

Winning Consumers through Experience: Competition between Domestic and International Businesses

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ABSTRACT

Retail internationalization has received increasing attention due to its popularity as a business practice. Previous studies have focused on two main factors in the process of retail internationalization: resources and environment. In the resources category, one of the key factors that has been extensively studied is social capital [1]. And in the environment category, one of the most influential environmental factors is cultural distance and its consequence, psychic distance [2]. However, few studies have investigated social capital from the consumers' perspective and considered the influence of psychic distance perceived by international retailers' targeted consumers in the host market on their acceptance. This study aims to investigate how to decrease consumers' psychic distance to obtain initial acceptance from the targeted consumers in the host country. Previous studies have found that perception is shaped through experience [3,4]. Therefore, the main argument in our study is that international businesses should focus on experiential marketing to reduce consumers' psychic distance. In order to understand this argument in the host market competition, experiential marketing strategies in the domestic businesses framework, as well as in the international businesses framework, will be compared.

Keywords: Experiential Marketing; Psychic Distance; Strategic Experiential Modules (SEMs); Experience Providers (ExPros); Social Capital

1. Introduction

Retail internationalization is defined as the investment of a retail business in formats (locations) outside the home country [5]. Retail businesses seek for opportunities to go international because of the mature home market, need diversity investment, expansion at home country blocked by legislation, intense competition at home, economic downturn at home, attractiveness of the host country, and so on [5]. When considering going international, retail businesses should consider two main issues, which are resource and environment. Thus, on one hand, previous studies have developed theories such as Resource Scarcity Theory [6] and Agency Theory [7] to address the resource-related issues; on the other hand, environment-related issue has also been addressed a lot in the literature because building social capital and gaining legitimacy in the host country are crucial for international businesses to survive and succeed in the host market. Therefore, theories such as Eclectic Theory [8] and Institutional Theory [9] have been developed and used to

explain retail internationalization phenomena.

Among all those environmental elements, culture is the most important and has been highly emphasized by previous studies. The Stage Theory [10] holds the opinion that when going international, businesses should do early expansion to countries with similar cultures and then to those with different cultures. Due to the cultural differences, the potential partners and targeted customers cannot understand businesses' value and strategies, thereby leading to low level of acceptance of the international businesses [11,12]. Barbie's entry into China is a good example, where failure of internationalization is induced by a great psychic distance of Chinese consumers; thus a low level of acceptance from consumers in the host country would generate subsequent inefficiencies.

Cultural distance is a country-level construct, which is determined by many reasons, such as location, history and so on. International businesses should be aware of the cultural distance when they go international; however, they can do little to manage it. Psychic distance is an individual-level construct, which is perceived by indi-

viduals. International businesses should try to decrease their targeted consumers' psychic distance in order to gain initial acceptance [13,14]. In this way, they can generate favor from their consumers, which leads to their success in their host markets.

Thus, the research question of this study is how to decrease consumers' psychic distance to obtain initial acceptance from the targeted consumers in the host country. Previous studies have found that perception is shaped through experience [3,4]. Therefore, the main argument in our study is that international businesses should focus on experiential marketing to reduce consumers' psychic distance. In order to understand this argument in the host market competition, we will compare the experiential marketing strategies in the domestic businesses framework, as well as in the international businesses framework. Propositions from this study will provide international businesses with feasible strategies, which will help to reduce consumers' psychic distance, as well as to gain consumers' favor with their brands in the host market competitions.

2. Literature Review

2.1. Cultural Distance and Psychic Distance

After a review of the current literature, it is found that a large number of studies use the terms "cultural distance" and "psychic distance" interchangeably, for example, Shoham and Albaum (1995) [15], Fletcher and Bohn (1998) [16], Eriksson, Majkgard and Sharma (2000) [17], Trabold (2002) [18], and Sethi *et al.* (2003) [19]. However, Nordstrom and Vahlne (1994) questioned the confusing term usage by reporting facts to show that "cultural distance" and "psychic distance" capture different phenomena.

