasing behaviour (Meyer & Schwager, 2007). Furthermore, after studying a vast amount of customer experience management studies the author found that there was also a lack of research on the effect of customer experience management long term.

Therefore, the purpose of this study is firstly to describe and analyse the effects customer experience management has on the purchasing decision of the consumers. Secondly, to examine the relationships between the customer experience management and customer satisfaction. Thirdly, to examine the relationship between customer experience management and customer loyalty. Previous studies have shown that the relationship between these variables exists and this research aims to explore these relationships in more detail. Thus, the main objective of this study, is to find an

answer to the research question; Can customer experience affect the purchase decision process for consumers and lead to customer satisfaction and customer loyalty?

## 1.3 Scope

This paper will discuss the basics of experiential marketing, especially focusing on customer experience management, customer loyalty, and customer satisfaction. Further, the thesis will analyse the link between these variables and the impact they have on purchase behaviour.

The literature review will cover collected information from multiple standpoints. It will explain the fundamental topics and the information gathered in the literature review will work as a base for this research.

After the literature review, the research methods sections will discuss and explain the choice of applied data and data collection methods. Furthermore, the interlinkages between the variables will be explored and described in more detail. Finally, the thesis will be discussed in full and with a consensus on the issue, the topic will be concluded.

References will be listed at the end of the thesis.

## 2    Literature Review

In this section, the thesis will explore the core topics related to the presented subject. Marketing, experiential marketing, customer experience management, customer loyalty, and customer satisfaction will be explored in more detail. The information was gathered using literature including books, reports, journals, and other academic references.

Understanding these topics and factors that influence them is an essential part of this research. The topics that will be introduced in the literature review will be later applied in the analysis section of this research. Therefore, in this section, it is important to cover the main frameworks of each topic.

The literature review will look at these various aspects and will analyse the key elements from different perspectives. Furthermore, due to recent increased interest in this topic, the referenced literature will be up to date.

### 2.1    Marketing

Marketing is one of the core topics of this research. It is much more than just selling products, ideas, and services. It involves processes that focus on providing value and benefits to consumers. Everyone in the company or the organization is involved in marketing one way or another and it is a common misbelief that the marketing department is solely responsible for all the marketing actions. In the words of the co-founder of Hewlett-Packard, David Packard: "Marketing is too important to be left to the marketing department." Everyone also has to 'market' themselves in pursuit of their career ambitions and goals (Lancaster, 2002).

Kotler and Armstrong (2010, p.16) describe marketing as a process that creates and captures customer value. The value proposition is described as a beneficial exchange for both parties where customers get better products and/or services based on their needs and wants and the organization can attract new consumers, grow its market, and keep its presence in existing markets. However, Kotler and Armstrong present this idea with a profitability approach, whereas the often-quoted definition of marketing by the American Marketing Association (AMA, 2017) is more applicable in not-for-profit organizations: "Marketing is the activity, set of institutions, and processes for creating, communicating, delivering, and exchanging offerings that have value for customers, clients, partners, and society at large."

In the last few decades marketing has changed a lot. Globalization and easy access to different online sources lead to new marketing practices and created new areas of marketing. Although this can be seen as a challenge, it also offers opportunities for businesses. As marketing is slowly shifting away from traditional practices and becomes more and more customer-oriented, the customer-related data also becomes easier to collect and analyse (Belleghem, 2015).

2.1.1   Marketing Process

The marketing process presented in figure 1 is a simple model that explains the process in five different stages. During the first four steps, organizations try to get a better understanding of their customers and create a value proposition for them while improving and building strong relationships. In return, the companies capture value from their customers which can be seen as a return on the investment where both parties benefit from each other. This action is directly proportional. If an organization provides greater value offering, there will be more value to capture from the customers in return (Kotler & Armstrong. 2018).
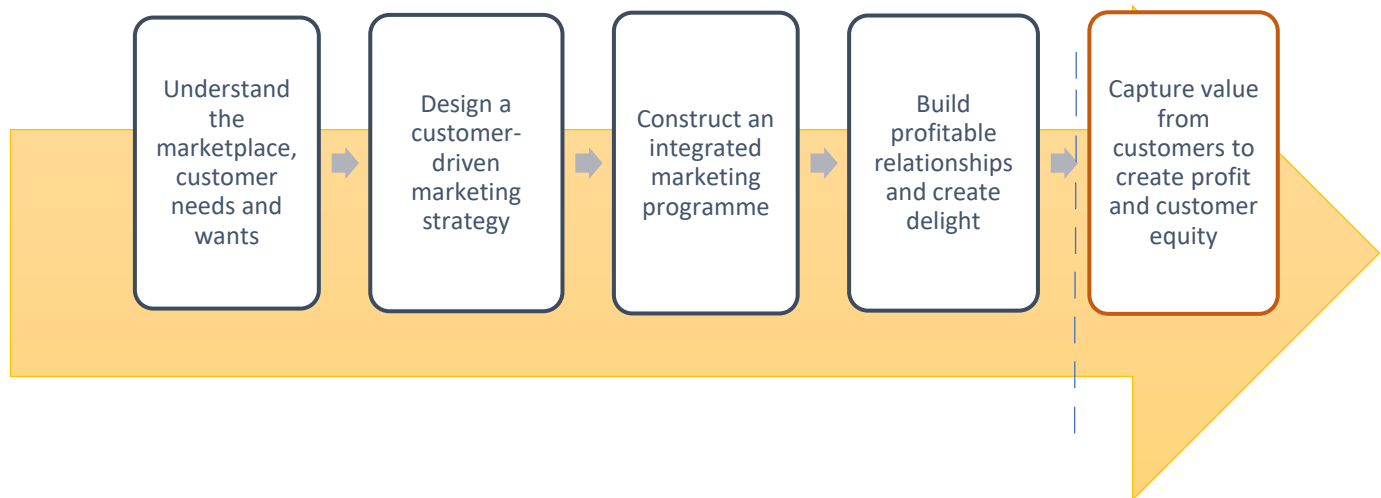
Figure 1. The Marketing Process: Creating and Capturing Customer Value (Source: adaption of Kotler and Armstrong, 2018)

In the first step of the marketing process, the focus is on the customer. Marketers conduct research and analyse data to get a better understanding of the customer. It is important to understand what the customer needs and wants in order for marketing to be effective. Kotler and Armstrong (2018) describe needs as "basic physical needs for food, clothing, warmth, and safety" and wants as a shaped form of needs based on the culture and background.  A person living in New Zealand might need the same things as a person who lives in Finland however, their wants might be completely different. This is also visible on a smaller scale for example in a group of friends where everyone might need food but not everyone would want to eat the same food. Companies focus on fulfilling these needs and wants through market offerings. It can be a simple product, service, or experience, and often it is a combination of those things. Many businesses make a mistake of focusing on the product way more than the experience and the real customer need. However, those that can provide the customer with valuable and immersive experiences achieve better results long-term (see 2.4.2 Examples of CEM).

