"Turning a commodity into an experience: the "sweetest spot" in the coffee shop"

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BUSINESS PERSPECTIVES

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TURNING A COMMODITY INTO AN EXPERIENCE: THE "SWEETEST SPOT" IN THE COFFEE SHOP

Abstract

Commodities are products with low economic value, but when related to experience, they can turn into profitable businesses. In the present work, the authors seek to understand consumer behavior in the coffee industry, guided by the following research question: How can customer experience affect price perception? To answer this question, the researchers conducted an analysis using the four realms of experience from Pine and Gilmore (1999, 2011) – entertainment, education, esthetics, and escapist – and how they behave according to different kinds of customer experience, as well as their relation to price perception. To understand this, the authors conducted qualitative research with 40 consumers in two important coffee companies: Starbucks and Costa Coffee. The coffee shops analyzed are located in the city of Marbella, Spain. The results of this research show that customers are aware of the price discrepancy, but still frequenting coffee shops for different experiences according to their interests. This work is groundbreaking because of the analysis of the four realms of experience and its correlation with the price perception. The authors also introduced to the customer experience field the analysis of the four realms in the coffee shop industry. Finally, from the research results, the authors suggest various managerial practices that can improve customer experience and the perception of prices.

INTRODUCTION

Coffee is a very popular drink all over the world. According to the latest coffee statistics from the International Coffee Organization (ICO, 2017), about 1.4 billion cups of coffee a day are poured worldwide to 125 million coffee drinkers. Pendergrast (2010) studied the history of coffee and legend has it that goats in Ethiopia discovered coffee in 400 AD. Breeders noticed that their animals became more excited after eating the strange grain. The name of one of these regions is Cafa, which probably gave rise to the name coffee. Over time, coffee spread throughout the region until entering Europe in the 17th century. Like other settlers of the time, the Portuguese exported coffee, taking seedlings from Amsterdam to Brazil. To date, Brazil is the world's largest producer of this commodity, producing one-third of the world's coffee, or 3 million tons, a year (ICO, 2017). However, the Italians, with their natural touch, created value for this drink by inventing different formats such as cappuccino, mocha, and espresso. The Italians also created the first coffee shop, located in Venice, in 1605 (Pendergrast, 2010). Moreover, the Americans, the largest consumers of the drink, also gave it their own touch. They created Starbucks, the world's largest coffee franchise, which is followed in size by the British company Costa Coffee (Garthwaite et al., 2017). Considering all the players in

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the coffee industry chain and the continuous consumption growth, we can understand the dimension and importance of this sector to the globe's economy.

In the retailer section of the coffee chain, we can find the coffee shop companies that sell not only coffee, but also experiences. However, turning this simple commodity into an experience requires managerial effort and creating competitive advantage in the coffee shop sector is a big challenge due to the high levels of competition nowadays. The mimetism of activities in this sector is a frequent hazard as coffee is not a complex product to offer and superficial experiences could be easily copied. This complex problem takes us to the following research question: How can coffee shop companies generate customer experiences and add value to their product offerings?

In order answer it, we analyzed how coffee shop companies can overcome the challenge of creating customer experience and offer more than a simple cup of coffee. As the central activity of this sector is the experience economy, we used the four realms of experience of Pine and Gilmore (1999) to understand the impact of experiences in the coffee shop industry and it's relationship with the price perception. Consequently, we present new findings dealing with the coffee shop industry and amplifying the application of the four realms of experience. We complement the relevance of this study as the first attempt to analyze the theory regarding the four realms of experience using qualitative research.

Resuming, the main purpose of this research is to understand the senses that could have an impact on consumer experience and how it could justify the price of products in the coffee shop. We identified and investigated the four different realms and their respective impact on consumer experience. Further, we related those findings to the price perception. The following hypotheses represent the focus of this research:

H1:   *Senses and customer experience are interconnected, and each experience realm perceives it in a different way.*

H2:   *Consumer experience is a key element in justifying the high price of a product.*

1. LITERATURE REVIEW

The experience economy is the base theory of this study. It is related to customer experience and is an important element to consider in the creation of competitive advantage (Verhoef et al., 2009; Pine & Gilmore, 1999, 2011; Shaw, 2005; Schmitt, 2003). According to Pine and Gilmore (2011), experiences are related to a new strength that can generate business growth by adding value to the organization. The authors explain that experience could be considered as a complement of value creation being the last offering after commodities, goods and services. Customer experience, when well managed, will make customers to market products (by WOM for example) generating competitive advantage in the long term (Smith & Wheeler, 2002).

