The Effects of Service Encounter and Experiential Value on Consumer Purchasing Behavior

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Abstract: - This paper proposes a conceptual framework to examine the relationship between the service encounter, the experiential value and purchase intention. A structural equation model (SEM) is employed to validate and test three hypotheses. The data used for model test is obtained from the customers visiting to the beauty stores in Taiwan. A survey of researcher is conducted with 245 valid questionnaire received. The empirical results that three aspects of the experiential value (feel, act, relate) have significant effects on purchasing behavior. The conclusions will be of use as a beneficial reference for the management when deciding service strategy.

Key-Words: - Service encounter, Experiential value, Purchasing behavior, Structure equation model

1 Introduction

Consumer behaviour is increasingly complex. In order to deal with the new market environment, companies are moving towards a focus on experiential value. They no longer aim solely to maximize profits. Instead, they are managing their relationships with their customers to generate benefits for both customer and company. A key element of the customer relationship is the service encounter, the process of face-to-face interaction between consumer and service provider. The service encounter is the basis for a customer's evaluation of the service provider [1]. When companies provide a service encounter that suits consumers, they generate a positive experiential value and lasting customer relationships.

In the beauty industry, the services provided are physical ministrations. Consumers must tell the service provider what they require, so an effective market communication is absolutely critical. Beauty is a high-contact, highly participative activity. Good customer interaction is necessary to generate a good experiential value and all the consumption choices that follow. In the 2008 Chain Store Survey in Taiwan [2], 2839 hair salons, belonging to 72 chains, were surveyed. This was a drop of 346 or 10.9% on the previous year, suggesting that some less competitive salons were knocked out of the market in 2008. It is therefore more urgent than ever that these businesses find ways to compete. There has been some research on consumer encounter, but it is mostly in the tourism, catering and healthcare industries. There is little research on the topic of experiential value in the beauty industry.

This study proposes an effective framework to carry out a structural analysis on the beauty industry and understand the following questions: Do the human contact and the physical environment affect consumer perceptions? Does the service encounter produce a range of effects on the experiential value? Does the experiential value affect purchase intention? Can it affect consumer satisfaction and repurchase intention?

A structure equation model is employed to incorporate consumers, the service encounter, experiential value and purchase decision-making. The linear model is tested and adjusted for an adequate data-fitting and research framework. Finally, key factors are identified for the explanation of consumer behavior in the beauty industry.

This paper has five sections. Next section reviews the previous literatures related. Section three details the research methods of SEM. Section four presents empirical results and discussion, and finally there is a conclusion and recommendations.

2 Literature review

2.1 Service encounter

The service encounter is a relational role that creates successful sales. During the service process, there is a face-to-face interaction between the consumer and the service provider [1]. The successful provision of service depends on dealing appropriately with the service encounter [3]. Hutton and Richardson [4] also find that the physical environment in a place of business can have an impact on consumers' perceptions of quality, satisfaction and repurchase intention. Oumlil [5] believes that environmental (e.g. social, cultural) and psychological variables are the precursor factors in the purchasing decision. Baker et al. [6] find that environmental factors have a direct effect on the senses of the consumer, and cause subjective judgments.

Smith and Wheeler [7] note that the service attitude of staff is seen as highly important by customers. If an organization can provide a good working environment, then employees will exert themselves to provide a customer with a good experience. Parasuraman *et al.* [8] find that there are three factors relevant in customer interaction: customer records, service organization, service personnel. Lockwood [9] believes that the service encounter involves human interactions, but also tangible and intangible factors just as service personnel and the environment.

In all of these studies, the service encounter is the period of time during which customers are interacting directly with the service. Shostack [10] defines it as every aspect of the service, including not just customers and employees, but also their interactions with the environment and other tangible factors. It is not limited to the human encounter, but covers everything that happens during the human interaction, and can involve no human interaction at all. In terms of tasks, services involve managing people, managing objects, managing attitudes and managing information. The beauty industry involves direct physical contact with consumers, and as such is a tangible service. It is a high-contact service.