In the second and the third step of the marketing process, the main idea is to create a promise, a message, a value proposition that would satisfy customer needs. One of the elements of a value proposition from Norwegian company Elkjøp, better known as Elgignaten or Gigantti is the promise that "It is just stupid to pay too much! /Se nyt vaan on tyhmää maksaa liikaa!" implying that the customers would get better value for their money compared to their competitors. When designing a marketing strategy, it is also important to find and identify the correct people (target market) who would want the product, service, and/or experience. Once an organization fully understands the target market and how they can create value for them, they can use the marketing tools to implement their marketing strategy (see 2.1.2 Marketing Mix)

The fourth step is one of the most important ones for this research. The whole concept of customer experience management focuses on creating and maintaining a good relationship with the customers. This is achieved by providing memorable and positive experiences, which impacts customer satisfaction and loyalty. These factors create long-lasting relationships between businesses and customers. Furthermore, digitalization allowed businesses to keep their presence online and created opportunities to connect with their customers through multiple channels. However, this also means that the customers are more informed than before. Active customer engagement and customer attraction are crucial for building long-lasting relationships with the customer.

A satisfied customer with good, long-lasting, and profitable relationships is a very valuable asset to any organization. For businesses, it is far more expensive to acquire a new customer than it is to keep a loyal one. Therefore, it makes perfect sense for the organizations to build and improve these relationships. However, capturing value from the customer is much more than keeping the customer loyal and satisfied. Value can also be captured by influencing purchasing behaviour which often makes customers buy more than they intended (Verhoef et al., 2009).

2.1.2  Marketing Mix

The marketing mix is one of the essential tools of marketing. It consists of controllable elements which are important to businesses when creating marketing strategies. The original idea of a marketing mix was inspired by Culliton in the 1940s. In his study, he described the business executive as:

> …a "decider," an "artist" — a "mixer of ingredients" who sometimes follows a recipe prepared by others, sometimes prepares his own recipe as he goes along, sometimes adapts a recipe to the ingredients immediately available, and sometimes experiments with or develops ingredients no one else has yet tried. (Culliton, 1948, p.6)

Neil H. Borden who was also from the Harvard Business School became so fond of this metaphor that in 1964 in the Journal of Advertising Research he named the 12 marketing elements "ingredients" the marketing mix. In his study, Borden explained that the list was not definitive. Although to this day there are many different marketing mix frameworks, the 'four Ps' (Product, Price, Promotion, Place) has become the most enduring one (Groucutt et al., 2004).
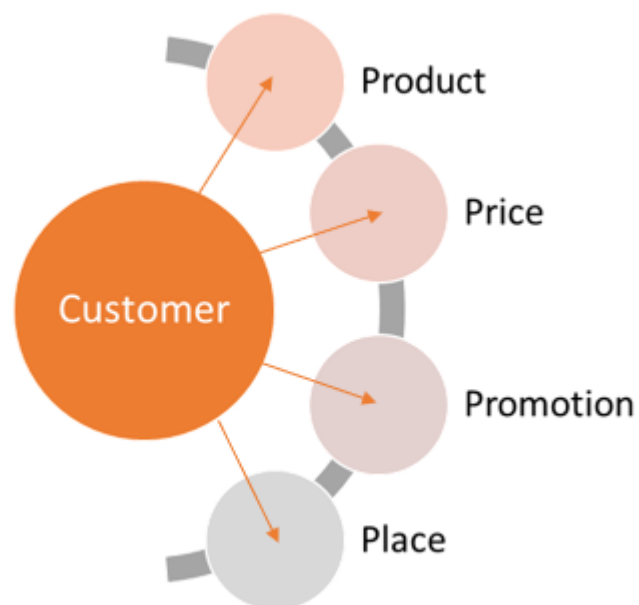
Figure 2. The Marketing Mix (Source: adaption of Borden, 1964)

**PRODUCT**: Goods and services that are offered to the customer with all the features and branding. It is something a company offers to the customer based on their needs and wants. The process of product development has also changed a lot. An earlier practice which some organizations still use is to create a product first and then find as many people as possible to sell it to. However, a newer model is more focused on communicating customer needs and wants first to engineers and then creating a product with these factors and features in mind.

**PRICE:** Value of a product which is often compared to the competitors based on the quality or performance.  It might fluctuate depending on the additional services and experiences if they are provided. It is also heavily impacted by the brand value and brand image.

**PROMOTION:** Method of communicating and influencing which is used to portray a product to the customers. Advertising, special offersc and trained salesforce are all a part of the promotion process. It is also important to note that public relations are also linked to the promotion P. However, they are rarely seen as a direct marketing function although they have an impact on promotion.

**PLACE:** Channels where the product is made available. This also includes distribution and different parties which are involved in the process. An organization might include or remove specific steps from this process depending on their strategies. For example, if a company does not want to compete for the shelf space in the store, they can choose to market products directly to the customer.

Companies focused on the customer experience management tend to give more attention to direct and indirect customer interactions. Most of the indirect interactions and decisions happen in the promotion P, such as advertisement and the direct interactions occur in the 'product' and 'place' Ps. Furthermore, some of the more

innovative companies have found ways to implement intangible elements in their tangible products. One of the good examples would be the sound the door of an AUDI automobile makes when you close it.

Although the 4Ps framework is still fully applicable in experiential marketing, many authors propose a modified version of this framework with new elements. In their studies, Kotler 1984, Ohmae 1982, Robins 1991 and Schultz 2001 suggest new marketing mix elements and although each of them has their own focused view there seems to be a consensus on the idea of adding 'Customers' as a separate element to the marketing mix.   However, having customers as a separate element in the mix would make it more complicated than it needs to be, and truly customer-oriented organizations would make decisions in all the marketing mix elements based on the customer anyways.

## 2.2    Experience

Despite the vast amount of research that can be traced back to the ideas created by the philosophers' hundreds of years ago. The concept of "experience" is very complex and there is no consensus on the definition. Thus, this section will purely focus on the definition that can be applied in business research. (Daher et al., 2017), states that experience is "the creation of meanings, which are transformed and enacted in the intersubjective encounter". These intersubjective encounters can happen between different customers, customers and organisations, or different parts of the organisation. Holbrook and Hirschman (1982) defined the experience as a positive interaction "a steady flow of fantasies, feelings and fun". However, this does not mean that negative interactions are not experiences. Pine and Gilmore (1998) describe the experience as an engagement with an individual that creates a memorable event. These interactions and experiences are extremely important to businesses. A good experience will create positive memories and will lead to a better attitude towards the brand and on the other hand, a negative experience can lead to a full avoidance of future interactions with a brand (Nasution et al., 2014). It is clear that most of the

organisations seek positive outcomes and it is in their interest to create strategies that are beneficial for them.

