A Restaurant in the Era of Customer Experience Focus

A Study on the Significance of Core Competencies in Enhancing Customer Experience

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Dieu Linh Nguyenová: 124736

Supervisor: Tore Kristensen

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Foreword & Acknowledgements

The interest towards this thesis topic arose due to following reasons. My passion for culinary experience and culture learning is not surprising to my social circle. The love of exploring new restaurants and to share the memorable experience with my family and friends has motivated me to combine my passion and interest for gastronomy and my academic background for my final academic project.

I would like to acknowledge the following people for their invaluable contributions to the successful completion of this thesis. First and foremost, I would like to thank my supervisor, Tore Kristensen, for dedicating his time so generously as he guided me through the process of conducting this research, providing me with constructive criticisms and suggestions to improve my end product. I could not have wished for a friendlier or more knowledgeable supervisor.

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Thank you!

ABSTRACT

The customer experience is distinctive from a product and service, it is a novel concept accentuating customer focus in a firm's every day processes, while managing and developing core competencies to strengthen the firm's market position and enhance customer experience. Infusing this principle into business models results in customer-centric business models. The interplay amongst core competencies, competitive advantage and customer experience is, however, underexplored. Therefore, the thesis intends to analyze how core competencies can become a source of competitive advantage and enhance the customer experience from the resource-based perspective.

The analysis of the case company Haidilao International Holding Ltd. (Haidilao) has been performed to answer the research question. Haidilao is a Chinese hot pot chain restaurant which provides customers with culinary experience worldwide by a strong focus on its customers. This research has analyzed Haidilao's business model, identified its core competencies, and investigated the significance of these competencies in enhancing customer experience. Consequently, the details of the role in becoming a source of competitive advantage have been analyzed through the resource-based view.

This finding shows that the relationship between core competencies and customer experience is related due to the firm's nature of customer-centric business model and that the focus on customer journey and its touch points should be perceived as a continuous action to ensure the high level of customer satisfaction and strong intensity of customer engagement.

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1. INTRODUCTION

1.1 Research Background

As a result of the popularity of trying new cuisines and experiencing culinary innovations, diverse restaurants have entered the market. Along with the emerging trends of customer-to-customer information sharing, firms need to step up and use their core competencies to gain a sustained competitive advantage in order to differentiate themselves from other businesses in the industry to ensure a strong place on the gastronomic map. The consequences of whether a restaurant engages with their guests, satisfies and makes them loyal are therefore greater than ever, as these interactions influence every experience of the purchase process nowadays.

The gastronomic sector has undergone various kinds of development over time. In recent years, the sector has been witnessing growing interest and demand for exploring novel ways of providing a good customer experience while still generating profit for shareholders. As such, there is a great potential in exploring the opportunities in the restaurant industry for designing new business models, which refers to the logic of how firms create and capture value (Afuah, 2014; Osterwalder and Pigneur, 2010; Zott et al., 2011). As well as to seek for competitive advantage by exploiting restaurant's core competencies and identifying which are the possible sources of sustained competitive advantage (Barney, 1991). However, academic research has paid little attention to elaborate on these potentials.

The gastronomic sector, specifically the restaurant industry, contributes remarkably to the development of cities and to the economic growth of the food industry (Bogers and Jensen, 2017). With the new trend of dining out and emphasis on the improvement of social life nowadays, the "go-out culture" has also changed and positively impacted the industry. The food service market size seized worth US\$ 3.4 Trillion of the global industry in 2018, whilst the growth is expected to be US\$ 4.2 Trillion by 2024 (IMARC Group, 2019). In the light of the modern digital environment, customers are more empowered than ever with the influence of novel trends such as customers' sharing their experience with their peers on social media, which gives consumers more opportunities to review, assess and compare the various products and services before purchasing it. Thus, customer-to-customer marketing and customer knowledge have increased in importance in the restaurant industry and become an inseparable factor for providing outstanding customer service nowadays.

It is evident that the restaurant industry is saturated with competitions due to low entry barriers and manifold growth opportunities. Thereby, in an increasingly competitive market, the recognition of unique firm resources and capabilities that can elevate customer experience throughout the customer journey and can provide a firm with a competitive advantage is essential. As Teece (2010) highlights the

importance for businesses to shift towards more customer-centric due to evolving technology allowing lower cost in information provision and customer solutions. The forming environment, therefore, amplifies the need to consider both the way of addressing customer needs more intuitively and the way innovators capture value from offering new products and services through a well-developed business model (ibid). Additionally, a mediocre innovation pursued within a great business model may capture more value than a great innovation exploited through an average business model (Chesbrough, 2010).

