EXPERIENTIAL MARKETING AND BUSINESS INNOVATION AFFECTING CUSTOMER LOYALTY IN CAFE BUSINESS

Suntaraporn CHAWKRADIAN¹ and Chanyaphak LALAENG¹
¹ King Mongkut’s Institute of Technology Ladkrabang Prince of Chumphon Campus, Thailand; 65206024@kmitl.ac.th (S. C.); chanyaphak.la@kmitl.ac.th (C. L.)

Handling Editor:
Professor Dr. Wing-Keung WONG
Asia University, Taiwan
(This article belongs to the Theme 1: Business Performance, Competitiveness, and Sustainability)

Reviewers:
1) Associate Professor Dr. Narentheren KALIAPPEN
   UUM, Malaysia
2) Assistant Professor Dr. Nara PHONGPHANICH
   SRU, Thailand
3) Assistant Professor Dr. Romklao SINTAM
   Kasetsart University, Thailand

Abstract
The objective of this research was to investigate the causal variables of experiential marketing and business innovation affecting the customer loyalty in cafe business. The study was conducted with population living in Chumphon, Thailand who used to use the cafe business services. The results of multiple regression analysis revealed that experiential marketing, which includes Sense, Feel, Think, Act, and Relate, and the loyalty towards cafe business services, aimed to test hypotheses H1a-H1e found that all five aspects of experiential marketing significantly influenced customer loyalty to cafe business services at the 0.05 level. Hence, the hypotheses H1a-H1e were accepted. However, the independent variables of experiential marketing in all five aspects collectively predict and explain the dependent variable, which is customer loyalty to coffee shop businesses, with an efficiency of 57.9%. Business innovation, which includes product innovation, process innovation, service innovation, and marketing innovation, and the loyalty towards cafe business services, aimed to test hypotheses H2a-H2d found that all four aspects of business innovation significantly influenced customer loyalty to cafe business services at the 0.05 level. Hence, the hypotheses H2a-H2c were accepted. In this case, the independent variables from all four business innovation aspects jointly predict and explain the dependent variable, which is customer loyalty to coffee shop businesses, with an efficiency of 62.11%.

Keywords: Experiential Marketing, Business Innovation, Customer Loyalty, Cafe Business

Introduction

Presently, various restaurant businesses are emerging in Thailand, fueled by several changes. These include the shift in population structures with smaller household sizes, consumers leading fast-paced lifestyles, and the increasing trend of dining out. These factors have resulted in the restaurant industry being valued at 440 billion baht in 2020, the highest in five years. However, it has seen a growth rate decrease of 1.4-2.4% from the previous year, and it's anticipated to decline further by 1.4-2.6% in 2021, falling below potential. In contrast, the café business has seen an opposing growth trend, expanding by 15-30%, valued at over 20 billion baht (Kasikornbank, 2018). This surge is attributed to the increased coffee consumption by Thais, currently at 1.2 kilograms per person annually. There's still potential for growth, given that its consumption is relatively low compared to other countries. These factors make the café business appealing to both consumers and new entrepreneurs interested in the current market.