Scholars have also found different methods of evaluating and measuring the experience. Cronin, Brady, and Hult (2000) suggest that experience can be measured by comparing the experience with the expectations. However, it is not that simple. A later study published by Klaus & Maklan (2011) highlights that experience is not related to the expectations but rather an overall assessment of value made by the customer. Furthermore, consumers will take a longitudinal approach when evaluating their experiences, and even before purchasing they will assume that they have had an experience with a brand due to indirect contacts such as word-of-mouth or advertising (Klaus & Maklan, 2011). The number of indirect experiences is now rising due to the technological advancements made in recent years. Brands are also engaging more in the digital environment, which makes it easier for people to interact with them before making any direct contact (Belleghem, 2015).

Recent literature also suggests that experiences can be divided into two different types: extraordinary experiences and ordinary experiences. Arnould & Price (1993) describe the extraordinary experience in their river rafting example as an experience that takes place at a high degree of emotional intensity. This experience can occur for example in a theme park or when a person enters a flow state which requires complete involvement in the activity.  Furthermore, it would be impossible to call an experience extraordinary without having something to compare them to – ordinary experiences that are derived from our everyday life (Klaus, 2014). Extraordinary experiences are the most exciting and memorable ones. Therefore, the most impactful customer experiences would be the ones that the customers would consider extraordinary. Businesses that innovatively engage with the customers can be ahead of the curve by creating impactful customer experiences (Joshi, 2014). Furthermore, correct communication with the customer is extremely important when creating extraordinary experiences. Instead of marketing normal and everyday things marketing should focus on delivering a message of unique and once in a lifetime opportunities and experiences (Klaus & Maklan, 2011). Recent literature also highlights the importance of omnichannel communication. Organizations should focus more on

engaging with customers by creating consistent and personalized experiences through all the available channels (Pogrebniak, 2019).

## 2.3    Experiential marketing

As the market environment becomes more and more fragmented, making it harder to reach consumers, businesses are able to make improvements in their marketing expenditure by using new and alternative communication approaches to communicate with consumers and to reach them more effectively (Kotler & Armstrong, 2018). Companies that started to understand and value emotional connections with clients have noticed the positive effects of experiential marketing. Joseph Pine and James Gilmore (1998) recognised the experience as an offering that has economic value. Furthermore, they predicted that many organisations would shift from a service-oriented view to a more engaging experience model. However, it took some time for the organisations to adjust. It started with only a few brands that had an optimistic approach to experiential marketing and after their strategies started paying dividends in terms of increased ROI numbers, other companies were quick to follow their example. "From HP, Intel, Adidas, and 7-Up to Kraft, Nissan, Rolex, and Target, companies embraced experiential marketing as the new mainstream, initially funding live events out of ineffective above-the-line marketing budgets." (Smith and Hanover, 2016).

Experiential marketing is described by Smilansky (2017) as a "customer centric approach to effectively communicating with your Target Audiences". This communication is described as an active and live interaction between the consumer and the organization, where channels for marketing communications function as amplifiers. Furthermore, Shmitt (1999) highlights that experiential marketing is seen as a contrast to the focus on functionality that traditional marketing has. Experiential marketing provides values to the customer in form of experiences that replace the need for functional values.

2.4    Customer Experience Management

In the last few years, there has been an increased interest in the concept of Customer Experience Management (CEM / CX) and it has been one of the core topics in recent Experiential Marketing research studies. Although the idea of Customer Experience Management has been around for decades, interest in the customer-oriented approach became a trend only recently, which inspired a vast amount of research.

The definition by (Verhoef et al., 2009) describes Customer Experience as an interaction and set of relationships between consumers and goods or services, organizations, or different components of the business, which results in a personal reaction. The personal reaction is influenced by customer needs and their goals on (rational, emotional, sensorial, physical, and spiritual level). Moreover, Walden (2017) describes customer experience as a process that is influenced by customer drives ultimately leading to behaviour. This concept of customer drives described by Walden enables a far wider perspective on Customer Experience which includes small and indirect experiences as well, rather than just the root-cause relationship to behaviour which has been a common approach used in several studies (see section 2.5.1).

Customer Experience Management can also be defined as an organization's focused efforts to enhance the quality of customer-organization experiences at different touchpoints in a consistent and efficient way (Rawson et al., 2013). Interactions and consumer engagement increase the perceived value and quality, together with the accumulation of knowledge this results in an increased probability of consumers forming an emotional connection with the brand (Nasution et al., 2014). By practicing Customer Experience Management and creating positive and memorable moments for customers organizations can achieve a differential advantage, improved customer experience, increasing sales, and positive referrals (Joshi, 2014).

According to the research made by Meyer & Schwager (2007) CEM refers to the "…internal and subjective response customers have to any direct or indirect contact with a company." Direct contact occurs in customer-controlled scenarios which include purchasing, visiting a store or a company event. Indirect contact is something that a customer cannot predict and plan. It can be a review on a website, advertisement, or

word of mouth. Most businesses use a value-in-use approach to understanding CX where the customer is co-created by aligning the customer's objectives with the organization's offering (Vargo & Lusch, 2008). Thus, customer experience management is about creating memorable experiences that impact customer drives and looking at things from the perspective of a customer.

## 2.4.1   Examples of CEM

One of the main goals of experiential marketing is to create positive and memorable experiences and memories for customers. Automotive industry giant Volkswagen introduced the "Fun Theory" which assumed that people would interact and engage more with the things they consider fun. In one of their social experiences Volkswagen team designed and built a Piano Staircase in Stockholm that had a designated note for each step. The results of this experiment showed that 66% of the people chose a more fun and interactive route instead of using the escalators (Volkswagen, 2009).

Another good example of the customer experience management implementation in practice would be the Arctic SnowHotel & Glass Igloos in northern Finland. With the increasing number of tourists seeking the aurora borealis experience in that area, Arctic SnowHotel has found a creative way of creating memorable and meaningful experiences for their customers. The phenomenon of aurora borealis is rare and is often only visible during the darkest hours of the night. However, this problem is provided with a solution. The glass igloos are equipped with the Aurora Alarm which gently wakes the customers up to admire the aurora borealis.