Although the literature on business models, core competencies and customer experience is quite extensive, the gap still needs to be closed in understanding the significance and the role firm's resources and capabilities play in implementing innovations to enhance the customer experience.

The goal is to focus on the interplay between the underexplored benefits of emphasizing the core competencies and positive customer experience. The comprehension of the interplay can deepen the knowledge on how core competencies (firm's resources and capabilities) can enable successful commercialization of innovations as well as how positive customer experience attracts more customers and makes the current customers loyal.

This analysis explores business methods and operational processes brought by hot pot restaurant master, Haidilao International Holding Ltd. (Haidilao) in order to assess the effect of customer-centric and employee-centric approach on customer experience and customers' willingness to engage with the company. Haidilao hot pot is a well-known brand in China. Although it is a restaurant its popularity stems also from different aspects than food. The culinary experience is elevated by their signature condiments that originated from Sichuan province. Haidilao has been developing and improving their spices from the very beginning when the owner Zhang Yong decided to open a hot pot restaurant. The uniqueness in the taste is found in their tender meat and always fresh vegetables. Furthermore, thanks to their innovative approaches, Haidilao has formed a strong customer base which is loyal to the firm. For instance, their outstanding customer service makes any customer feel like a king or queen. Customers are welcomed by every single staff member they meet on the way from the waiting area until they reach their table, where hot towels, an apron, cases for phones and hair bands are offered. While customers refresh themselves with the towel, a waiter has already brought fruit and snacks, which are free of charge, on the table. In addition to the food, some other services are offered for free such as their traditional Chinese tea or juices that offered during the mealtime, hand massage or manicure. Furthermore, if a customer celebrates birthday there, many complementary products (e.g. Haidilao's merchandised products) are delivered on the customer's table as a present from Haidilao. Among the culinary innovation belongs to the 'noodle dance', when a noodle master makes fresh noodles in front of the customers. The differentiated customer-centric experience does not end here. If asked, the waiters will inform customers about the origin of each

ingredient, they will also help customers to cook it or if a customer wants to try to cook it for himself they will suggest how to do it in order to achieve the right temperature of the food. Nevertheless, this is all only a little sneak peek of what they do to ensure the positive customer experience. Therefore, when a customer enters Haidilao, he does not encounter the traditional approach of culinary experience but rather a whole experience from the moment he is greeted by the first front employee, throughout the mealtime, until the very end when he leaves the restaurant.

To sum up, the motivation behind investigating this topic is to contribute to academia and offer potential recommendations for managers on the significance of a firm's resources when enhancing customer experience.

1.2 Problem Formulation

The paper attempts to uncover the gastronomy trends and innovative approaches in the restaurant industry which are enabled by core competencies, i.e. a firm's resources and capabilities. This is done to deepen the knowledge about how exploiting these competencies and implementation of the innovations through a suitable business model can enhance the customer experience in order to attract more customers and make them loyal. Therefore, the objective of this study is to improve understanding of the significance of core competencies in achieving competitive advantage to enhance the customer experience in the restaurant sector from a perspective of the resource-based view. The resource-based view offers an appropriate theoretical lens as it argues that competitive advantage can be achieved by exploiting strategic resources within the firm. The research addresses the theoretical research gap in the role of core competencies in customer experience literature. Thus, this thesis is guided by and aims to answer the following **research question**:

How can core competencies become a source of competitive advantage and enhance the customer experience from the resource-based perspective?

To lead this research question, the following aspects have been addressed:
- What makes core competencies the source of competitive advantage from a resource-based view perspective?
- What role do core competencies play in innovating a business model?
- What is customer experience?

1.3 Thesis Structure

In the first section, the introduction to the study and the general aim and scope of this paper is introduced. Figure 1 below displays the structure of the thesis. The changing environment in the restaurant industry and the importance of addressing these changes were pointed out. Subsequently, the section identifies a