"Psychic" refers to something in the mind of individuals. The distance exists in an individual's mind and depends on how he or she perceives the world. Thus, "psychic distance" is the individual's perception of the differences between the home country and the foreign country [2]. Therefore, psychic distance is the perception of individuals and it needs to be measured psychologically, instead of measuring by factual indicators. Each individual has a different perception and it can be influenced by the experiences an individual has [4]. "Cultural distance" is defined as the degree to which cultural values in one country are different from those in another country [17]. Instead of assessing the individual's perception of differences, cultural distance uses cultural values, rather than individual values, to assess the distance among countries. Thus, cultural distance is a country level construct and psychic distance is an individual level construct [20,21]. Therefore, Hofstede's (1980, 2001) indices have been widely used to assess the cul-

tural distance at the country level in the previous studies; while individual scores of rating the similarity/dissimilarity have been applied to assess the psychic distance an individual perceives [2,17]. Many empirical results from literature have shown that high level of psychic distance is led by high level of cultural distance [2,21].

Furthermore, it is believed that psychic distance has a close relationship with cultural affinity. When there is large psychic distance, the level of cultural affinity tends to be low; and when there is small psychic distance, the level of cultural affinity tends to be high. It is found in the literature that the term "affinity" is used interchangeably with "liking". Some studies also equate "affinity" and "liking" with "empathy", which really refers to an understanding, or the ability to see a situation from an individual's personal point of view [22]. It is clear that when businesses go international, the large cultural distance will induce large psychic distance, which then generates low level of cultural affinity. Thus, international businesses should find some ways to defeat this disadvantage.

2.2. Five Strategic Experiential Modules (SEMs) and Experience Providers (ExPros)

Experience is the perception after experienced a period of time or event and the progress of the processes [23]. Experience is not a pure, simple feeling. Instead, it is a sense of interpretative act with the spiritual processes of the link to the certain time and space [23]. In relationship marketing field, experiential marketing has gain great attention in the past few years. It is widely accepted that providing consumers with unforgettable experiences is a good way of building and maintaining good relationships with consumers [24].

Experiential marketing is defined as "individual customer, after direct observation or participation of an event, feels certain stimulus that induces motives and generate identified thoughts or consuming behavior" [25]. Previous studies have argued that traditional marketing views consumers as rational decision-makers who care about functional features and benefits. In contrast, experiential marketers view consumers as rational and emotional human beings who are concerned with achieving pleasurable experiences [25]. In fact, this idea has greatly contributed to the relationship marketing theorem. In experiential marketing filed, two core concepts have been extensively studied; they are strategic experiential modules (SEMs) and experience providers (ExPros).

Schmitt (1999) has distinguished five different types of experiences that marketers can create for customers; they are sensory experiences (SENSE), affective experiences (FEEL), creative cognitive experiences (THINK), physical experiences, behaviors and lifestyles (ACT) and social-identity experiences that result from relating to a

reference group or culture (RELATE). Based on Schmitt (1999), each of the five experiences that marketers create has different focuses. SENSE marketing focuses on the five senses of human beings, which are vision, hearing, smelling, taste and touch. It is usually stimulated through sense, providing pleasures, excitement and satisfaction of esthetics. FEEL marketing focuses on customers' inner feelings and emotions, targeting to create emotional experiences for customers. Most of self-sense feelings are encountered during the consuming periods. The key issue of FEEL marketing is to understand what sorts of stimulations can trigger consumers' emotions and how to encourage consumers to automatically participate in all kinds of businesses' marketing activities. THINK marketing focuses on intelligence, targeting to create cognitive thinking and solve problems for consumers using creative ways. THINK marketing demands to create consumers' surprise and interest; it aims to attract consumers to think and concentrate. THINK marketing encourages consumers to think with more concerns and be creative to trigger them to evaluate companies and products. ACT marketing focuses on effecting physical experiences, life styles and interactions. Its strategies are designed to create consumers' experiences for long term behavior patterns and life styles. RELATE marketing includes sense, feel, think and act marketing. However, RELATE marketing bypasses personal personalities, emotions, plus "personal experiences" that make connections among personal, ideal-self, other people or even cultures. According to what have been found in Schmitt (1999), RELATE marketing usually demands on self-improvements (such as relating to the "ideal-self") of personal desires, and demanding on others (such as classmates, boyfriend or girlfriend, spouse, family or co-worker) to show favorable feelings in order to connect people with a wider social system (a sub-culture, a country, etc.).

