

EXPLORE THE CONCEPTS OF RELATIONSHIP MARKETING WITHIN TAIWAN COFFEE MARKET

Ying-Yueh Su
Chinese Culture University, Taiwan
yysu@sce.pccu.edu.tw

Yen Ku Kuo
National Taiwan Normal University, Taiwan
hrdlover@gmail.com

Bang-Lee Chang
Chinese Culture University, Taiwan
blchang@sce.pccu.edu.tw

Abstract:

The hot drinks market in Taiwan had traditionally been dominated by tea consumption, rather than coffee, however, in the recent years, the coffee consumer population in Taiwan has seen a rapid growth and become the focus of the world coffee industry. As the coffee drinking culture in Taiwan continued to boom, more cafés were opened. In an addition to a wide variety of coffee shops and coffee chains speedily expanding new locations set up. Fast food restaurants and convenience stores are also joining this market to have a share of this big coffee consumption pie. This study applied the concepts of relationship marketing including interaction, emotional contents, customer lifetime values and customization in order to have better understanding the Taiwan café shops performance. This research used in-depth interviews with café operators about how they implement RM to build customer relationships. 16 interviews were conducted with local café operators in Taipei area. All interviews were taped, transcribed, and analyzed. The findings suggest that the development of products meeting the coffee consumers' needs and preference based on a true understanding of the thoughts and behaviors and even luring the customers with the design of the shops are the major issues. Variable add-value products such as the coffee gift boxes, coffee cups, coffee making equipment and coffee makers have been received considerable attention for the business opportunities. In addition, the location of coffee shops should be carefully concerned before entry this market because consumers often prefer the convenience of store-bought coffee.

Keywords: Relationship Marketing, Interaction, Emotional Contents, Customer Lifetime Values, Customization, Coffee Shops

1. INTRODUCTION

The hot drinks market in Taiwan had traditionally been dominated by tea consumption, rather than coffee. However, coffee has become a very popular beverage which is likely rising star in the specialty eatery industry, offering brewed coffee and specialty espresso drinks like cappuccinos and lattes. In fact, coffee has gradually percolated into the daily lives of Taiwanese people over the past several years, and more and more consumers enjoy being atmosphere in a fancy coffeeshouse as a way to enjoy not just life, but an entirely new and different lifestyle.

1.1. The Emergence of Coffee Shops in Taiwan

In the 1940's and 50's, drinking coffee in Taiwan is categorized as social activity amongst the upper class circles and majority of the consumers are the riches and celebrities. In fact, the coffee shop trend in Taiwan started in the early 1990s with the entry of multinationals into the local market and domestic chains that popped up to compete. The first Japanese coffee chain to open in Taiwan was Doutor Coffee Shop in 1991. A year later the Taiwanese chain Dante Coffee began operations. Dante Coffee now has 82 franchise outlets in Taiwan. By the time the Seattle-based giant Starbucks began making its presence felt in 1998, the trend had established itself, and competitors cropped up all over the place including 85°C Coffee, IS Coffee, Ikari Coffee, Barista Coffee, and E-coffee. Especially with 85°C Coffee chain, it has provided another opportunity for coffee investors by combining affordably priced coffee along with affordably priced cakes and pastries.

According to Taiwan Ministry of Finance statistics (2015), last year estimated that there are more than two thousand coffee shops in Taiwan, create more than NT \$ 10 billion in revenue. However, coffee shop market is also running by non-professionalize players in many places, for example MATSUSEI supermarket. Also, fast food restaurants (such as KFC, McDonald's) and convenience store chain (such as 7-Elevn, Hi-Life, OK and Family Mart) also offer the coffee and have ambition to share this big coffee consumption pie. If non-professionalize coffee shops corporate with supermarket it could attract new visitors to supermarkets and coffee shops and supermarkets. For the chain of fast food restaurants, coffee shops still have their advantage since people now are much concern about the health issue than before.

2. RELATIONSHIP MARKETING

The concept of relationship marketing was first introduced to services marketing in the 1980s by Berry (1983). Relationship marketing (RM), according to Berry, means attracting, maintaining and strengthening the relationship a company has with a customer in order to retain that customer. This definition became the foundation upon which most subsequent definitions built. For example, Christopher *et al.* (1991) define the function of relationship marketing as 'getting and keeping customers'. Grönroos (2000) defined relationship marketing as "to identify and establish, maintain and enhance, and when necessary terminate relationships with customers (and other parties) so that the objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfilment of promises". This research adopts RM definition from Grönroos (2000) and propose RM activities including interaction, emotional contents, customer lifetime values, and customization. The investigation has applied these components in order to understand how RM performance within coffee market in Taiwan.