literature gap that initiated the research question, and the research aspects, that will be guiding the thesis. At the end of the introduction section, the introduction is concluded with the structure of the thesis.
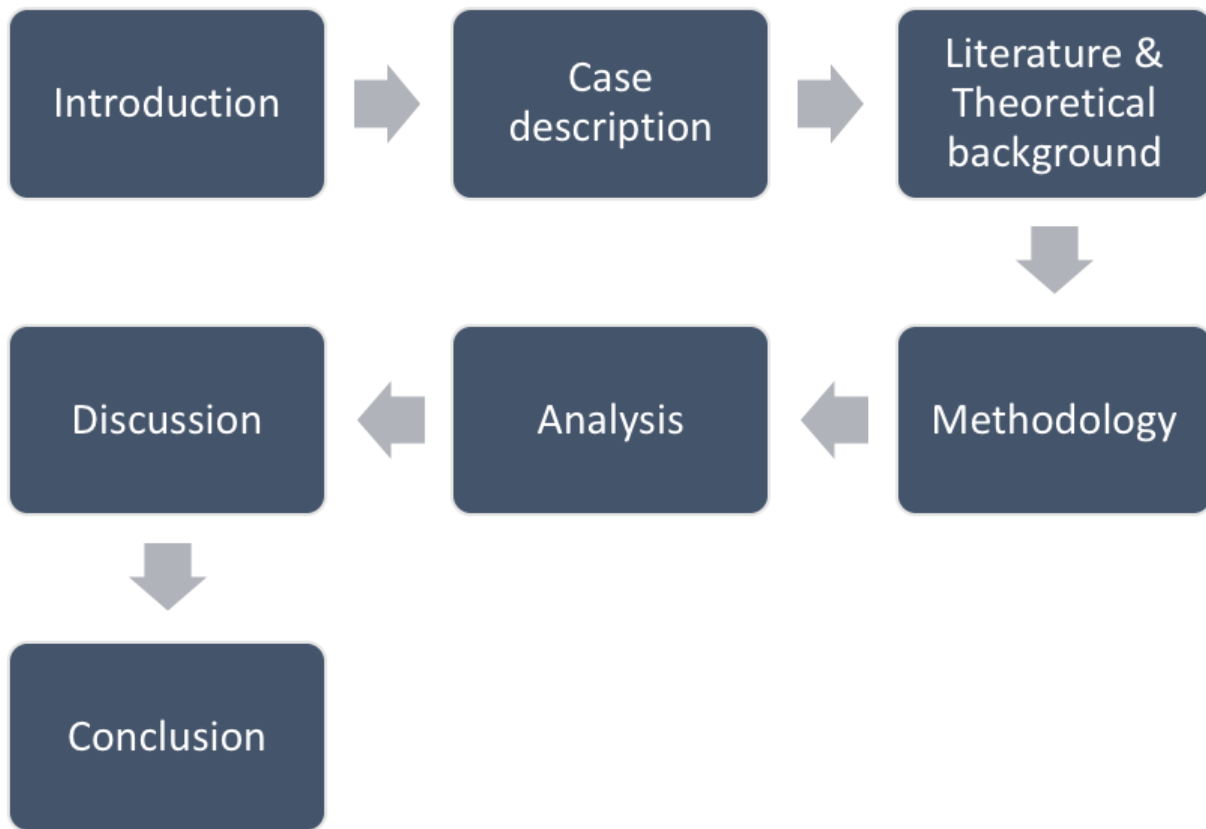
Figure 1: Research Structure of this Thesis

(Own Creation)

The following part describes the case company. It provides a detailed description of the company's founder, operation, products, services and innovations, as well as its future outlooks. It indicates the current business model employed by the case company through Ostenwalder and Pigneur's (2010) Business Model Canvas.

The literature and theoretical review section is divided into two parts. The first part delves into strategic management and its framework, i.e. resource-based view and dynamic capabilities, which is necessary for understanding the importance and the role of firm's resources and capabilities in order to gain competitive advantage. The latter part explores the existing literature on business models, business model innovation, and customer experience, as a whole.

The literature review is essential for understanding the interplay between core competencies and business models that aim to deliver enhanced customer experience along the customer journey through recognizing their core competencies.

The methodology section applies the Research Onion (Saunders, Lewis & Thornhill, 2015) to uncover all necessary layers. It starts with identifying the philosophy and research approaches used for the research designing. Thereafter, the time horizon and techniques and procedures for the data collection and analysis are delineated as well as a critical review of the data and used theories. This is completed with the reliability and validity of the data presented. This section reflects on a holistic approach of chosen methods and the process of collecting and analyzing the data, but it also acknowledges the biases and limitations within the research.

The analysis is built on the conducted interviews and survey. It begins with unfolding the business model presented in the case description to identify the resources and capabilities of the case company. This is done to analyze which resources and capabilities are the source of competitive advantage and what role these competencies play in the business model. Next, the results of the survey are presented and described in detail. The final part focuses on the respondents who know and have visited Haidilao, to gain knowledge of their experience.

The discussion section portrays a parallel amongst the findings from the analysis and answers the research question. Following that, recommendations for Haidilao and subsequently for other businesses within the restaurant industry are provided based on Haidilao's current customers' perception of it and respondents' journey experience. In particular, the recommendations on how the firm's competencies can enhance the customer experience.