Customer experience can also be orchestrated and planned with the intention of creating a specific mood and experience for the customers. While walking around a Disney Land theme park there is a specific atmosphere that heavily impacts our experiences. Arvidsson (2005) suggests that customer involvement and active contribution such as filling your own drinks and popcorn cups at a movie theatre also contributes to the overall experience. Furthermore, customer contribution is especially

important online, where constant feedback and reviews on a web page, mobile application, or a video game shape the customer experience. Customer contribution and involvement became especially important recently. In a report published by Cigna (2018) nearly half of the Americans reported feeling lonely. In response to this issue organisations building more physical stores and creating communities that are "designed to bring people together and drive meaningful connections" (James, 2019). Jeep is one of the companies that organise off-road weekends, so-called Jeep Jamborees with a goal of bringing people together and utilizing customer experience management for good (Jeep Jamboree U.S.A., n.d.). Activision Blizzard encourages their communities to organise "Fireside Gatherings", events that are hosted by the community members, where people can interact and play games with each other (FiresideGatherings, 2021).

## 2.5    Consumer Decision Making Process

Knowing why and how the customers make their decisions helps marketers to create better and more effective marketing strategies. To truly understand the decision-making process of their consumers' marketers should look at the process from the perspective of a customer (Pine & Gilmore, 1998). Recent literature suggests that there are models that could be used to analyse and explain this process. For this study, the author chose the traditional model of customer decision making and the DEM- model, because they provide a better understanding of the topic and are applicable when analysing customer experience.
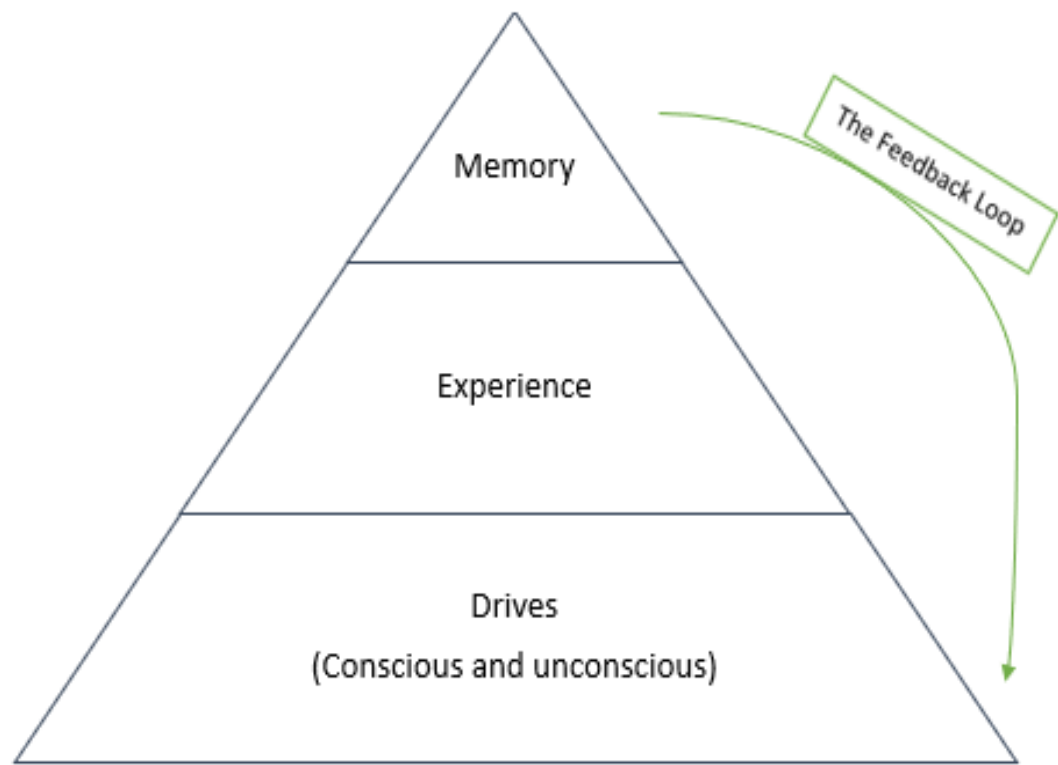
2.5.1   The DEM Model



Figure 3. The DEM model (Source: adaption of Walden, 2017)

The DEM model (Fig 3) was introduced by Walden (2017) and it presents the idea of different aspects affecting customer drives. Customer and brand interactions begin with the initial decision such as a drive to purchase goods from a specific brand, which is made based on needs, emotions, and motivations. These customer drives can be conscious or non-conscious. The initial goal might be as simple as getting some food, however, if the earlier experience in the nearest shop was bad, a customer might decide to go to a different store even though it is further away. These experiences lay down a foundation for memories. Experience might be a bad interaction with the staff at the local supermarket or a pleasant family trip to Disneyland. If the experience is truly negative, the customer might avoid any future interactions with that brand. All these factors are connected to the feedback loop through either active interactions or

complete noninteraction with the customer which impacts customer drives and shapes them throughout the brand life cycle.

### 2.5.2 Traditional Model of Customer Decision-Making



Figure 4. Five-Stage Model of the Consumer Buying Process (Kotler & Keller, 2012).

The traditional model of customer decision-making adds a few more steps to the DEM model. After the initial drive which is described as a need recognition in this model, the customers begin to look for relevant information externally and internally. Internal information is described in the DEM- example, where the customer utilizes information based on earlier experiences and the external information is something the customer gathers from other people, public sources, and marketing promotion. However, in their book Kotler & Keller (2012) note that most of the consumers only search for a limited amount of information before moving to the next step. They also highlight that the most impactful sources are the experiential ones even though customers acquire most of the information through commercial sources. This information forms a set of different purchasing options for the customer and after an evaluation customer

chooses the best deal. However, even after the purchasing decision is made the customer might not act immediately. This is especially noticeable when the purchase has a big impact on the customer for example when buying a car or a house. In the last and fifth step of this model, the customer evaluates the purchase. If a customer is happy with the product and/or service and it matched or exceeded expectations, he/she might become "… a brand ambassador influencing other potential customers…" (Stankevich, 2017).

It is important to note that the customers do not always follow the steps in this order. Some of the purchasing actions are made as a habit or routine, where the customer moves from the first step straight to step four without looking for any additional information or alternatives. This is true for many low-priced products that customers buy frequently. Although, this can also be achieved with strong brand loyalty. (Kotler & Keller, 2012)

2.5.3  Customer Satisfaction

In the customer-oriented environment customer satisfaction is an extremely important measurement of performance. In fact, customer satisfaction is becoming the main performance indicator in an increasing number of organizations (Cengiz, 2010). Oliver (1989) defines customer satisfaction as a response from a consumer "…a judgment that a product or service feature, or the product of service itself, provided (or is providing) a pleasurable level of consumption-related fulfilment". When making these judgments and determining satisfaction customers tend to compare the performance of a product, service and/or experience to other organizations (Hill et al., 2013). Moreover, in their study Hill et al. highlight the fact that most people do not switch suppliers that often and they rarely compare their satisfaction with direct competitors, but rather compare it to other organizations from different fields.