The coffee shop business, commonly referred to as "cafés", has grown immensely popular. This has resulted in rapid expansions to various areas, starting from economic urban zones and other key locations. Within a single district, there are no fewer than three coffee shops. The growing trend of coffee shops or “cafés” signifies the continuous response to increasing consumer demand. While some customers visit solely for a coffee, others seek relaxation, a place to read, or even a venue for meetings and social interactions. Furthermore, a report by the Kasikornbank (2018) has analyzed the potential of the café business, which attracts new entrepreneurs. The future growth trajectory of cafés seems boundless. However, the coffee consumption rate of Thai people remains relatively low, at around 130 - 150 cups per person per year, on average not even reaching 1 cup per person per day. This is different from other countries in the Asian region, such as Japan, where the average coffee consumption is 500 cups per person per year, averaging 2 cups per person per day. It can also be predicted that coffee consumption in Thailand will increase in the future, leading to the expectation of intensified competition in the coffee business due to more serious market competition. As entrepreneurs enter the market more seriously, it expands the coffee business market in Thailand. However, at the same time, the expansion or increased market share of businesses in this industry will face greater challenges due to the increasingly fierce competitive environment, driven by market entry and market share expansion. Some businesses manage their operations so well that they gain recognition and are deemed successful by consumers. However, others have to close down. These circumstances have drawn many new entrepreneurs into the cafe business, leading to high competition. At the same time, there’s a high rate of cafes closing down because consumers have diverse choices and low brand loyalty. Thus, entrepreneurs must devise strategies to distinguish themselves and foster customer loyalty. Studies have shown that experiential marketing strategies refers to a marketing strategy that differs from traditional marketing, which focuses on the features and benefits of a product as a strategy to enhance customer experience. This includes both physical and emotional experiences. This concept believes that experiential marketing doesn’t only emphasize the features and benefits of a product, but also connects with the identity and interests from the individual experiences of each consumer. There are five aspects of experiential marketing strategies include sensory experience, emotional experience, experiential thinking, experiential action and experiential relationship (Kotler & Keller, 2012; Schmitt, 1999). In addition, business innovation is also important for businesses. Business innovation refers to something new and unique, distinct from what has existed before. Innovation inherently possesses value within itself. If that thing has economic value, it can be monetized, and people are willing to pay for such novelty. This is known as business innovation, such as mass transit systems, mobile phones, and the like. Conversely, when novelty is not aimed at commerce but benefits society or enhances the quality of life, it often gains popularity without the need for purchase. This is called social
innovation, including new cultures, languages, trends, as well as state-sponsored services that improve people's lives without monetary exchange (National Innovation Agency, 2020).

Given the importance mentioned earlier, the researcher wishes to study “Experiential Marketing and Business Innovation Affecting the Customer Loyalty in Cafe Business.” The objectives were to: 1) Test the impact of experiential marketing on the loyalty of cafe business customers. 2) Test the impact of business innovation on the loyalty of cafe business customers. The results from this research can be used as guidelines for developing experiential marketing strategies and for fostering business innovation that leads to customer loyalty in cafe businesses or other related businesses in the future.

**Literature Review**

**Dynamic Capability Theory**

This theory focuses on an organization’s strategic approach that emphasizes the importance of dynamic change and organizational learning. If an organization can learn and adapt, it can improve its operations to stay in line with the changing environment. This invariably means achieving the goal of sustainable competitive advantage (Winter, 2003). Thus, businesses need to seek new strategic approaches to leverage dynamic capabilities, or the ability to modify products, production processes, or meet changing customer needs. This study relates to experiential marketing, which includes Sense, Feel, Think, Act, and Relate dimensions (Kotler & Keller, 2012; Schmitt, 1999). It also touches on business innovation, comprising product innovation, process innovation, service innovation, and marketing innovation (National Innovation Agency, 2020; Kasikornbank, 2018).

**Contingency Theory**

Contingency theory is a compilation of ideas that matches organizational strategy and behavior when making decisions to lead to organizational outcomes (Chandler, 1962). Developed in the 1960s by Lawrence & Weber (2020) it suggests that the methods to achieve successful management capabilities differ according to the external environment influencing the organization. This main idea of this theory is that the situation dictates the decision-making and appropriate management styles. There is no single best method for administration and management. This study uses the contingency theory to explain customer loyalty towards café businesses, which includes customer satisfaction, word-of-mouth, and repeat patronage (Hoy & Rees, 1974).