McCallum [11] notes that the service encounter is one of the earliest and most important social encounters. Research on service encounters is research on people, and should focus on the customers and service providers themselves. Solomon *et al.* [1] define the service encounter as "face to face interactions between a buyer and a seller in a service setting." They go on to analyze service encounters using three descriptions from social psychology: service encounters are dyadic; service encounters are human interactions; service encounters are role performances. Beatty and Smith [12] use an environmental psychology framework, and identify the human element in the service environment: the customer and the service provider, their appearance, behavior and numbers. They also identify the effect of these elements on the customer's perceptions of the service.

Based on the literature review, the following two hypotheses were developed:

H₁: The service encounter has a significant impact on the value of the experience.

H₂: The service encounter has a significant impact on purchasing behavior.

2.2 Experiential value

Schmitt [13] defines experience as emerging out of observation or participation in events as a response to certain stimuli. Experiences are not spontaneous. Rather, they are created. Caru and Cova [14] believe that experiences are individual events with the potential to change people's beliefs or behavior, felt rather than read as text. Pine and Gilmore note that experiences are internal, existing within peoples minds. Because everyone is different, physically and in terms of their knowledge and attitudes no two individuals have identical experiences. Rifkin [15] notes that the purchasing of experiences will in future be a major form of commercial activity. Holbrook [16] believes that experience is a real part of consumption, and as such relates to a series of myths, perceptions and pleasures.

Mathwick et al. [17] define the value of an experience as the extent to which it helps or moves a consumer towards her consumption objectives. It is the level of consumer value and attitudes toward a product generated during the consumption process. For Frow and Payne [18], when attempting to improve customer loyalty and profitability, creating a positive experiential value is a high priority.

Schmitt [13] develops a concept of experiential marketing based on consumer psychology and social behaviors. With this concept, he creates a conceptual framework for managing experiential value. It includes five strategic experiential modules (SEMs): Sense, Feel, Think, Act, Relate. Sense, with its five components (sight, hearing, smell, taste, touch), has the capacity to deeply affect people's lives [19]. Arnould *et al.* [20] believe that experience arises from stimulation of the sense organs, and that friendly consumption arises from good experiences. *Feel* marketing plays on consumers' emotions. It aims to create an emotional experience. Emotions are generated on a three levels: event, catalyst, and goal. *Think* marketing appeals to

the intellect, to the consumer's rational interests. The experiential value intellectual understanding and problem solving, as the marketing stimulates and challenges them to think innovatively, and to evaluate the company and product. Think experiences can be intensive or extensive. Intensive experiences require an explicit checklist of topics and tasks. Extensive experiences include free association and visual forms. Act experiences involve new ways of doing things, new lifestyles and attitudes. It is an enrichment of the consumer's life, and could involve imitation of an admired individual or following a fashion. Consumers form evaluations of products and decisions on what product to buy based on their experience of a product and their own thinking and concepts [21]. Relate experience is when an individual or brand interacts with consumers throughout a society or group, this produces a powerful experience. Cultural factors, class factors and family background factors have an impact on all consumer decisions, from perception of demand, through search for information, information processing, pre-purchase evaluation, actual purchasing, use, and postpurchase evaluation [22]. Therefore the relate experience is closely bound up with external factors affecting consumption decisions. Recently, the idea of perceived experiential value applied to customer loyal has been discussed in hot-spring industry [23].

In this study, the Schmitt [13] model of SEMs is applied. In addition, Beatty and Smith [12] note that values have a major impact on consumption choices. Therefore, a third hypothesis is as follows:

H₃: The value of the experience has a significant impact on purchasing behavior.

2.3 Purchasing behavior

Schmitt [13] believes that experiential value can be molded. Companies should become providers of good experiences. Good experiences can improve customer satisfaction and promote positive customer behavior. This applies to both vendors of physical products and to service providers. In the case of services, product quality is evaluated by customers.