Customer satisfaction can be evaluated by using different methods. The most common method that is used in customer surveys is a rating from one (completely dissatisfied) to five (completely satisfied). Complete satisfaction, however, is not

something that companies focus on. It is almost impossible to deliver perfect value propositions to everyone and even if it were achievable would make the operations way too expensive. Therefore, businesses are often happy even if the level of customer satisfaction is below completely satisfied. However, a recent study by Jones and Sasser Jr (2014) found that "Different satisfaction levels reflect different issues and, therefore, require different actions". These issues vary from business to business and therefore, it is important to identify the factors that cause dissatisfaction and improve them. Furthermore, organizations need to keep working and improving on customer relationships because it is one of the most effective ways of creating greater customer satisfaction (Klaus et al., 2013). Although, as mentioned earlier achieving complete satisfaction should not be the main goal for most organizations, it is important to note that the most satisfied customers are also the loyal ones (Jones & Sasser Jr, 2014). Furthermore, satisfied customers are more likely to talk about the company and its products in a more favourable manner (Kotler & Armstrong, 2010).

### 2.5.4  Customer Loyalty

For organizations getting a new customer to make a purchase is often more costly than retaining an old one. Therefore, retaining old customers is more beneficial for organizations. Furthermore, in his study in 1990 Grönroos found that investment that businesses make to acquire a new customer is often so costly that even after achieving the first sale the return on the investment is minimal or negative. Moreover, customers that stay loyal long-term are more likely to have a bigger share of their businesses with the brand (Payne and Chartered Institute of Marketing., 1998). These customers are also less likely to look for substitutes from competitors even if they would get a discount and are also more likely to try out new products or services from the business, they are loyal to (Griffin, 2002). Furthermore, customer loyalty is also beneficial for the customer. Long-term relationships decrease the perceived risk. A loyal customer has a better understanding of business operations, products, and services.

Many organizations also encourage customer loyalty with different loyalty programs and promotions. For example, the most successful loyalty campaign for IKEA is 'IKEA family' membership. It is a free feature that gives loyal customers access to special discounts, events, and free coffee. Their goal is to make loyal customers feel like they are joining a family as the name of the loyalty program implies, which creates a positive relationship between them and the customer. This emotional bond also makes the decision to leave the IKEA family harder. Although customer loyalty strategies and methods vary from business to business, organizations know that loyal customers are one of their most valuable assets.

# 3    Methodology

This chapter will cover the structure of the analysis and the methods that were applied in this research.  As described by Salkind (2012) "research is a process through which new knowledge is discovered". The main aim of the research is to find the answer to a question or a problem (Krishnaswami et al., 2010). After studying a vast amount of customer experience studies the author found out that there was not enough research on the impact that customer experience has on customer decision making and how it affects customers in the long term. Therefore, this dissertation focuses on answering the question:

*Can customer experience affect the purchase decision process for consumers and lead to customer satisfaction and customer loyalty?*

This research will analyse the relationship between customer experience and each variable it influences separately. Findings in each section will help to answer the research question and the answer will be presented at the end of the analysis.

## 3.1    Research Design

The research design for any study is built around primary or secondary data and sometimes a combination of both. Primary data is completely new information that is collected from sources of origin and it becomes secondary data if it is applied in another research by someone else. Due to the nature of this research author decided to focus solely on the examination of secondary sources. One of the main benefits of using secondary data is that it allows access to more information than the primary data sets (Vartanian, 2010). The author has compiled and studied a large amount of literature using books, reports, journals, and secondary surveys in areas of customer experience management to find an answer to the research question.

Kotler and Armstrong (2010) present the idea that there are three different methods of conducting a research: (2010):

**Exploratory** research is a flexible approach that is used to define and describe a problem and offers ideas for future studies. This approach focuses on gathering preliminary information and exploring the topic.

**Descriptive** research focuses on defining and describing a phenomenon such as specific consumer attitudes or market situations.

**Causal** research is more structured. It looks for answers and tests hypotheses. It is a good method for analysing relationships between different variables.

Exploratory research was a natural choice for this study as the focus of this study is to explore the relationships and gather information. The author will use secondary research methods to present findings from recent studies as well as explore the topic in more detail. Furthermore, the analysis will include short case studies, which will give a better understanding of how some of the models presented in the analysis are applied by the organizations. The results of this research will help authors to form hypotheses for future studies.

## 3.2  Research structure

In the literature review, the author has explored the basic theoretical structure of Marketing, Customer Experience Management, Consumer Decision Making, Customer Loyalty, and Customer Satisfaction, and based on the research question the analysis is divided into three sections. In the first part of this analysis the author will explore the relationship between customer experience management and purchase intention. The second part will be more focused on the relationship between customer experience management and customer satisfaction and the third and final section of this analysis will focus on customer loyalty. Earlier studies have shown that the relationship between purchasing intention, customer loyalty, and customer satisfaction exists and

recent literature also suggests that customer experience management might have an impact on all of these variables (Fig. 5). Therefore, the aim of this research is to explore these relationships in more detail.
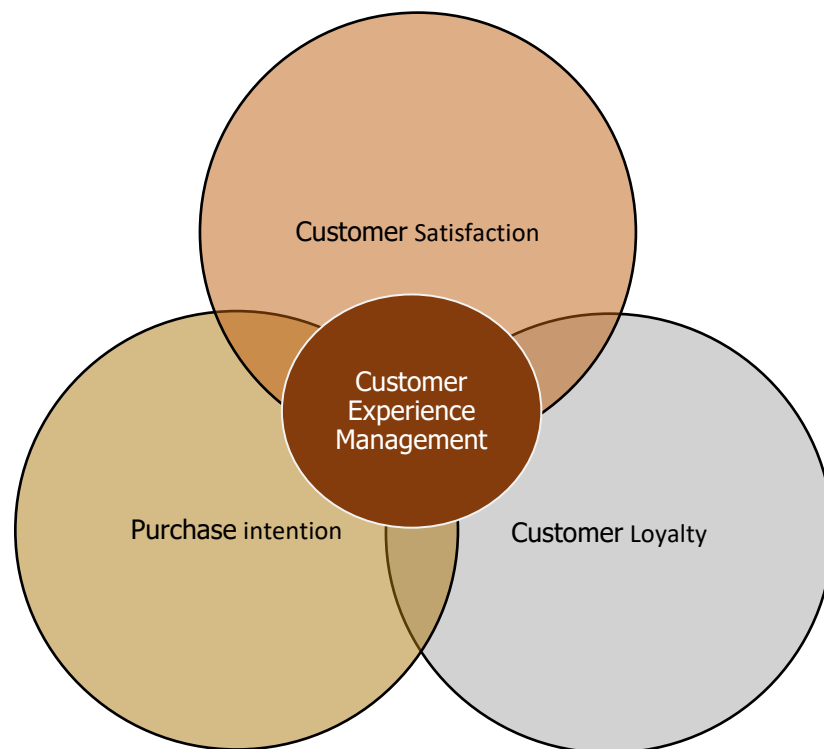


Figure 5. Conceptual model of relationships between the variables presented in this research.