Experience economy can be defined in different forms accordingly to business industry and customer interaction. Seth et al. (1999) basically focus on the idea that customers' attitude to an event is a combination of three stimulus characteristics, the context, and situational variables. Meyer and Schwager (2007) consider that customer experience concerns the indirect and direct contact with business and it is recognized as a subjective response to those interactions. For Carbone and Haeckel (2005), experiences are related to the impressions that customers have when searching for products, business and services that can impact on their perception of value. Shaw (2005) defines customer experience as the result of the exchanges among businesses and customers that measure expectations in any moment of contact with business considering the mix of customer's intuitions, emotions, the stimulation of senses and physical performance.

According to Ren et al. (2016), customer experience is strongly related to the consumption con-

text and the subjective perception that customers have when interacting with the environment as physical aspects or human contact. Oh, Fiore, and Jeoung (2007) say that experiences are made up of emotions expressed or implied by behavior, perception and cognition. The authors also found that experience can be created based on people's own background, including their perception of values, attitudes, and beliefs related to any situation. The process of learning and enjoying an activity is responsible for the creation of a perceived experience (Stramboulis & Skayannis, 2003).

The dimensions of experiences were explained by numerous theories. According to Schmitt (1999), there are five different elements that compose experiences: sense, feel, think, act, and relate. Hence, as explained by Aho (2001), experiences can be classified as another four core elements: informational effects or learning, emotional impression, transformational impacts and practiced capacity building. Therefore, Hayes and Macleod (2007) presented experiences as real, fun, and indulgent. Hemmington (2007) introduced five dimensions of experience in the hospitality field defined as: host-guest relationship, generosity, theater and performance, numerous small surprises, and safety and security. Knutson et al. (2009) also set and identified four dimensions of customer experi-

ence: environment, accessibility, driving benefit, and incentive. Scharf (2011) concluded that customers can have a hybrid experience affected by sensorial and identification dimensions. Walls (2013) presented two broad dimensions to measure experiences: physical environment and human interaction.

All these theories focus on dimensions of experience using components similar to Pine and Gilmore's four realms of experiences (Pine & Gilmore, 1999, 2011; Gilmore & Pine, 2002a, 2002b). According to the authors, the experience economy is an emerging paradigm for enhancing business performance across a wide range of industries.

2. THE SWEETEST SPOT

Pine and Gilmore (1999) presented the four realms of experience concept by developing and describing their boundaries based on four quadrants formed by vertical and horizontal axes. The former is divided into active participation on one end and passive participation on the other end, while the latter presents the capacity of absorption and immersion on opposite ends (Oh et al., 2007). Figure 1 represents the different stages of this matrix.
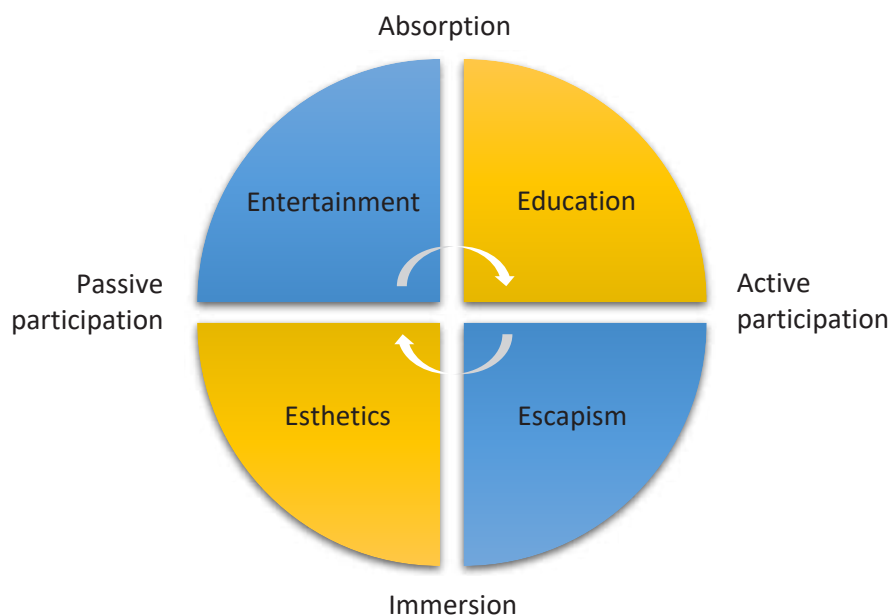
Source: Pine and Gilmore (1999).