When a customer purchases a product or service, they will experience a certain level of (dis) satisfaction [24]. When customers are satisfied, they will have high repurchase intentions. Customer satisfaction is the only way to ensure customer loyalty. However, Newman and Werbel [25] find that there are cases in which satisfied customers still switch brands, and cases in which dissatisfied customers continue to show brand loyalty. Kim *et al.* [26] suggest that consumers who maintain a relationship with a company can also recommend it to their friends and family. Prus and Brandt [27] extend this to purchase intentions, intention to change supplier, recommendation to others, and immunization against other competitors. Gronholdt *et al.* [28] list repurchase intention, recommendation of brand or company to others, price tolerance, cross-buying. Wong *et al.* [29] conclude that time-limited pressure has positive significant influence on customer intention to purchase.

3 Research methods

The structure equation model used in this study includes a measurement model ((1) and (2)) and a structure model (3), as shown in Figure 1.



Figure 1. Research framework

Χ	= $\lambda_x \xi_1 + \delta$	((1))
		()	· • ,	,

$$Y = \lambda_{\rm y} \eta + \varepsilon \tag{2}$$

$$\eta = \beta \eta + \gamma \xi + \delta \tag{3}$$

where:

- ξ : Observed Variables
- ξ_1 : Service Encounter
- X_1 : Physical Environment
- X₂ : Human Contact
- η : Latent Variables
- η_1 : Experiential value
- η_2 : Purchasing Behavior
- Y_1 : Sense
- Y_2 : Feel
- Y_3 : Think
- Y_4 : Act
- Y_5 : Relate
- $\Lambda x, \lambda y, \beta, \gamma$: Parameters Estimation
- δ, ϵ : Residual

Name of Index	Judgment Value	Researcher	
Normed Fit Index, NFI	>0.90	Bentler and Bonett [30]	
Goodness-of-fit index, GFI	>0.90	Hu and Pontlar [21]	
Adjusted Goodness-of-Fit Index, AGFI	>0.80	-riu and Bentier [51]	
Parsimonious Goodness-of Fit Index, PGFI	>0.50	Mulaik [32]	
Comparative Fit Index, CFI	>0.95	Bentler [33]	
Root Mean Square Error of Approximation RMSEA	<0.08	Browne and Cudeck [34]	
Koot Mean Square Error of Approximation, KWSEA	<0.00	McDonald and Ho [35]	
root mean square residual, RMR	< 0.05	Hair et al. [36]	

Table 1. Goodness of fit indices of structure linear model

The analysis of the problem is carried out as follows. 1. Model confirmation. 2. Model discrimination. 3. Parameter estimation. 4. Testing for fit. 5. Model reconfirmation. There are eight variables in the model, with 49 estimated parameters (estimated by maximum likelihood estimation). Goodness of fit indices is the value of chi-square (nonsignificant) and p > 0.05. The indices for the whole model are given in Table 1. Normal distribution is verified using a normal distribution curve. When a distribution is normal, structure equation modelling can be carried out when the sample size is more than 5 times the number of variables. For this study, a sample size of anything over 245 would be acceptable.

4 Empirical results and discussion

4.1 Descriptive statistics

The data sample for model test is collected from consumers visiting to various salons stores in Taipei and Hsinchu city in Taiwan. Data are processed using the SPSS 14.0 and Amos 7.0 software packages. The analyses involved: (1) descriptive statistics; (2) confirmatory factor analysis (CFA); (3) analysis of structural equation model (SEM).

According to the questionnaire survey, the distribution of population by age is: 26-35, 27.8%; 36-45, 25.7%; 46-55, 27.3%. Education: mostly university educated (47.3%). Marital status: mostly married with children (58.8%). Employment: housewives make up the largest group (22.9%). The salons were mostly chain stores (63.3%). Membership of the salons: mostly members for about two years (42.4%). Average number of visits to salon: 5 or more times in three months (32.2%). Average spending in three months: mostly 50,000-100,000 NTD (42.4%).

4.2 Confirmatory factor analysis

4.2.1 Service encounter

A second order CFA model is constructed, reflecting the physical environment and human contact aspects of the experiential value. Goodness of fit indices is shown as in Figure 2. Before adjustment, the value of chi-square is 107.047, p=0.000, GFI=0.910, AGFI= 0.854; after adjustment, chi-quare = 10.833, p=0.757, GFI=0.997, AGFI= 0.988.