## 3.3    Research limitations

Collection of primary data was not possible due to limited resources and a small number of accessible methods. This is a limitation that was caused by the scale of this study. Since customer experience management requires a lot of information for it to be credible, a small sample size would not give a realistic image of how most

customers act. Therefore, it seems logical to use data from secondary sources that were less limited by resources and had way more accessible methods for primary data collection. Furthermore, the scale of this research does not take extreme scenarios and niche markets into account. Moreover, the relationship analysis between different variables might be impacted by the location and the culture.

# 4    Findings and analysis

In this final part of this study, the author will now evaluate and analyse generated results. The terminology used in this section is described in more detail in the literature review. This analysis will focus on exploring the relationship between the variables and will present findings from recent studies.

## 4.1    Strategic experiential modules

Experience marketing is one of the main ways of achieving a competitive advantage in the current competitive environment (Same & Larimo, 2012). Recent studies show that experiences might have a significant impact on the spending habits of consumers. When customer experience management is used correctly "…it can turn prospects into aware customers who understand the product, have interest in buying it, and actually make purchases "(Smith and Hanover, 2016). However, to understand the impact of customer experience on consumer purchase intention we must first examine the methods that organizations implement in their customer experience management strategies.

In his study (1999) Schmitt proposes five customer experience elements that can be applied in different marketing approaches: sense, feel, think, act, and relate. The table below provides examples and defines each variable.

| Variables | Definition | Examples |
|---|---|---|
| Sense | Appeals to five senses and adds value through aesthetics and excitement | Music and style of the Hard Rock Cafe |
| Feel | Appeals to feelings and creates emotional responses | Excitement in the Disneyland |
| Think | Inspires creative thinking through surprise, intrigue, and provocation | Microsoft "Where do you want to go today?" |
| Act | Inspires changes in consumer lifestyle | Nike "Just Do It" |
| Relate | Inspires self-improvement and a strive for positive perception by others | High-end fashion |

Table 1: Strategic Experiential Modules (Source: adaption of Schmitt, 1999)

The model presented by Schmitt (1999) shows that the customers can experience things in different ways, and marketers can apply this model in their marketing strategies. Furthermore, most of the customer experiences are often a combination of multiple elements. A marketing campaign that focuses on aesthetics and excitement might also trigger an emotional response from the consumer. Furthermore, organizations that implement experience in the marketing mix can create products that provide experiences to their customers even after a purchase.

Additionally, several studies have shown that all of the customer experience dimensions presented in Table 1 might have an effect on consumer purchase intention. Esmaelipour & Mohseni (2019) found that experiences that are relevant to the values and interests of the consumers have a positive effect on the consumer purchase intention when buying services. Similar results have also been observed in customers that purchase goods, however, research by Yang et al. (2011) found that consumers with utilitarian-oriented goals might not make purchasing decisions solely based on moods and experiences. This has been one of the main challenges for customer

experience management researchers. Some customers might react to experiences in a different way than others and therefore, it is important to identify the target audience and design the marketing mixes accordingly. However, there is a consensus among researchers that positive experiences have a very big impact on word-of-mouth recommendations, even if the customer does not buy the product. Furthermore, the Internet is making it easier for individuals to share this information and according to Meiners et al. (2010) the word-of-mouth has a great impact on the purchasing behaviour of consumers.

## 4.2    Mini case study Volvo

 One of the most successful marketing campaigns for the automotive launch was created by Volvo in 2013. Volvo published a video called "The Epic Split" where the Belgian actor Jean-Claude Van Damme performed a gymnastic split between two Volvo trucks while they were driving on the landing field. The short video filmed for this campaign is visually pleasing and intriguing. It showed that driving a Volvo truck is a very smooth, safe, and reliable experience. The video published for this campaign gained more than one hundred million views and it was very successful at creating leads and quickly became one of the most successful marketing campaigns for Volvo  (Behl, 2016).

## 4.3    Impact of CEM on purchasing decision

Recent experiential marketing studies have also shown that there are specific groups that can be greatly influenced by customer experience management. One of the recent issues is the increased number of people who feel lonely. A recent study by Micheletti (2021) found that "lonely consumers utilise the shopping experience in a compensatory way". Furthermore, to fulfil their interpersonal needs, lonely people seek social interactions through experiences while shopping (Fournier et al., 2015). Due to increased reports of loneliness, especially due to the COVID-19 pandemic organizations need to focus on bringing people together and creating memorable experiences for customers. Although this was hard to implement during the lockdowns and restrictions,

it is something that organizations should focus on in the years to come. Recent studies have also found that businesses that host events and provide experiences have a great influence on consumer behaviour. The results from a JWT Intelligence (2016) report which collected data from three thousand consumers in the UK, US, and China show that eight out of ten generation Z consumers (people who were born in 1995-2010) would be more likely to visit a store that provides customer experience in form of entertainment.



85% % of consumers likely to purchase after participating in events and experiences

91% % of consumers with more positive feelings about brands after attending events and experiences

Figure 6. Consumer survey results (EventTrack, 2018)

Furthermore, according to the EventTrack (2018) experiential marketing survey, participation in company events and experiences highly impacts customer purchasing decisions and creates positive attitudes towards the brand (Fig.6). One of the main reasons for this is that customers seek information before making the purchasing decision, in so-called information search stage which is presented in the traditional model of customer decision making (see section 2.5.2).  During the events and experiences, customers learn more about the organization, which creates a sense of trust, therefore, making it easier for them to make the purchasing decision.

Although most of the studies on customer experience management and its impact on purchasing decisions are from Asia and North America, some studies have observed similar results in European markets. Research from RetailEXPO (2019) that collected

data on the purchase behaviour of over two thousand customers in different fields showed that most of the customers (73%) would purchase more and spend more time shopping because of the positive customer experiences.

4.4     Impact of CEM on customer satisfaction

Interactions with companies create responses from the consumers. These responses can be measured by marketeers in form of satisfaction. As described in section 2.5.3 there are many stages of customer satisfaction varying from completely dissatisfied to completely satisfied. Consumers who have their expectations and needs fulfilled or exceeded by an organization develop positive attitudes toward it (Hill et al.,2007). The study by Gustafsson et al., (2005) described satisfaction as an affective state or rather an emotional state that is a result of interactions between two parties. Furthermore, these states are transient and vary depending on the interaction.

Marketeers that focus on creating positive experiences should focus on the entire customer journey, rather than just a single experience. Furthermore, many organizations fail to implement their customer experience management strategies in pursuit of customer satisfaction due to the narrow focus. Rawson et al. (2013) found that most businesses focus too much on individual touchpoints rather than the entire journey. They described it in their TV-provider example: during a new-customer onboarding, a customer had to interact with the business multiple times and had to call a technician to install the service among many other interactions that happened throughout this period.  Customer satisfaction did not drop because of the single touchpoint interaction but rather the overall process. Thus, it is important to identify and design every step of the customer journey.