**Experiential Marketing and Loyalty**

Experiential marketing refers to a marketing strategy that differs from traditional marketing, which focuses on the features and benefits of a product as a strategy to enhance customer experience. This includes both physical and emotional experiences. This concept believes that experiential marketing doesn’t only emphasize the features and benefits of a product, but also connects with the identity and interests from the individual experiences of each consumer. There are five aspects of experiential marketing strategies as follows (Kotler & Keller, 2012; Schmitt, 1999):

1) Sensory Experience (Sense): This refers to businesses aiming to create experiences for customers through the five senses: Sight, Sound, Scent, Taste, and Touch. It’s to cater to the diverse needs of customers and stimulate their interest, making them more receptive to what the business offers, leading to positive feelings and attitudes towards the products and services.

2) Emotional Experience (Feel): This is where businesses aim to create experiences that impact the emotions and feelings of customers. The goal is to foster a positive attitude, leaving customers impressed and confident about the product, leading to pride in their purchases. This also nurtures a sense of commitment to the product and an unconditional acceptance of it.
3) Experiential Thinking (Think): This refers to businesses aiming to create a cognitive experience for customers. They aim to impart knowledge and understanding about their products and services and focus on providing creative problem-solving solutions.

4) Experiential Action (Act): This is where businesses aim to provide a direct experience to customers by motivating them to participate in marketing activities. It promotes customers to express their opinions and offers opportunities for customers to exchange views. This can lead to an adjustment in customer attitudes and behaviors in alignment with business objectives.

5) Experiential Relationship (Relate): Here, businesses intend to foster personal relationships and extend them to various groups of people. They aim to connect customer thoughts with others, leading to the integration of ideas, emotions, and behaviors. This approach ignites a trend of acceptance and effectively builds trust in the product.

Research related to experiential marketing and loyalty: Lekcharoen (2016) studied experiential marketing in relation to the loyalty of talk show viewers. The research found that all aspects of experiential marketing are related to the loyalty of those who watch talk shows. Furthermore, Puvattanasin & Nurittamont (2017) investigated experiential marketing and the quality of relationships that influence customer loyalty at S&P bakeries in Bangkok and its surrounding provinces. They found that experiences marketing related to Emotional Experience, Experiential Action, and Experiential Relationship significantly influence bakery customer loyalty at a statistical significance level of 0.01. This is consistent with the findings of Phasuk et al. (2022) who studied how experiential marketing impacts the decision of Thai tourists to revisit Pattaya. The results of the research on the experiential marketing model that influences repeat tourism in the Pattaya city area for Thai tourists revealed that, based on confirmatory factor analysis, the experiential marketing model consists of Sensory Experience, Emotional Experience, Experiential Thinking, Experiential Action, and Experiential Relationship. This model has a significant impact on the loyalty towards tourist destinations. The synthesized literature led to the hypotheses H1a-H1e follow:

H1a: Experiential marketing in terms of sensory experience affects the loyalty in cafe business.

H2b: Experiential marketing in terms of Emotional Experience affects the loyalty in cafe business.

H3c: Experiential marketing in terms of experiential thinking affects the loyalty in cafe business.

H4d: Experiential marketing in terms of experiential action affects the loyalty in cafe business.

H5e: Experiential marketing in terms of experiential relationship affects the loyalty in cafe business.

Business Innovation and Loyalty

Business innovation refers to something new and unique, distinct from what has existed before. Innovation inherently possesses value within itself. If that thing has economic value, it can be monetized, and people are willing to pay for such novelty. This is known as business innovation, such as mass transit systems, mobile phones, and the like. Conversely, when novelty is not aimed at commerce but benefits society or enhances the quality of life, it often gains popularity without the need for purchase. This is called social innovation, including new cultures, languages, trends, as well as state-sponsored services that improve people's lives without monetary exchange (National Innovation Agency, 2020). Business innovation can be categorized into four types:

1) Product Innovation: Creating essential products requires continuous ideation and development, offering value to customers. This relies on key elements like feature development, product design, and considering the benefits customers receive. Customers can actively participate in the innovation process, from design to testing. All of this should consider value chain management, which influences commercial outcomes for every department involved.
2) Process Innovation: To enhance efficiency in the creative process, it depends on technological knowledge. This knowledge relates to components and their connections, various techniques, processes, and applying new concepts, methods, or processes that result in higher production and operational efficiency.