Hu and Bentler [30] suggest that GFI values over 0.9 and AGFI values over 0.8 indicate good data-fitting. Brown and Cudeck [32] suggest that an RMSEA of 0.05 or less is good, 0.05-0.08 is acceptable, and 0.10 or over is bad. The model's RMSEA is 0.094 before adjustment, 0.081 after, which is acceptable. These values are shown in Table 2.

Fornell and Larcker [37] present a measure of composite reliability (CR), which measures the consistency of content construct indicators. High CR indicates that potential variables are internally consistent; the recommended value is 0.6 or greater. In the adjusted model, the value of CR is 0.86 for physical environment and 0.90 for human contact. These two variables are internally consistent. Fornell and Larcker [35] also recommend that average variance extracted (AVE) greater than 0.5 suggests good convergent reliability. As Table 3 shows, AVE is 0.75 for physical environment, 0.76 for human contact.

Testing therefore suggests that this two variable model is a good fit for the data.

4.2.2 Experiential value

Five experience factors are defined for the service encounter: sense, feel, think, act, relate (Figure 3). Before adjustment: chi-square=1346.051, p=0.000, GFI=0.681, AGFI=0.531, RMSEA=0.129; after adjustment chi square=140.57, p=0.192, GFI=0.918, AGFI=0.875, RMSEA=0.071. Based on the

χ (df)	χ-/df	Р	GFI	AGFI	KM:	SEA	
1.883(4)	0.471	0.757	0.997	0.988	0.0	81	
Table	3. Goodness o	f fit indices for	service encour	nter (after adjustn	nent)		
Latent Variable	Item	Factor Loading	R ²	t-value	CR	AV	
	S2	0.84	0.71		0.86	0.7	
	S3	0.92	0.84	12.70	0.00	0.75	
Service Encounter	S 8	0.87	0.76		0.90	0.76	
	S9	0.91	0.82	18.76			
	S10	0.85	0.73	17.26			
	0.82 Er	Physical	0.84	S2	- 0.71 -	e2 e3	
Service Encounter				S8 ←	_ 0.76 _	e7	

Table 2. Goodness of fit indices for service encounter (before adjustment)

Figure 2. CFA of second order for service encounter (adjusted model)

0.9

0.8

Human

Contact

composite reliability indices are: sense, 0.82; feel, 0.78; think, 0.74; act, 0.86; relate, 0.71. These values are all over 0.6, so the variables are internally consistent. AVE values (sense, 0.60; feel, 0.64; think 0.59; act 0.77, relate, 0.55) also indicate that convergent reliability is good. This model is a good fit for the data.

4.2.3 Purchasing behavior

Before adjustment: chi-square=64.034, p=0.000, GFI=0.852, AGFI=0.791, RMSEA=0.158; after adjustment chi square=4.896, p=0.911, GFI=0.915, AGFI=0.801, RMSEA=0.062. See Figure 4, Table 6. These indices suggest that the model adjusted is a good fit for the data.

The value of CR is 0.92, demonstrating high internal consistency (Table 7). AVE is 0.55, higher

than the recommended value of 0.5, so convergent reliability is acceptable. The adjusted model is a good fit for the data.

0.82

0.73

e8

e9

4.3 SEM analysis

S9

S10

Path analysis is used to test for links between the latent variables as identified, and to verify the three hypotheses in the study. Using standardized path coefficients, the contribution of the three factors to purchase behavior are found to be: service encounter on purchase behavior -0.43 (p<0.05); service encounter on physical environment 0.87 (p<0.05); experiential value on purchase behavior 0.87 (p<0.05). Hypotheses H₁, H₂ and H₃ are shown to be all acceptable at a statistically significant level.