 A recent study from Pulido et al., (2014) gathered information about customer experiences and the effects it has on customer satisfaction. During their research, they collected data from over twenty-seven thousand American consumers from different fields. The results of this study showed that marketing strategies that focus on customer journeys rather than single interactions are more predictable and yield better

results, both financially and in form of better customer satisfaction. The results of this study also showed that organizations with consistent and well-thought-out customer journeys were achieving better results and could differentiate themselves better from their competitors. Customers were more satisfied and had feelings of trust and a close connection with the brand.
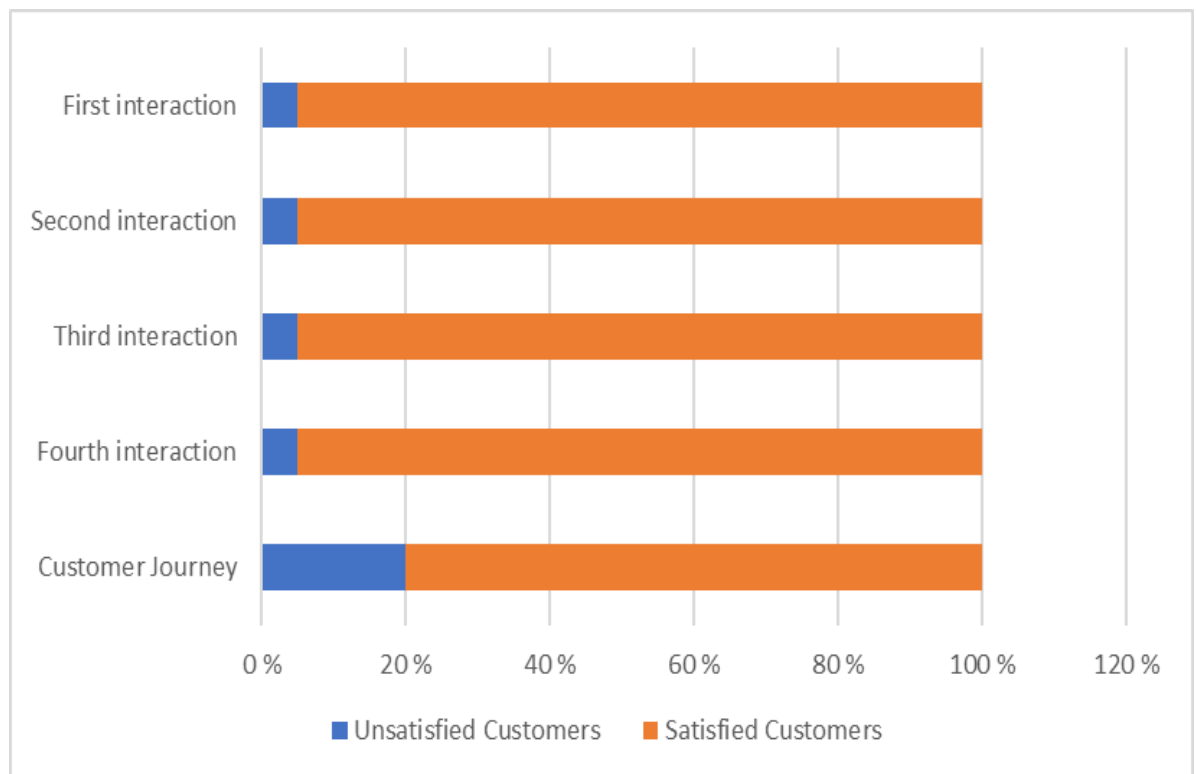


Figure 7. Customer satisfaction in each step of the customer journey (adaptation of Pulido et al., 2014).

A simple model of customer interactions in figure 7 shows that even if the satisfaction rate is as high as ninety-five percent during each interaction, five percent are still left unsatisfied and at the end of this four-step customer journey up to one in five customers will have a bad experience with the brand. Thus, showing the issue with the strategies that focus on single touchpoints. This, however, is only a theoretical model and requires more empirical evidence.

Customer satisfaction can be improved in consumer-oriented businesses in different ways. Marketing has to define and understand marketing segments to provide desired experiences. Furthermore, designing omnichannel communications that provide consistent experiences throughout the customer journey is crucial, although, the implementation of omnichannel communication is proven costly and requires technology, analysts, and behavioural scientists (Hafstöm & Svensson, 2019). Moreover, when designing products organizations should focus more on understanding how and why customers use and interact with their products and design customer experiences accordingly (Meyer & Schwager, 2007).

Researchers seem to agree on the fact that customer satisfaction also has a strong effect on purchasing behaviour. Satisfied customers tend to buy more and reach others in the target market by sharing their experiences (Hague and Hague, 2016). Dissatisfied customers on the other hand tend to buy less and share their negative experiences with others even more so than those who had positive experiences. One of the underlying issues is that businesses fail to understand the root causes of dissatisfaction. Although they have a great amount of information about purchasing habits, they know only little about consumer emotions and states of mind that impact their purchasing behaviour and satisfaction (Meyer & Schwager, 2007).
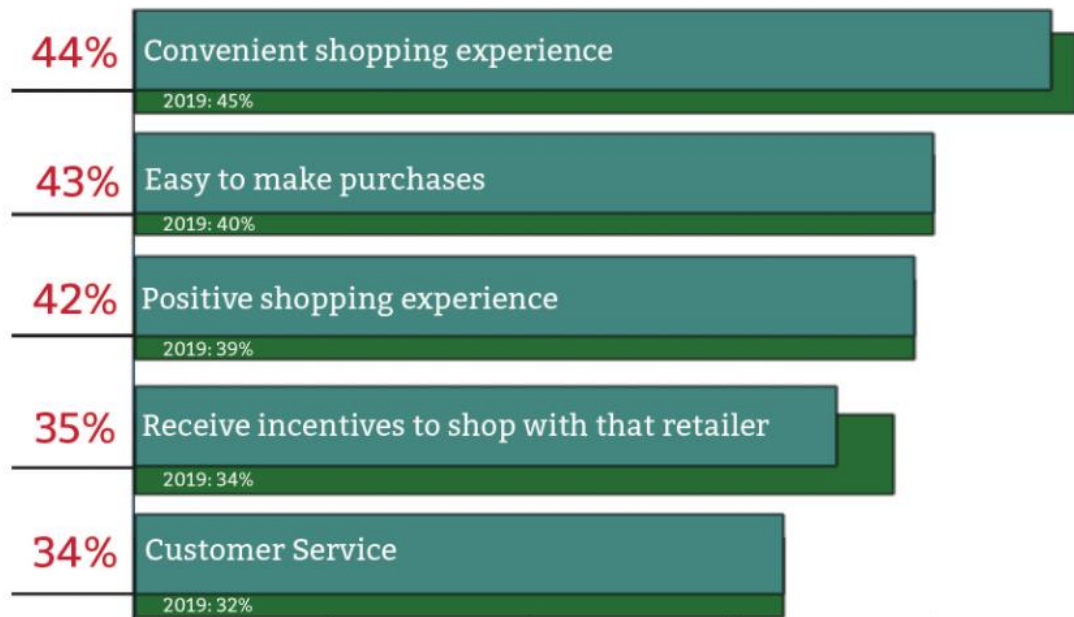
## 4.5 Impact of CEM on customer loyalty