3) Management Innovation: Developing management-oriented innovation requires an organization to utilize management knowledge to improve its existing structure, fostering creative thinking to meet customer demands and generate revenue and profits for the company.

4) Marketing Innovation: This involves packaging, distribution channels, or assessing and forecasting consumer needs. In summary, business innovation means something new and distinct from what previously existed, inherently holding value. If it has economic value, it can be monetized, and people are willing to pay for it, known as business innovation. The types of innovation are categorized based on the innovation's goals.

Research related to Business Innovation and Loyalty: by Boonrawd & Sukanthasirikul (2019) studied “The Effect of Product Innovation and Service Process Innovation on Marketing Performance of 3-4 Stars Hotel Businesses in Thailand.” The results indicate that product innovation ($\beta = 0.354$) and process innovation ($\beta = 0.388$), are all contributed a positively impact on the marketing performance of the 3-4 stars hotel business in Thailand. Bunbod & Phoka (2021) studied “Service Innovations Affecting the Business Success of Private Hospital in Thailand.” The results indicate that the impact of service innovation has a positive effect on the success of the private hospital business. Phumpho & Nutteesri (2022) studied “Marketing Innovation Factors Effecting Brand Loyalty for Cleansing and Disinfecting Products of a Manufacturing and Distribution Company in Phra Nakhon Si Ayutthaya Province”. The result indicated that only four factors presented a statistical significance at $0.05$, and they were (1) the products' unique proposition: neutral pH value, virus-killable capability, and no residue, (2) market focus concerning differentiation, service, trust, and social responsibility, (3) product variety in terms of cleanliness, safety, and suitability for use, and (4) integrated marketing communication and brand loyalty establishment are the main factors to be concerned when developing marketing innovation for cleansing and disinfecting products that affect their brand loyalty. The synthesized literature led to the hypotheses H2a-H2d follow:

H2a: Business innovation in terms of product innovation affects the loyalty in cafe business.
H2b: Business innovation in terms of process innovation affects the loyalty in cafe business.
H2c: Business innovation in terms of management innovation affects the loyalty in cafe business.
H2d: Business innovation in terms of marketing innovation affects the loyalty in cafe business.
Research Methodology

This research aimed to study the causal variables of experiential marketing and business innovation that impacted the customer loyalty in cafe business. The population used in the study were people who use the cafe business who live in Chumphon province. As the exact number of the population was unknown, the sample size was determined using W.G. Cochran's formula at a 0.05 error level, resulting in a sample size of 385 individuals (Cochran, 1977). The research tool used was a questionnaire, designed according to the research objectives, conceptual framework, and operational definitions. Tool for quality assurance research, consisting of 1) Content validity by 3 experts. The index of consistency using the IOC technique (Index of Item-Objective Congruence) found that each aspect had a value between 0.67-1.00, which was considered consistent and could be used (Rovinelli & Hambleton, 1977). 2) The reliability test found that the value was 0.956, which had to be greater than 0.70 so it was acceptable (Hair et al., 2014) 3) The discrimination of power by means of correlation between questions and total scores of the whole questionnaire (Item-Total correlation) found that it was between 0.67-1.00.

Enter method of multiple regression analysis was used for data analysis, which can be written in the form of an equation as follow:

Equation 1 the loyalty in cafe business
the loyalty in cafe business = β01 + β1 Sensory Experience + β2 Emotional Experience + β3 Experiential Thinking + β4 Experiential Action + β5 Experiential Relationship + ε

Test of effects of experiential marketing regarding sensory experience, emotional experience, experiential thinking, experiential action, experiential relationship on customer the loyalty in cafe business according to hypothesis H1a-H1e

Equation 2 the loyalty in cafe business
the loyalty in cafe business = β0 2 + β6 Product Innovation + β7 Process Innovation + β8 Management Innovation + β9 Marketing Innovation + ε