2.1. Interaction

Interaction can be seen the form of social bonds as well as business transactions because two-way dialogue encourages the mutual understanding between firm and customers (Patterson and Smith, 2001). In the UK, Ford (2004) further argued that the interaction approach is based on the idea that business markets are not made up of a large number of individually insignificant customers. Nor do they consist simply of supplier actions, but instead the process is one of interaction between active buyers and sellers that are individually important to each other. Therefore, interaction between parties is one of the most important drivers of RM (Little and Marandi, 2003), and the amount of contact between customer and supplier is an important indicator of relationship strength. Not just face to face between customers and service staffs, the technology improvement (e.g. APP) has changed the mode of interaction. For example, Starbuck's app makes their loyalty program more interactive and more

effective. It is easy to see how many “stars” (points) the customers currently have, make payments, and even find a Starbucks location. This study will apply this concept in order to understanding the customer experience during the service process.

2.2. Emotional Contents

Kiely and Armistead (2004) propose that many firms need to recognize and understand the emotional stance of their customers because dealing with emotions is part of the complexity of future service encounters. It is no wonder that people are highly knowledgeable about emotions, because they play a central role in individual experiences and interpersonal relationships (Shaver *et al.*, 1987). In the commitment-trust theory of RM, Morgan and Hunt (1994) identify relationship benefits as a key antecedent for the kind of relationship commitment that characterizes consumers who engage in relational exchange. In addition, according to Oliver (1997), satisfaction is defined from the mixture of both affection (emotion) and cognition approach as the consumer’s fulfillment response. Hence, customer satisfaction is an abstract concept and involves such factors as the quality of the product, the quality of the service provided, the atmosphere of the location where the product or service is purchased, and the price of the product or service. This research applies this concept to understand the correlation among emotional contents and satisfaction and loyalty of customers.

2.3. Customer Lifetime Values

It is widely accepted that a product has a Customer Lifetime Value (CLV), and this concept first received serious consideration in the area of direct marketing, and has gained increasing attention throughout the marketing arena (Zeithaml and Bitner, 2003). Hence, CLV places emphasis on the long-term perspective in order to identify those profitable customers who are willing to enter a long-term relationship with company. In another words, CLV could help the supplier to calculate the lifetime values of customers in order to identify and forecast their lifetime with the company (Little and Marandi, 2003). Moreover, CLV should consider the broadened perspective from Bruhn (2003) that value of CLV should consider with word-of-mouth advertising, employee retention, and declining account maintenance costs that can also enter the equation. For the coffee shops, it is important to evaluate the value of CLV. For example, Starbucks and Dante Coffee offer successful relationship management solutions including customer loyalty marketing and reward programs for coffee customers. In this study, CLV can be identified as a customer continuing to believe that coffee shops product/service offer is their best option. It best fulfills their value proposition whatever that may be. They take that offer whenever faced with that purchasing decision.

2.4. Customization

Customized products have enjoyed increasing popularity in markets and offer great potential for business growth (Hart, 1996). Today’s customers not only demand high-quality products at low cost, they also expect them in the customized variety that gives them precisely what, when and where they want it (Fitzgerald, 1995). In other words, customers demand products with lower prices, higher quality and faster delivery, but they also want customized products to match their unique needs. Thus, customization of product and communication for each customer is an important requirement or component of RM (Little and Marandi, 2003). For example, Starbucks prides itself on letting customers customize their drinks and offers a lot of choices: no foam, no whip/with whip (Whipped Cream), double blended, double cupped, extra hot, iced, light ice/extra ice, dry/wet, upside down (usually for Camel Macchiato), with room (room is left for cream/milk), etc.

Most previous studies claim that the RM has important positive influences on customer satisfaction and loyalty (Wu, 2011; Davies, *et al.*, 2003). However, several studies (Dimitrades, 2006; Jones, 1996, Woodruff, 1997) state that satisfied customers do defect. In other words, when customers say they are satisfied, they still purchase elsewhere (Jones, 1996). More studies take emphasis on the customer perspectives not from café operators. This study, in contrast, in order to address the aforementioned deficiencies in the literature, this study will explore the RM which has applied by the Coffee Shop in Taipei area. In other words, this study will explore how the coffee shops in Taiwan apply RM in order to attract, enhance and maintain the customer relationship in this strongly competitive market and provide a guideline and development direction for coffee-related industry.

3. DATA COLLECTION AND ANALYSIS

This research used in-depth interviews with café operators about how they implement RM to build customer relationships. 16 coffee shops operators agreed to take part in this investigation. All these operators interviewed claimed to have knowledge of RM and typically occupied to run a coffee shop and have fully experiences with coffee consumers. An interview guide was used during the interviews which included questions asking what the interviewee understood by the term 'relationship marketing', what relationship marketing activates have been applied to attract, enhance, and maintain the customer relationship? All interviews were taped, transcribed and analyzed using thematic coding.

4. FINDINGS AND DISCUSSION

More than half of interview participants agree that the interaction strongly enhances the customer relationship and also have positive affect on consumers' own experience at the coffee shop. In other words, when customers had a stronger sense of belonging to the coffee shop, felt more positive emotions, and were also more satisfied with their experience. For example,

'Of course, there is no reason to expect that this would be only true for coffee shops. Every day, consumers have numerous interactions with people who give them services or just happen to occupy the same space. While it may sometimes feel inefficient to take a minute to interact with another person, however, it is easy to see how adding some "inefficient" chit-chat could be just the pick-me-up you need on your path to purpose'. Thus, consumers were able to enhance their own experience at the coffee shop by making a small effort to engage in a real human interaction with the person who made their coffee. Therefore, even small interactions can satisfy this belong need, at least temporarily, making consumers feel both at home and generally happier.