Loyal customers are extremely valuable to businesses. They are less likely to look for competitors and are also more excited about the new products and services (Griffin, 2002). Furthermore, many studies have shown that there is a connection between customer satisfaction and customer loyalty. However, a satisfied customer is not always loyal and there are many different levels of satisfaction. A study by Hill et al., (2007) found that there are also many other factors that make customers loyal and the relationship between customer satisfaction and loyalty is not linear. Moreover, recent studies suggest that customer experience management might be one of the most influential drives for consumer loyalty. Customer experience management can achieve a more immediate bond with the consumers and it "…creates relationships which form the building blocks for brand loyalty" (Smith and Hanover, 2016)

Philipp Klaus et al. (2013) presented the idea that customer loyalty is influenced by perceived quality and value. Furthermore, the same study showed that customer experience has a positive effect on both variables which is a key to developing customer loyalty. Moreover, in response to earlier studies that measured customer loyalty through customer satisfaction, Klaus and Maklan (2012) looked at the relationship between customer experience and customer loyalty. The results of this study showed that the influence of customer experience on customer loyalty is greater than the influence that customer satisfaction has.

Creating and managing customer experiences is extremely important when building customer loyalty (Crosby et al., 2007). Loyal customers do not remain loyal forever, and therefore, it is crucial to monitor and develop customer experience management strategies throughout the brand life cycle. Prior experiences influence the attitudes and future interactions with the organization (Verhoef et al., 2009). Those who had a positive experience will have a higher probability of staying loyal. However, those who have negative interactions will be less loyal and might avoid future interactions with the seller (Johnston et al., 2008)

One of the most recent studies on customer loyalty was conducted by Customer Communications Group (2020). They collected data from more than one thousand consumers and analysed the patterns that make customers loyal. When asked: "Which factors drive them to shop exclusively with a particular seller?" the most common answers were related to customer experiences (Fig. 7).

| | | 2019 |
|---|---|---|
| 44% | Convenient shopping experience | 2019: 45% |
| 43% | Easy to make purchases | 2019: 40% |
| 42% | Positive shopping experience | 2019: 39% |
| 35% | Receive incentives to shop with that retailer | 2019: 34% |
| 34% | Customer Service | 2019: 32% |

Note: Respondents could select multiple factors as well as write in their own.

Figure 8. Most critical factors affecting customer loyalty (Customer Communications Group, 2020)

The convenient shopping experience, easy-to-make purchases, positive shopping experience, and customer service are all factors that can be designed and implemented in the customer experience management strategies. In the current market, the creation of smooth journeys for customers which eliminates unnecessary steps and personalizes experiences is becoming a trend. Convenient shopping experiences and easy-to-make purchases make the process simple and create an automated cycle of "retrigger, repurchase, and reconsumption experiences" described as the loyalty loop (Siebert et al., 2020).

4.5.1  Mini Case-study Netflix

**NETFLIX** Netflix is one of the industry leaders when it comes to customer experience management. One of the advantages that Netflix has is the monthly subscription that allows them to test new strategies and see the results almost immediately. In an interview with The Guardian, the vice president of product innovation Todd Yellin described their services as customer experience oriented in every step of the customer journey, which begins when the customer signs up (The Guardian, 2014). In 2018 fifteen percent of the world's downstream volume which is the data that is downloaded from the internet came from Netflix services (Sandvine, 2018). This makes Netflix the biggest streaming service in the world.

To achieve this competitive advantage Netflix has built services that are fully customer-oriented and personalized. They gather information about customer interests and search patterns and use algorithms to suggest relevant entertainment (Barker & Wiatrowski, 2017). Furthermore, this encourages users to stay subscribed for longer periods, because the more data Netflix collects, the better-personalized content they can offer. Moreover, Netflix has also added multiple features that made the customer experience more enjoyable. While watching a TV show, viewers can skip the intro of the show automatically, instead of watching the same scene at the beginning of each episode. Furthermore, during the end credits, Netflix minimizes the window and suggests a movie that a user might want to watch next and when watching a TV show a viewer can simply jump to the next episode. The amount of effort and resources that Netflix uses for personalized experiences is also appreciated by the customers. Netflix customers are more loyal and less likely to cancel their subscription compared to the customers that use similar services provided by their competitors (Buckle, 2019).

# 5 Conclusion and recommendations

The findings of this study provide a better understanding of customer experience management and the effects it has on customer loyalty, customer satisfaction, and purchase behaviour. The results showed that customer experience management can influence the purchasing behaviour of consumers. Examination of secondary data showed that there is a consensus that customer experiences increase the likelihood of making a purchasing decision. They can also indirectly impact purchasing decisions when the customers share their positive experiences with others.

The findings of this thesis also showed that customer experience management has an effect on customer satisfaction and customer loyalty. When customer experience management is implemented correctly it can yield great results. However, one of the underlying issues is that many organizations do not have enough information about consumer emotions and states of mind (Meyer & Schwager, 2007). Furthermore, customer satisfaction and customer loyalty are influenced by all the experiences that happen throughout the customer journey. Therefore, the overall experience is more important than singular touchpoints.

Research conducted for this thesis shows that customer experience management is a complex topic. Understanding which experiences customers are looking for and how to implement them throughout the customer journey requires a lot of resources and a vast amount of data. However, the results of this study showed that customer experience management can have a positive effect on purchasing behaviour, customer satisfaction, and customer loyalty.

One of the most interesting findings that were presented in this research was the connection between feelings of loneliness and a higher need for customer experiences. Due to the pandemic, more people are feeling lonely, thus there is a bigger potential market looking for customer experiences. Future studies should examine the relationships between these variables in more detail.

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**Figure 2.  The Marketing Mix** (adaption of Borden, 1964):
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**Figure 3. The DEM model:**
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**Figure 4.  Five-Stage Model of the Consumer Buying Process:**
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**Figure 5. Conceptual model of relationships between the variables presented in this research.** (Original)


**Figure 6. Consumer survey results:**
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