The conclusion is the final section of the thesis, which sums up the research and findings. Furthermore, it identifies the limitations of the research and discloses recommendations for future research.

2. COMPANY DESCRIPTION

As a result of rich Chinese culture and its significant cuisine, hot pot is placed on the world map of gastronomic experience. Chinese gastronomy has undergone significant changes during the last decades, the local gastronomy industry has evolved from large-scale type to more intensive and finer management, which has been impacted by market demands (Jie and Liu, 2017). Furthermore, with increasing living standards of people, the change of the social aspect of labour and consumption concept, the gastronomical industry developed rapidly (Bogers and Jensen, 2017). Jie and Liu (2017) argue that the transitions from "we do not have enough to eat" to "we eat and are satisfied", and further from "eating well with taste satisfaction" turned into "eating for fine service and atmosphere" are the important messages that the restaurants have to understand. China has been able to position itself as a destination for rich cultural aspects and for gastro-tourism based on authentic and distinct products and outstanding

innovations with the success of reinventing the traditional Chinese cuisine experience in restaurants. Somehow in the market full of competition entering every day, Haidilao International Holding Ltd. (henceforth Haidilao) developed a successful value proposition that has provided them with long-lasting customer loyalty (Medium, 2017). Frederiksen (2015, p.27) suggests the differences in the restaurant industry in accordance to two axes, where "vertical food companies differ in the price they charge, from low to high" and the "horizontal varies from the content of what is produced to the form in which it is served". Further, the horizontal axis is scaled from "dining options where the producer's primary raison d'être is the content of the 11 food" to "dining options where the producers' primary raison d'être is the form of how the food is delivered" (ibid, p.27). The vertical axis indicates the price level, where the highest price is represented by producers who strive for a high gastronomic standard such as Michelin star restaurants (ibid). The position of Haidilao is compared to other restaurants for a better understanding of how the restaurant is perceived (see Figure 2).
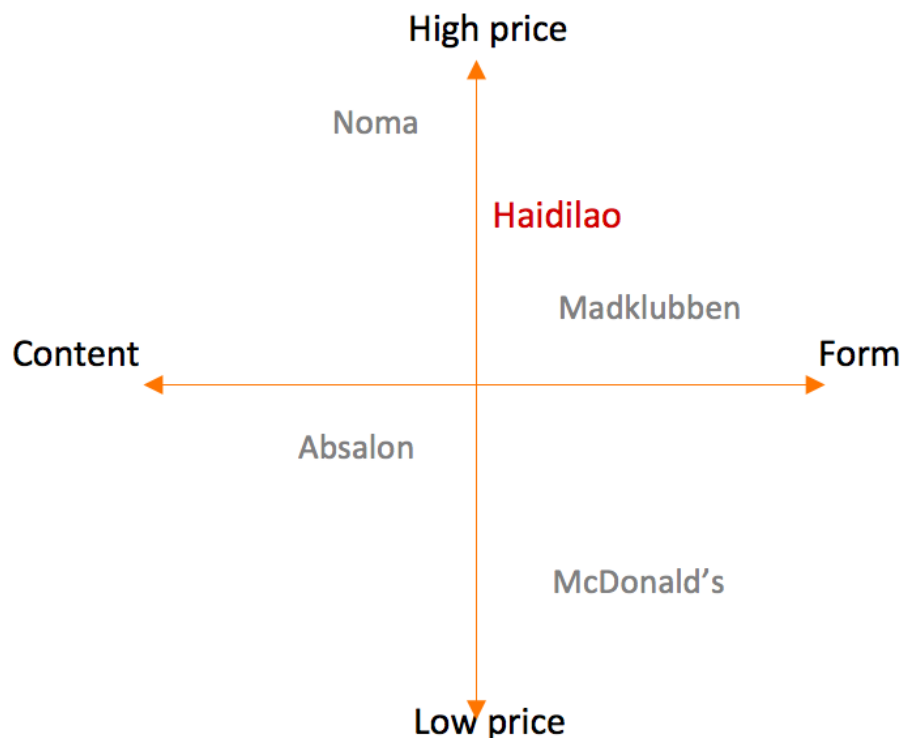
Figure 2 - The Producers of the Culinary Field based on Frederiksen, 2015
(own creation)

2.1 Founder and the business model

Haidilao is a hot pot chain restaurant, founded in 1994 by Zhang Yong in Jianyang City in his native Sichuan Province, home of pandas and the well-known mala peppercorns (Jie and Liu, 2017). Haidilao's success story lies at the superior dining experience provided to the customers and the process that aligns its business model with operational level to achieve the positive customer experience. It is also the customer experience and feedback that determine Haidilao's employee's salary because the company's incentive and welfare mechanism is to make their customers happy. Nevertheless, Haidilao takes care of