$\chi^2(df)$	χ^2/df	Р	GFI	AGFI	RM	SEA
140.57(55)	2.547	0.192	0.918	0.875	0.071	
Table	5. Goodness of	of fit indices for	experiential va	lue (after adjust	ment)	
Latent Variable	Item	Factor Loading	R^2	t-value	CR	AVE
	E1	0.76	0.57		_	
	E2	0.86	0.73	12.31	0.82	0.60
	E3	0.72	0.52	10.75		
	E8	0.76	0.57		0.78	0.64
	E9	0.88	0.77	13.54		0.04
	E11	0.77	0.59		0.74	0.50
Experiential value	E14	0.84	0.70	13.92		0.39
	E16	0.77	0.60			
	E17	0.92	0.84	16.04	0.96	0.77
	E18	0.77	0.59	12.80	0.80	0.77
	E19	0.88	0.78	15.24	-	
	E21	0.78	0.60		0.71	0.55
	E23	0.75	0.57	11.12	- 0.71	0.55

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Table 4.	Goodness	01 fit	indices	for ex	periential	value	(before a	adjustme	nt)

The direct effect of human contact on the feel experience is 0.38. The total impact on purchase behavior, moderated by feel, is 0.49. The direct effect of human contact on the act experience is 0.49; the impact on purchase behavior moderated through act is 1.05. The direct effect of human contact on the relate experience is 0.43; the impact on purchase behavior moderated through relate is 0.56. Human contact moderated through sense and think does not affect consumer purchase behavior, but its direct impact on sense is 0.39, and on think is 0.30. The direct effect of physical environment on the feel

experience is 0.32. The total impact on purchase behavior, moderated by feel, is 0.49. The direct effect of physical environment on the act experience is 0.64; the impact on purchase behavior moderated through act is 1.20. The direct effect of physical environment on the relate experience is 0.50; the impact on purchase behavior moderated through relate is 0.63. Physical environment moderated through sense and think does not affect consumer purchase behavior, but its direct impact on sense is 0.32, and on think is 0.51.

rable 6. Goodness of itt indices for purchasing behavior (before adjustment)										
$\chi^2(df)$	χ^2/df	Р	GFI	AGFI	RMS	SEA				
4.896(2)	2.448	0.911	0.915	0.801	0.0)62				
Table 7. Goodness of fit indices for purchasing behavior (after adjustment)										
Latent Variable	Item	Factor Loading	\mathbb{R}^2	t-value	CR	AVE				
	P1	0.85	0.73		_					
Purchasing behavior	P2	0.81	0.86	15.36	0.92	0.58				
I dichashig benavior	P3	0.92	0.84	18.08	0.72	0.56				
	P4	0.71	0.51	12.62	-					

Table 6. Goodness of fit indices for purchasing behavior (before adjustment)



Figure 3. CFA of second order for experiential value (adjusted model)



Figure 4. CFA of first order for purchasing behaviour (adjusted model)

5 Conclusions

This study tests the relationship between the service encounter, experiential value and purchasing behavior, and validates three hypotheses by linear SEM. The data come from the beauty industry. The empirical results suggest that the appearance of professionals in the industry has no significant effect on purchase behavior. This confirms the finding of Lockwood et al. [9], that there is more to human relationships, including the client-customer relationship. The physical environment also has no effect on purchase behavior. The study concludes that consumers in this industry are cautious, and are not persuaded by luxurious surroundings or fancy equipment. The key remains human contact with the service providers. This contact makes a significant difference to consumers, making them more likely to purchase. The service encounter, moderated through the experiential value, can significantly increase the likelihood of a purchase.



Figure 5. Path analysis of SEM for the study

Analysis of the experiential value shows that the feel experience, act experience and relate experience have an impact on purchasing. This is further evidence in support of Schmitt [13] and his call to create new experiences. Experiential values can be diversified, using the elements of feel, act and relate to generate a range of emotions. The sense experience does not have a significant impact on purchase intention. Salons will not be able to make customers buy more by improving the sense experience. The reason may be that sense experience is a rather individual thing, and the beauty industry focuses on the technical skill of its services, not on giving pleasure to the customers. The think experience also has no significant impact on sales. Think experiences are related to strong interests and intellectual stimulus. They are not generated through the provision of a product, and they cannot provide direct added value to products.

The analysis of the survey data involved construction of an SEM model, CFA and path analysis. Five separate indices were used to test the model, and these indices show that on an empirical level, the model does adequately reflect customer purchasing behavior. This model and testing is also a theoretical advance. Future research could examine the service encounter and complaints handling, or personality and their correlation with the service encounter.

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