According to Schmitt (1999), the implementation of each of the strategic modules need "experience providers" (*i.e.*, ExPros). That is why ExPros have also been extensively studied in the experiential marketing studies. It is widely accepted in experiential marketing that ExPros include communications, visual and verbal identity and signage, product presence, co-branding, spatial environments, electronic media, and people [25].

2.3. Social Capital and Community

Social capital is defined by reciprocal relationships embedded within social networks [26]. Previous studies have investigated social capital within a defined community, such as a firm, an industry, a rural community etc. [27]. It is found that people get into the community and form a social network to facilitate the community's ability through the interactions between them [28]. For ex-

ample, in an online community for a certain brand, consumers get together to share information about this brand. The interactions between those participated consumers who get involved into the communication would facilitate others' understanding of the brand. Then, a social network is built, in order to benefit everyone in the community for wise and efficient purchase of the products.

According to Nahapiet and Ghoshal's (1998) conceptualization of social capital, there are three dimensions to facilitate the combination and exchange of resources within the community. The first dimension is structural, which emphasizes the importance of the location of an actor's contacts in a social structure of interactions. The second dimension is relational, which is the key relationship asset, because it is capable of increasing cooperation and support among people in the community. The third dimension is cognitive, which is embodied in shared codes and commonality of goals [1].

When going international, businesses should build a new social network in their host country in order to facilitate their expansion into the host market; this is "bridging" rather than "bonding" [29]. They need to obtain all kinds of social capitals in order to be successful in the host market. Besides building good relationship with suppliers, gaining social capital from consumers would be the most direct source for their profit [30]. Previous studies have shown that social capital is embedded in the community [1]; therefore, businesses should build their communities to try to obtain social capital from their new group of consumers in their host countries. Businesses can build their communities online or offline; one of the most common offline communities is the physical store. A physical store can be considered as a community [30], because employees can communicate with their consumers and consumers can also communicate with one another. Those communications can facilitate consumers' purchase of products and generate consumers' favor and satisfaction towards the store, as well as the brand. Thus, in this study, community is defined as the place, where consumers are provided with specific experiences.

3. Conceptual Framework and Propositions

As is suggested by Schmitt (1999), SENSE marketing may be used to differentiate companies and products, to motivate customers and to add value to products (*e.g.*, through aesthetics or excitement) [25]. Yoo, Park and MacInnis (1998) demonstrated that store characteristics, such as product assortment, facilities and store atmosphere, affected customer's emotional responses in the store. Positive emotional responses can be formed by successful implementation of any aspect of the store characteristics [31]. De Ruyter and Bloemer (1999)

claimed that consumers' favor with stores or products could be influenced by some aspect of a service providers' behavior, such as an employee's smile or an ambient service environment [32]. Therefore, it is believed that attractive circumstances or products have a strong appeal to consumers and then in turn promote the favorable emotion.

As is mentioned in the literature review session, Schmitt (1999) stated that FEEL marketing appealed to customers' inner feelings and emotions, with the objective of creating affective experiences that ran from mildly positive moods linked to a brand to strong emotions of joy and pride [25]. It is believed that feelings are the most powerful tool for building relationships; positive feelings will lead to satisfaction and trust while negative feelings will induce dissatisfaction and complaints [24,33]. Moreover, previous studies have found that strong feelings could be generated from the contacts and interactions, and those feelings can develop over time. Thus, helping consumers form positive feelings through consumption will generate favor with the ExPros. Hence, we have P1 and P2.

P1: Experience of SENSE marketing has a positive effect on Favor with the ExPros.

P2: Experience of FEEL marketing has a positive effect on Favor with the ExPros.