Figure 1. The four realms of experience

Pine and Gilmore (1999) classified experiences into four realms: education, esthetics, escapism, and entertainment. Figure 1 presents different quadrants influencing each experience realm. The active absorption quadrant is related to educational experiences. This sort of experience happens when participants actively absorb the experiences as a psychological state (Jurowski, 2009). For example, in a coffee shop, customers who understand the effects of the coffee drink and absorb the environment of a coffee shop can take advantage of it and, as a consequence, have active participation. According to Jurowski (2009), the passive experiences can be absorbed by the appeal of different senses and those are labeled esthetic experiences, because there is no individual alteration as it is in an educational experience. The esthetic experience, for example, is the passive act of enjoying the good decoration in a coffee shop or the well-designed products. Customers passively appreciating external aspects and not becoming actively involved represent the passive participation. On the other hand, the active participation quadrant presents the escapism experiences and it is related to customer's immersion in a level where they actually affect the phenomenon or the performance of activity. Developing activities where customer interaction and co-production of products are evolved affect the perception of the experience.

The entertainment realm consists of passive absorption experiences and is the kind of experience which the participant doesn't change any environment aspect, however, customers absorbs performances and enjoy activities for example like watching a movie or listening to music (Oh et al., 2007; Pine & Gilmore, 1999). The four realms of experience can be found in other studies presenting empirical evidences that validate the concept. Oh et al. (2007) developed a research to understand the impact of the four realms of experience on the bed and breakfast industry. The results showed that the four realms of experience are suitable to measure tourist experiences. Jurowski (2016) presented a factor analysis proving that touristic activities can be classified also within the four realms of experience.

According to Pine and Gilmore (1999), the term "sweetest spot" is related to the satisfaction of all kinds of realms in the same environment.

Businesses that create the right customer experience to reach all realms will succeed in finding the sweetest spot for their customers. In the present work, we bring this analysis to the coffee shop industry.

3. METHOD

We conducted a phenomenological qualitative study to find out how coffee customers behave considering the four realms of experience. The unit of analysis was two coffee shops from two companies: Starbucks and Costa Coffee. The two stores are located in Marbella, Spain. Those companies were chosen because of their relevance in the coffee shop industry and their standards. The service they offer is similar and both companies are well-known franchises. With this dual company analysis, we intended to triangulate data from different business perspectives and customers to minimize bias effect.

The data collection was done by semi-structured interviews with the purpose of understanding opinions related to customers' preferences in terms of the four realm characteristics. We also related it to price performance. The primary data were collected with help of an audio recorder. We interviewed people in Starbucks and Costa Coffee.

Forty interviewees in total make up our sampling: 20 customers of Starbucks and 20 customers of Costa Coffee. The ages of the interviewees range from 18 to 39 years old. The interviewees included 22 women and 18 men. As Marbella is an international location, we found people from different regions of the world frequenting the coffee shops: ten from Spain; five from England; five from Russia; two each from Iran, Algeria, and Morocco; and one each from the US, Kazakhstan, Kenya, Germany, Egypt, Libya, Brazil, Venezuela, Poland, the Netherlands, Greece, Belgium, Ukraine, and Palestine.

To define each of the four realms, we run a word-for-word content analysis and the key terms of each answer were identified using the NVivo software. We initially identified some key themes of elements related to customer behavior and categorized cases into different groups related to each