Test of effects of business innovation regarding product innovation, process innovation, management innovation, marketing innovation relationship on customer the loyalty in cafe business according to hypothesis H2a-H2d

Research Results

Analysis of correlation coefficients to determine the relationship between independent variables used in research found to be between 0.124-0.741, which is less than 0.80 (Cooper & Schindler, 2006). It showed that the independents had no relationship and could be used in prophecy. In addition, the Variance Inflation Factor (VIF) of independent variables was between 1.081-6.211, which did not cause Collinearity problems as shown in Table 1.
The results of the study indicated that the multiple regression analysis of experiential marketing regarding sensory experience, emotional experience, experiential thinking, experiential action and experiential relationship on customer loyalty in cafe business. It was found that, all five dimensions of experiential marketing were found to significantly impact the customer loyalty in cafe business with the statistical significance level of 0.05 ($\beta = 0.073, p < 0.05$), ($\beta = 0.248, p < 0.01$), ($\beta = 0.145 p < 0.01$), ($\beta = 0.255 p < 0.01$) and ($\beta = 0.320 p < 0.01$) respectively. Therefore, hypotheses H1a-H1e were accepted. These five dimensions of experiential marketing collectively had a predictive power and explained 57.9% of the variance in customer loyalty in cafe business, as detailed in Table 2.
Table 2 Multiple regression analysis of experiential marketing on customer loyalty in cafe business

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
<th>The Customer Loyalty in Cafe Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Sensory Experience (EM1)</td>
<td>0.073*</td>
<td>(0.035)</td>
</tr>
<tr>
<td>2) Emotional Experience (EM2)</td>
<td>0.248**</td>
<td>(0.000)</td>
</tr>
<tr>
<td>3) Experiential Thinking (EM3)</td>
<td>0.145**</td>
<td>(0.000)</td>
</tr>
<tr>
<td>4) Experiential Action (EM4)</td>
<td>0.255**</td>
<td>(0.000)</td>
</tr>
<tr>
<td>5) Experiential Relationship (EM5)</td>
<td>0.320**</td>
<td>(0.000)</td>
</tr>
</tbody>
</table>

Adjusted R² = 0.579
Maximum VIF = 2.229

** statistically significant at .01, * statistically significant at .05

The results of the study indicated that the multiple regression analysis of business innovation regarding product innovation, process innovation, management innovation and marketing innovation relationship on customer the loyalty in cafe business. It was found that, all five dimensions of business innovation were found to significantly impact the customer loyalty in cafe business with the statistical significance level of 0.05 (β = 0.149, p < 0.05) (β = 0.401, p < 0.05) (β = 0.175, p < 0.05) (β = 0.168, p < 0.05) respectively. Therefore, hypotheses H2a-H2d were accepted. These five dimensions of business innovation collectively had a predictive power and explained 62.11% of the variance in customer loyalty in cafe business, as detailed in Table 3.

Table 3 Multiple regression analysis of business innovation on customer loyalty in cafe business.

<table>
<thead>
<tr>
<th>Independent Variable</th>
<th>Dependent Variable</th>
<th>The Customer Loyalty in Cafe Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Product Innovation (BI1)</td>
<td>0.149**</td>
<td>(0.002)</td>
</tr>
<tr>
<td>2) Process Innovation (BI2)</td>
<td>0.401**</td>
<td>(0.000)</td>
</tr>
<tr>
<td>3) Management Innovation (B3)</td>
<td>0.175*</td>
<td>(0.018)</td>
</tr>
<tr>
<td>4) Marketing Innovation (BI4)</td>
<td>0.168**</td>
<td>(0.001)</td>
</tr>
</tbody>
</table>