Schmitt (1999) claimed that THINK marketing appealed to the intellect with the objective of creating cognitive, problem-solving experiences that engaged customers creatively [25]. THINK marketing appeals to target customers' divergent thinking through surprise, intrigue and provocation. Those generated surprise or provocation will induce consumers' interest, as well as favor with the ExPros. For example, consumers enjoy visiting Apple store because they can always get something new and surprising that they do not know. Hence, consumers are triggered to explore new functions that their Apple appliances have. Those triggered thinking generates their interests in Apple products, as well as favor with Apple store, in which their special experiences are provided.

When a retailing business goes international, consumers in the host country would perceive huge differences in culture, thereby leading a high level of psychic distance perception. Those psychic distances would induce difficulty for consumers to accept the new products from abroad. Thus, providing experiences that can generate consumers' thinking would be a good way to let consumers give themselves good reasons to believe that selecting your products is a good choice. Through thinking and experience, consumers would know more about the products and deeply understand the culture in design. Take the New Balance sneakers as an example; during the early stage of New Balance sneakers' expansion in

China, people did not understand the culture in design and considered the New Balance sneakers' design as a poor idea of an ugly design-like a shabby boat. After experience stores opened all over big cities in China, consumers could visit them and listen to the explanation from the designers on the reasons of designing. After deeply understanding the culture in design, consumers showed their acceptance to the New Balance. During this process of acceptance development, cultural affinity was also obtained.

What we are auguring here is that the THINK marketing only works for international businesses to decrease the psychic distance and gain cultural affinity. For domestic businesses, who would induce little psychic distance of consumers in the domestic markets, cultural affinity cannot be generated through THINK marketing because consumers would not consider the cultural issues when they purchase products of a domestic brand. Hence, we have P3a, P3b and P3c.

P3a: Experience of THINK marketing has a positive effect on favor with the ExPros.

P3b: Experience of THINK marketing has a positive effect on cultural affinity.

P3c: Psychic distance moderates the relationship between experience of THINK marketing and cultural affinity. When there is large psychic distance (international businesses situation), the positive effect of experience of THINK marketing on cultural affinity is significant; while when there is small psychic distance (domestic businesses situation), the positive effect of experience of THINK marketing on cultural affinity is non-significant.

Schmitt (1999) proposed that ACT marketing enriched customers' lives by targeting their physical experiences, showing them alternative ways of doing things, as well as alternative lifestyles and interactions. Changes in lifestyles and behaviors are often more motivational, inspirational and emotional [25]. When one individual engages in an experiential environment actively, some emotions are triggered. In addition, a well-designed experiential environment can remind its customer to think about his/her personal lifestyle or ways to do things. Those lifestyle related emotions would generate favor with the ExPros because one of the main goal of consumption is to improve personal life quality.

In terms of the international retailing, psychic distance would induce difficulty for consumers to accept the new products from abroad. Thus, providing experiences that focus on marketing the improvement of lifestyle and having consumers perform a physical trial would decrease the psychic distance and induce the cultural affinity. Kingnet has been successful all over the world as soon as it comes out because it provides consumers with a different way of playing visual games. In Kingnet's

internationalization, psychic distance is minimized by Kingnet's retailers' providing physical experiences and great cultural affinity is obtained because motivational, inspirational and emotional ways of enjoying the new lifestyle are generated through experience.

Due to the similar reasons as argued in the THINK session, we also hold the opinion that ACT marketing only works for international businesses to decrease the psychic distance and gain cultural affinity. For domestic businesses, cultural affinity cannot be generated. Hence, we have P4a, P4b and P4c.

P4a: Experience of ACT marketing has a positive effect on favor with the ExPros.

P4b: Experience of ACT marketing has a positive effect on cultural affinity.

P4c: Psychic distance moderates the relationship between experience of ACT marketing and cultural affinity. When there is large psychic distance (international businesses situation), the positive effect of experience of ACT marketing on cultural affinity is significant; while when there is small psychic distance (domestic businesses situation), the positive effect of experience of ACT marketing on cultural affinity is non-significant.