Table 1. Interviewees' profile

Starbucks					
Interviewee no.	**Nationality**	**Age**	**Gender**	**Place**	**Date**
R1	Russian	30	Female		May 26, 2017
R2	American	18	Female		May 29, 2017
R3	Kazakh	24	Female		May 29, 2017
R4	Kenyan	20	Female		May 29, 2017
R5	Iranian	29	Male		May 29, 2017
R6	Russian	21	Female		May 30, 2017
R7	Spanish	21	Male		May 30, 2017
R8	Russian	21	Female		May 30, 2017
R9	German	22	Male		May 30, 2017
R10	Ukrainian	20	Female	Starbucks	May 30, 2017
R11	Algerian	19	Male		May 31, 2017
R12	Moroccan	20	Male		May 31, 2017
R13	Palestinian	21	Female		June 1, 2017
R14	Spanish	26	Female		June 1, 2017
R15	Iranian	23	Male		June 1, 2017
R16	Egyptian	20	Female		June 2, 2017
R17	Moroccan	19	Male		June 2, 2017
R18	English	26	Female		June 2, 2017
R19	Libyan	22	Male		June 3, 2017
R20	English	19	Female		June 3, 2017
Costa Coffee					
Interviewee no.	**Nationality**	**Age**	**Gender**	**Place**	**Date**
R21	Russian	35	Female		June 6, 2017
R22	Brazilian	23	Male		June 6, 2017
R23	Spanish	21	Male		June 9, 2017
R24	Venezuelan	32	Male		June 9, 2017
R25	Russian	37	Female		June 9, 2017
R26	Spanish	24	Female		June 9, 2017
R27	Polish	21	Female		June 10, 2017
R28	Spanish	29	Male		June 10, 2017
R29	Dutch	21	Female		June 10, 2017
R30	English	22	Male	Shopping center "La Cacada", Marbella, Мálaga (Spain)	June 13, 2017
R31	Spanish	27	Female		June 13, 2017
R32	Spanish	34	Male		June 13, 2017
R33	English	31	Female		June 13, 2017
R34	Algerian	29	Male		June 16, 2017
R35	Spanish	19	Female		June 16, 2017
R36	Greek	29	Female		June 16, 2017
R37	Belgian	23	Male		June 16, 2017
R38	Spanish	20	Female		June 16, 2017
R39	English	39	Male		June 16, 2017
R40	Spanish	36	Male		June 16, 2017

experience realm. Hence, the software suggested other potential groupings that did not fit into the initial categories or themes. To code each of key concepts into a specific free node, or sub-theme, we used the NVivo software and the support of the literature review.

4. RESULTS

In this section, we present the results of the interviewees' answers after the software analysis and conglomeration. We present the results by group, divided by each coffee shop and showing in parentheses the number of interviewees who answered to each criterion considering the key theme.

Regarding the preference of interviewees for drinking coffee, 18 customers of Starbucks and 17 customers of Costa Coffee said they do like coffee. That means 12.5% of the interviewees would rather drink other beverages such as tea, juice, or soft drinks, but still go to a coffee shop to have them.

Participants' answers on why they like each place were grouped in five main themes. In Costa Coffee, for example, nine interviewees mentioned something about the environment, related to three sub-themes, including socialization ("You can find people of any kind") and the environment ("It is cozy here"; "The atmosphere is very nice"; "I can sit, relax and have time for myself"; "I like it because I feel good here, relaxed"). Also, cleanliness was sub-related to the environment theme as cus-

Table 2. General questions results

Question	Starbucks interviewees	Costa Coffee interviewees
1. Do you like coffee?	18 customers said yes and 2 no	17 customers said yes and 3 no
2. Why do you like this place?	(13) Atmosphere (8) Products (5) Location (2) Wi-Fi	(12) Atmosphere (9) Products (3) Location (3) Wi-Fi
3. What do you think about the price?	(10) Expensive and unjustified (10) Expensive but justified somehow	(20) Expensive but justified
4. Would you introduce any changes in the store?	(14) No changes in design (3) Lower price (1) More light (1) More comfortable chairs (1) More space	(20) No changes in design (5) Lower price

tomers recognized it as a reason to like the place. Interviewees also mentioned they liked the place because of the quality of coffee and snacks, related to the products theme. Location was another theme mentioned by customers as a reason to like it: "It is near my house"; "The location is very advantageous"; "It is close to a lot of places". In addition, customers did not forget to mention Wi-Fi as an important element.

Some customers could name several factors to explain the reason for their choice. For example, R9 said: "I like the coffee, distinguished aroma, calm atmosphere and that it is clean here".

Concerning the price, we could identify two different themes. One was that customers found the price expensive, but couldn't find a reason for it. For example: "It is a small size of cup" or "It was 'just coffee'" and "It would be better if the price was cheaper. Everything is overpriced". The second theme related to customers who expressed that the price was expensive but justified. It was because of the quality of the product, brand recognition, large size of the cups, or the experience itself. In Costa Coffee, all 20 interviewees perceived the price as expensive but justified. However, five of them also suggested that it would be better if the prices were cheaper. Regarding question 4, related to changes in the store, most of the customers were satisfied but some small changes were considered: more light in the store, having more comfortable chairs, and larger store size. The most relevant theme for change was about price reduction.

Considering the analysis of the realms and their respective themes, we can observe that each

realm had specific stimulation elements for each of them. The number of interviewees that mentioned each theme is indicated in the parenthesis, according to the NVivo software results. Next we explain the impact of each theme in the respective realms.