Adjusted R² = 6.211
Maximum VIF = 2.158

** statistically significant at .01, * statistically significant at .05

Conclusion and Discussion

The results of the study indicated that the multiple regression analysis of experiential marketing regarding sensory experience, emotional experience, experiential thinking, experiential action, experiential significantly influenced on customer loyalty in cafe business. This aligned with conducted by Lekcharoen (2016) studied experiential marketing in relation to the loyalty of talk show viewers. The research found that all aspects of experiential marketing are related to
the loyalty of those who watch talk shows. Furthermore, aligned with conducted by Puvattanasin & Nurittamont (2017) investigated experiential marketing and the quality of relationships that influence customer loyalty at S&P bakeries in Bangkok and its surrounding provinces. They found that experiences related to emotional experience, experiential action, and experiential relationship significantly influence bakery customer loyalty at a statistical significance level of 0.01. This is consistent with the findings of Phasuk et al. (2022) who studied how experiential marketing impacts the decision of Thai tourists to revisit Pattaya. The results of the research on the experiential marketing model that influences repeat tourism in the Pattaya city area for Thai tourists revealed that, based on confirmatory factor analysis, the experiential marketing model consists of sensory experience, emotional experience, experiential thinking, experiential action, and experiential relationship. This model has a significant impact on the loyalty towards tourist destinations.

The results of the study indicated that the multiple regression analysis of business innovation regarding product innovation, process innovation, management innovation and marketing innovation significantly influenced on customer the loyalty in cafe business. Product innovation and process innovation influenced on customer the loyalty in cafe business, this aligned with the research conducted by Boonrawd & Sukanthasirikul (2019) on “The Effect of Product Innovation and Service Process Innovation on Marketing Performance of 3-4 Stars Hotel Businesses in Thailand”. The results indicate that product innovation and process innovation, are all contributed a positively impact on the marketing performance of the 3-4 stars hotel business in Thailand. Service innovation influenced on customer the loyalty in cafe business, this aligned with the research conducted by Bunbood & Phoka (2021) studied Service Innovations Affecting the Business Success of Private Hospital in Thailand. The results indicate that the impact of service innovation has a positive effect on the success of the private hospital business. Marketing innovation influenced on customer the loyalty in cafe business, this aligned with the research conducted by Phumpho & Nutteesri (2022) on “Marketing Innovation Factors Effecting Brand Loyalty for Cleansing and Disinfecting Products of a Manufacturing and Distribution Company in Phra Nakhon Si Ayutthaya Province”. The research found that Marketing Innovation Effecting Brand Loyalty.

Suggestions

From the findings that experiential marketing influenced on customer the loyalty in cafe business. Therefore, cafe businesses should focus on experiential marketing as follows. 1) Create experiences for customers through the five senses: Sight, Sound, Scent, Taste, and Touch. It’s to cater to the diverse needs of customers 2) Create experiences that impact the emotions and feelings of customers. The goal is to foster a positive attitude, leaving customers impressed and confident about the product, leading to pride in their purchases. 3) Create a cognitive experience for customers. They aim to impart knowledge and understanding about their products and services and focus on providing creative problem-solving solutions. 4) Provide a direct experience to customers by motivating them to participate in marketing activities. 5) Foster personal relationships and extend them to various groups of people.

From the findings that business innovation influenced on customer the loyalty in cafe business. Therefore, cafe businesses should focus on business innovation as follows. 1) Creating essential products requires continuous ideation and development, offering value to customers. 2) To enhance efficiency in the creative process, it depends on technological knowledge. 3) Developing management-oriented innovation requires an organization to utilize management knowledge to improve its existing structure, fostering creative thinking to meet customer demands. 4) Developing packaging, distribution channels, or assessing and forecasting consumer needs.
References


Data Availability Statement: The raw data supporting the conclusions of this article will be made available by the authors, without undue reservation.

Conflicts of Interest: The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.
Publisher’s Note: All claims expressed in this article are solely those of the authors and do not necessarily represent those of their affiliated organizations, or those of the publisher, the editors and the reviewers. Any product that may be evaluated in this article, or claim that may be made by its manufacturer, is not guaranteed or endorsed by the publisher.

Copyright: © 2023 by the authors. This is a fully open-access article distributed under the terms of the Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0).