Schmitt (1999) claimed that RELATE marketing contained aspects of SENSE, FEEL, THINK and ACT marketing. However, RELATE marketing expands beyond the individual's personal, private feelings, thus relating the individual to something outside his/her private state. RELATE campaigns appeal to the individual's desire for self-improvement (e.g., a future "ideal self" that he or she wants to relate to), appeal to the need to be perceived positively by individual others (e.g., one's peers, girlfriend, boyfriend or spouse, family and colleagues) and relate the person to a broader social system (a subculture, a country, etc.). It is believed that one individual who shows an extraordinary emotion inclining to the group would relate himself/herself to a specific group and has more favorable emotion towards the ExPros, who help him/her find the groups he/she belongs to.

Regarding the international retailing, psychic distance would induce difficulty for consumers to accept the new products from abroad. Thus, providing experiences that relate consumers to some specific group and trigger the acceptance through the group behavior would be an effective strategy. In this way, psychic distance will be reduced because consumers find similarity from their reference groups and great cultural affinity can be obtained through communication within the group. For example, Nikon's early expansion in China was a failure because Chinese consumers preferred pocket camera for a trip and the pocket camera market was saturated upon Nikon's entry. Tourists considered that taking the big box Nikon cameras during a trip was stupid. In order to

obtain Chinese consumer's acceptance, Nikon built all kinds of communities, such as photographers' club and online discussion boards, to trigger consumers' communication on Nikon cameras. In this way, early adoptions were obtained and more and more consumers were influenced by their reference groups to favor with Nikon's professional photographing. Through communicating on Nikon's high quality and professional photographing, psychic distance was reduced and great cultural affinity was obtained because professional photographing was complimented within the reference groups.

Due to the similar reasons as argued in the THINK session, we also hold the opinion that RELATE marketing only works for international businesses to decrease the psychic distance and gain cultural affinity. For domestic businesses, cultural affinity cannot be generated. Hence, we have P5a, P5b and P5c.

P5a: Experience of RELATE marketing has a positive effect on favor with the ExPros.

P5b: Experience of RELATE marketing has a positive effect on cultural affinity.

P5c: Psychic distance moderates the relationship between experience of RELATE marketing and cultural affinity. When there is large psychic distance (international businesses situation), the positive effect of experience of RELATE marketing on cultural affinity is significant; while when there is small psychic distance (domestic businesses situation), the positive effect of experience of RELATE marketing on cultural affinity is non-significant.

It is believed that if the ExPros from international businesses can provide consumers with five types of experiences mentioned above, favor with ExPros will be generated subsequently. Consumers would also link those favor with ExPros to the brand itself. Especially for those international businesses, consumers would consider the brand as a company who provides experiences to them. Meanwhile, cultural affinity is also obtained through favor with ExPros because ExPros provide consumers with wonderful experience to deeply understand the cultural of a foreign country and a brand. However, for a domestic business, the linkages that involve cultural affinity are believed to be weak since consumers would not consider the cultural issues when they purchase products of a domestic brand.

In order to strengthen the linkage between favor with the ExPros and favor with the brand, a business can motivate their consumers through empowerment. Empowerment refers to increasing the spiritual, political, social, or economic strength of individuals and communities [34]. It often involves the empowered developing confidence in capacities [34]. In our experiential marketing situation, after obtaining consumers' favor with the ExPros through five types of marketing strategies, busi-

nesses can motivate consumers to link their favor with the ExPros to the brand itself by increasing consumers' power in designing and modifying products. Studies in co-creation literature have shown that when being asked about preferences on products, consumers are ready to share as much opinion as they can express. Furthermore, when what they desired has come true in the updated version of the products, consumers would feel empowered and have strong positive attitude towards the brand [35,36]. Hence, we have P6, P7 and P8.

P6: Favor with the ExPros has a positive effect on cultural affinity.

P7: Favor with the ExPros has a positive effect on favor with a brand.

P8: Empowerment moderates the relationship between favor with the ExPros and favor with a brand; in which higher level of empowerment leads to stronger effect of favor with the ExPros on favor with a brand.

It is believed that through experiences provided by ExPros, cultural affinity can be obtained by deeply understanding the culture embedded in the products. And the cultural affinity will in turn encourage favor with a brand. Embeddedness was introduced by sociologist Mark Granovetter and it refers to the degree to which individuals or firms are enmeshed in a social network [37]. In our study, we adapt the definition from Granovetter's study and define embeddedness as the degree to which culture is enmeshed in a brand.