4.1. Entertainment realm

The entertainment realm presented five theme categories. We used customized service for interviewees who enjoy the experience of being asked for their name, to see their name on the cup, and to follow up the process of ordering. Other interviewees said that they like bringing laptops or books to read in the coffee shop, which we aggregated to the read theme. Therefore, customers linked entertainment to the music that they listen to in the coffee shop. Some customers also mentioned they bring their own music on their devices and enjoy the time to listen it while there. As expected in a coffee shop, interviewees liked the food experimentation theme as entertainment, as sometimes Starbucks offered them cookies and coffee to try. Other interviewees enjoyed the socialization theme in the store as an entertainment, related to time spent there with friends.

Therefore, three interviewees had difficulty identifying the entertainment in the store. One did not even recognize that there was music in the store and the other four claimed that they like ordering coffee to go, not enjoying the entertainment in the store. Those were not relevant to the entertainment realm, suggesting that they respond to different stimuli.

Table 3. The four realms of experience and stimulation themes

Realm	Stimulation themes at Starbucks	Stimulation themes at Costa Coffee	Stimulation themes total
Entertainment	(5) Leisure reading (3) Customized service (3) Music (3) Food trial (3) Socialization	(7) Socialization (4) Reading (4) Customized service (4) Food trial (1) Music	(10) Socialization (9) Reading (7) Food trial (7) Customized service (4) Music
Educational	(10) Wi-Fi (5) Comfort (4) Food (4) Socialization (2) Music	(9) Wi-Fi (7) Comfort (3) Food	(19) Wi-Fi (12) Comfort (7) Food (4) Socialization (2) Music
Esthetic	(14) Shop decoration (5) Smell (4) Food design (2) Music	(11) Shop decoration (9) Smell (2) Food design (1) Comfort	(25) Decoration (14) Smell (6) Food design (2) Music (1) Comfort
Escapist	(4) Coffee workshop (5) Product creation	(3) Coffee workshop (2) Product creation (1) Coffee history	(7) Coffee workshop (7) Product creation (1) Coffee history

As suggestions for new entertainment, five interviewees wished for electronic entertainment such as movies, TV, video games, and virtual game activities. Other interviewees suggested entertainment through product trials. Their answers were: "coffee with a little chocolate or sweet", "product try before official launching", and "healthier food line". Still other interviewees desired entertainment through enhancement of social events for people to socialize. One interviewee at Costa Coffee commented about the Halloween event that had taken place in the shop. On the other hand, the remaining twelve interviewees said they were either satisfied with the existing entertainment or had no suggestions.

4.2. Educational realm

Considering the educational realm, 75% of interviewees said they had once read a book or worked in the coffee shop. This high number recognizes the importance of the environment that the coffee shops create for customers to absorb information and use this place for intellectual production. We identified five themes related to production stimulation. The quality of the Wi-Fi connection was the most mentioned item as it is important for people to be able to work or study in the place. Comfort was the second most mentioned theme as interviewees said they need to feel "distressed", "relaxed", and "at ease" during a few hours of working to absorb or produce material.

Another relevant theme was the food. Interviewees mentioned that they "can have the food while working" and also that "the caffeine provides good stimulation for working". The socialization aspect was related to work and student meetings as some of the interviewees mentioned that "people can study together" or "organize work meetings" in the coffee shop. The last theme mentioned was about the music that can also be seen as an element to stimulate productivity. The other eight interviewees could not find a reason for people to work or study better in the respective coffee shops as they never used it for this purpose. The profiles of these interviewees were not considered as educational realm stimulated.

4.3. Esthetic realm

We identified five themes that stimulated the esthetic realm in the analysis of the two coffee shops. Customers usually found the place "cozy", "pleasant", and "nice to spend time in". The decoration theme was the most mentioned in terms of the esthetic stimulation. Interviewees expressed their feelings about the decoration in several descriptions, including "great harmony", "idyllic", "perfect", "young vibe", "friendly", and "modern". The decoration theme reflects the environment that the coffee shop creates for their customers. This is related to "the nice cups of coffee", the "products exposed around", and even the menu design and staff uniforms mentioned by interviewees. We grouped these kinds of elements into the decoration theme. We considered three other themes re-

lated to atmosphere and senses: the coffee smell, as well as food design and music related to the senses of smell, sight and hearing. Customer mentioned the coffee smell was stimulating: "this coffee smell makes me feel where I wanted to be". The sense of sight, which is also related to the shop decoration, is identified in the food design theme. Interviewees said they "really enjoyed the presentation of the drinks" like the "milk design on top of the coffee" or the "plate decoration with salads and sauce designs". The music was considered another stimulation that made customers feel good in the coffee shop atmosphere: "The music makes me feel calm, quiet and relaxed" and "I don't feel I'm alone here and I focus on my thoughts".