Most respondents think quality of products is hard to achieve, but through educate stuffs to make similar level of coffee, broad listening customer's comments from social media (e.g. Facebook, blogs etc.); it could help to increase the quality of the coffee shops. Each store has its secret recipe as their advantage, so coffee came out with slightly different taste, if the independent coffee shops bring the taste which can attract customers then it might able to compete with chain of coffee shops.

Today in Taiwan, coffee is no longer conserved a luxury, as it was in the past. Not just selling coffee drink, the coffee products such as the coffee gift boxes, coffee cups, coffee making equipment and coffee makers have also received considerable attention for their business opportunities. Various factors influence consumer's purchase and coffee consumers cover various age groups. This research found that RM could directly influences the perception, impression, and evaluation of consumers. The consumers show their CLV to the coffee shop when they feel associated the smell taste, visual elements, and sounds to the emotions, thinking and behaviors. Thus, building the relationship with customers is important, through by interaction could show their concern for customers, and it would be help to establish the relationship between customers and coffee shops. This study also suggests to independent coffee shops (local and small coffee shops) could develop its own style to attract customers.

Moreover, brand may dominance brought its position in the coffee market, however, there just only attract whom loving imported product customers. For the chain store operator, this study suggests to place more emphasis on the price offering. In addition, the location of coffee shops should be carefully concerned because consumers often prefer the convenience of store-bought coffee. According to the research results, coffee shops in Taiwan have their own positioned differently, they all lock on the different locations and customer niches. This study conclude that the development of customized products should meet the coffee consumers' needs and preference based on a true understanding of the thoughts and behaviors and even attracting the customers with the design of the shops will be the major issues.

REFERENCE LIST

1. Arias, J.T.G. (1996) 'A relationship marketing approach to guanxi', *European Journal of Marketing*, 32(1/2), pp.145-56

2. Berry, L.L. (1983) 'Relationship Marketing', in Berry, L.L., Shostack, G.L., and Upah, G. D. (eds), 'Emerging Perspectives in Services Marketing', American Marketing Association, Chicago, IL, pp.25-8
3. Christopher, M.P., Rayne, A., and Ballantyne, D. (1991) 'Relationship marketing', Butterworth Heinemann.
4. Davies, G., Chun, R., Da-Silva, R. and Roper, S. (2003) 'Corporate reputation and competitiveness', Routledge, UK: London
5. Dimitriadis, Z. S. (2006) 'Customer satisfaction, loyalty: Toward an integrated conceptual framework', *Journal of Academy of Marketing Science*, 22(2), 99-113
6. Dick, A. S. and Basu, K. (1994) 'Customer Loyalty: Toward and Integrated Conceptual Framework', *Journal of Academy of Marketing Science*, 22(2), 99-113
7. Dwyer, F.R. (1997) 'Customer lifetime valuation to support marketing decision marketing', *Journal of Direct Marketing*, 3, pp.8-15
9. Fitzgerald, B. (1995) 'Mass customization – at a profit', *World Class Design to Manufacture*, 2(1), 143-46
10. Ford, D. (2004) 'The IMP group and international marketing', *International Marketing Review*, 21(2), 139-41
11. Grönroos, C. (2000b) 'Creating a relationship dialogue: communication, interaction, value', *Marketing Review*, 1(1), 5-14.
12. Hart, C.H. (1996) 'Made to order', *Marketing Management*, 5(2), pp.11-23
13. Jones, T. (1996) 'Why satisfied customer defect', *Journal of Management in Engineering*, 2(6)
14. Kiely, J.A., and Armistead, C.G. (2004) 'Exploring the future roles and capabilities of customer service professionals', *Managing Service Quality*, 14(1), 26-39
15. Lovelock, C.H. (2001) 'Service marketing', NJ: Prentice Hall Upper Saddle River
16. Morgan, R. and Hunt, S (1994) 'The Commitment trust theory of relationship marketing', *Journal of Marketing*, 58, July, 20-38
17. Oliver, R. L. (1997) 'Satisfaction: A Behavioral Perspective on the Consumer', New York: McGraw Hill
19. Patterson, P.G., and Smith, T. (2001) 'Relationship benefits in service industries: a replication in Southeast Asian context', *The Journal of Services Marketing*, 15(6/7), 425-43
20. Wu, C. C. (2011) 'The impact of hospital brand image on service quality, patient satisfaction and loyalty', *African Journal of Business Management*, 5(12), 4873-3882
21. Shaver, P., Schwartz, J., Kirson, D., and O'Connor, C. (1987) 'Emotion knowledge: further exploration of a prototype approach', *Journal of Personality and Social Psychology*, 52, 1061-86
22. Taiwan Ministry of Finance statistics (2015), available from <http://www.mof.gov.tw/>, accessed 19 Jan 2016.