It is believed in our study that consumers would try to link a foreign brand with its culture because country culture is the first source of information that consumers have in knowledge to learn about the brand or products.

When consumers perceive high level of embeddedness of the culture in a brand, they would transfer their culture affinity to a favor with the brand because acceptance of the culture will also make them accept the culture embedded brand and products. However, for a domestic business, the linkages that involve cultural affinity are believed to be weak since consumers would not consider the cultural issues when they purchase products of a domestic brand. Hence, we have P9 and P10.

P9: Cultural affinity has a positive effect on favor with a brand.

P10: Embeddedness moderates the relationship between cultural affinity and favor with a brand; in which higher level of embeddedness leads to stronger effect of cultural affinity on favor with a brand.

The whole framework is illustrated in Figure 1.

4. Discussions

This study aims to investigate effective strategies for international businesses to decrease the psychic distance of their targeted consumers in the host countries. It is proposed that international businesses could do SENSE, FEEL, THINK, ACT and RELATE marketing in their community (e.g., online consumer chat rooms, or physical retail stores) to develop social capital with their consumers. It is expected in this study that through experiential marketing, international businesses would generate targeted consumers' favor with the ExPros and cultural affinity. Furthermore, by utilizing empowerment and embeddedness, favor with their brands could be developed as well.

This study places great emphasis on the psychic distance and considers it as the most important barrier for

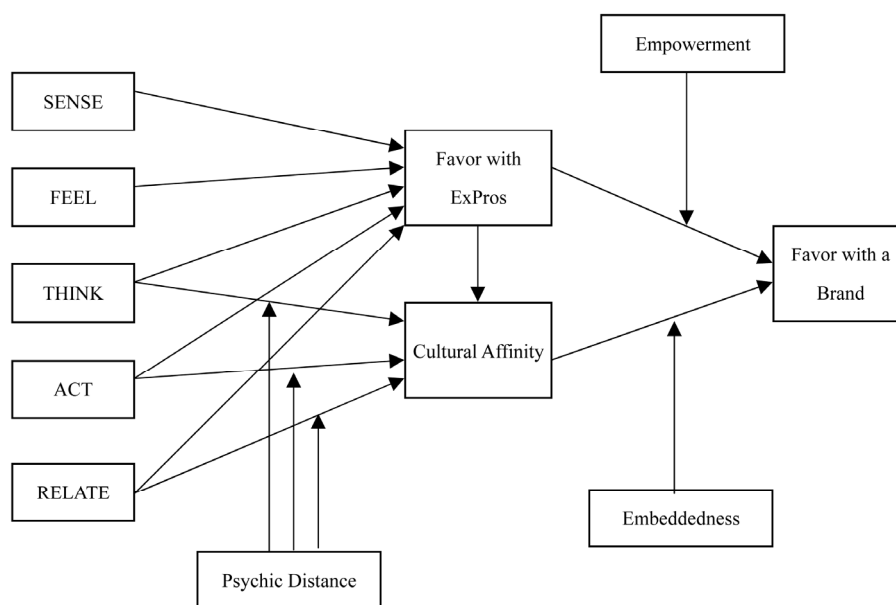


Figure 1. Winning consumers' acceptance through experience.

consumers' acceptance of international brands. Constructs in our study would provide researchers with new ideas to consider strategies on how to decrease the psychic distance and gain initial acceptance in the host countries. Beyond that, this study applies the social capital constructs into the retail internationalization study, which has not been addressed in the retail internationalization literature before. This theory application can provide some new perspectives to researchers to facilitate their further investigation of the capital-related issues in the retail internationalization context. From the practitioners' perspective, this study addresses that psychic distance, which is induced by cultural distance, is a key barrier for an international business' entry into a host country; especially for those who go into culturally different host countries. Thus, experience, which can influence their targeted consumers' perceptions, should be focused on in order to minimize the psychic distance.

Furthermore, by fully understanding and utilizing the two "tools" from social capital (empowerment and embeddedness), international businesses can generate their consumers' favor with their brands; in this way, initial acceptance could be developed by international businesses.

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