The last theme was related to comfort. Customers said that the chairs and seats give them the sensation "of feeling like home", and that "sofas are designed like home, like my living room". Nevertheless, we had one complaint from a customer of Starbucks expressing his desire for a larger space in the shop.

4.4. Escapist realm

This realm concerns customers' involvement with the business. We identified only seven out of 40 interviewees who considered it important to better understand the coffee production and make part of it. Interviewees said they go to coffee shops to "have the drinks done the way they want them", adding, "If I had the skills to do it I didn't need to come" to the coffee shop. Only two out of 40 participated in some kind of workshops related to coffee in their lives.

We identified three themes that could stimulate the escapist realm. The first concerns workshops that could be conducted by coffee shops to teach customers how to make different kinds of coffee. As one interviewee said, "I don't know how they do those milk drawings on top of the coffee, but I would like to learn how to do it". Organizing events that make customers part of the production process could stimulate the escapist realm. Another approach is concerned with product creation as customers like to give their suggestions for new products like "chocolate chips on top of the coffee". One customer said he would be interested in learning more about the history of coffee.

5. DISCUSSION

The analyzed data can show us that customer experience and price are related as expected from the theory of economy experience and also confirming our propositions. All interviewees reported that prices are abusive in the coffee shop. Only one quarter of them considered it not justified – and they still consumed products (and experiences) in the coffee shops. The other three quarters consider the price to be justified given the overall experience they receive.

Results show that the marketing efforts of Starbucks and Costa Coffee are working to build customer experience, as many of the themes mentioned by customers refer to practices that are already incorporated into their business, for example food design and decoration (esthetic realm), comfort and Wi-Fi connection (educational realm), new product development (escapist realm), and music and customer service (entertainment realm).

On the other hand, we found some elements that can be improved from a consumer experience perspective. Socialization is one theme strongly mentioned and related to entertainment. It could be a part of marketing strategies to develop actions that foster the socialization of customers with different promotions. Specific events could be targeted to different groups of customers to develop their interaction in the coffee shop. The socialization theme was also related to the educational realm in that it involves the opportunity for students to meet or co-workers to interact (hold meetings) in the coffee shop.

Another theme that should be explored is the food theme. The entertainment, esthetic, and educational realms already find use in the product. Little action is made to conduct a deeper interaction between customers and product as suggested in the escapist realm. Customers said that they would like to better understand the history of coffee and that they would like to know how to make coffee and create new products. Such themes can be an opportunity for coffee shops to develop new marketing interactions with customers, conducting workshops; teaching customers; and building up customer relationships, branding, and consumer experience.

CONCLUSION

The present study results indicate that the four realms of experience of Pine and Gilmore's (1999) and Gilmore and Pine's (2002a, 2002b) offer not only a conceptual, but also a practical measurement framework for better understanding of customer experiences in the coffee shop industry. Our findings support the hypothesis 1, showing that different senses are interconnected to customer experiences considering each experience realm. It should be noted, however, that individual experience dimensions couldn't be found separately as the coffee shop consumers appear to respond to different stimuli for characteristics of more than one realm. One consumer may feel a complete experience having educational aspects and esthetic aspects, for example. What is important to note is that the creation of the sweetest spot environment must be conducted giving the possibility to all four realms to find their space. This knowledge is able to increase the experience perception and be absorbed by the price perception.

The data evidence suggests that the different dimensions of experience can impact the perception of price, following the experience economy theory. Hence, our hypothesis 2 is supported, as most of customers interviewed are aware of the high price of products in the coffee shop but find it justified by the experiences they perceived in the focal companies of this study.

One of the limitations of this study is regarding the brand awareness of the coffee shops analyzed. As both Starbucks and Costa Coffee are well known brands, their marketing actions could influence customer experience and it could have led to bias in the collected data.

For future research, we recommend exploring the generalization of the themes found in the present study, analyzing the exact correlation of each theme to price perception. Therefore, other regions could be compared to discover whether the same themes would be found or new ones would emerge. A quantitative study could also be conducted to understand the general perception of the themes found pertaining to the four realms in the coffee shop industry.

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