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its employee's well being in many different aspects such as providing free dorm and food, or clear career paths through promotion mechanisms. The beginning of Haidilao was very humble, Zhang Yong had only eight thousand RMB which is about 1150 USD today (2020) that allowed him to open its first shop with four tables in a small booth (ibid). Zhang Yong used to work at a factory with a low-wage, he loved learning and improving his life circumstances, which is reflected in the empathy towards his young motivated employees coming from rural areas or small towns all around China (Haidilao Annual report, 2019). Therefore, Haidilao's organizational culture was shaped by Zhang Yong's values and belief in meritocracy and fair opportunities for social mobility. Furthermore, he highlights that the core value of Haidilao is that "you can change your future with your own hands", which is a driving force behind the management model of Haidilao (ibid). After twenty years from the first Zhang's restaurant, he became a significant figure in supplier of Haidilao's spicy broths and condiment maker Yihai International Holding Ltd. (Yihai) (Forbes, 2018). The above mentioned holdings together, which are shared with his wife, gave him a valuation of $7.5 billion in September 2018, which also established Zhang as the world's wealthiest eatery entrepreneur at the age of 47 (ibid).

Haidilao has increased the number of restaurants from 466 to 768 within a year located in China, where the majority of the Haidilao's restaurants are, then in Singapore, Hong Kong, Japan, Vietnam, the United States, the United Kingdom, Australia and other countries (Haidilao Annual report, 2019). The growing numbers of restaurants significantly influenced the total revenue, showing an increase of 55.2% from RMB16,491.2 million in 2018 to RMB25,588.5 million in 2019, with the average annual table rate at 4.8 times per day in 2019, and the average spending per customer changed from RMB101.1 in 2018 to RMB105.2 in 2019 (see Appendix 1) (ibid). In most of the restaurant, customers select ingredients and soup base à la carte, where they can also order short shows with the hand-pulled noodles and create their own dips at Hai Di Lao's popular sauce bar with more than ten variations of ingredients or sauces (ibid).

2.1.1 THE BACKGROUND OF HAIDILAO

Zhang Yong understood that the hot pot industry is one of the most popular culinary experiences in China, thus the quality of his product alone would not be efficient to differentiate his restaurant from the competition and latter build a loyal customer base (Forbes, 2018). Therefore, he decided to avoid pouring money into traditional advertising but rather invest in adding value for the customer.

The question that culinary businesses which want to expand face is whether they want to either directly run their restaurants or to franchise it. Although the first option led to slower growth, Haidilao bet on it and it paid off later. The reason why Haidilao chose the directly-run approach is due to the system of internal promotion, Haidilao's managers would never be someone from another company but rather someone who worked as a service employee at Haidilao and grew into a fit for a managerial position. Thus, the capability to open new outlets depends on the rate at which Haidilao could filter potential

managers from the base. Haidilao customer-centric and employee-centric philosophy have gained a competitive advantage. Therefore, sustaining its extraordinary customer service and empowered employees only by training in its franchises would be too tricky to retain the reputation of great services. Furthermore, to ensure that the exceptional customer service is continuously delivered even at the expense of profit margins, Zhang Yong resisted taking his company public until 2018.

2.1.2 HOT POT INDUSTRY

The hot pot allows customers to take part in the cooking experience. The menu usually offers several soup bases and a big scale of either fresh meat and vegetables or previously processed food options which differ in every hot pot restaurant (McFarlan et al., 2011). The soup base is maintained at a boiling temperature throughout the dinner, and customers cook ordered ingredients by dipping it in the simmering broth. Furthermore, customers can mix and combine their own sauces and dips that are available on the side for customers as an additional flavour (ibid). The hot pot industry has a strong position in Chinese dining sector since the beginning of the 21st century, particularly some famous hot pot restaurant brands continue to be listed in China's top 100 dining enterprises including Haidilao (ibid). The preparation process of the hot pot does not rely that much on skills of individual chefs because food products are prepared and pre-cooked beforehand, but rather on the high customer service from employees who serve the food (ibid). Therefore, the hot pot industry enables a higher degree of standardization.

2. 2 Business Model Canvas

This section uses Business Model Canvas proposed by Osterwalder and Pigeneur (2010) and outlines business model components, which is illustrated in Appendix 2.

Key partners
For Hai Di Lao to focus on their core activity which is operating a hot pot restaurant with high level of customer service, it outsources food and condiment products from an integrated company Yihai (Hai DI lao website, 2019). Yihai was founded in 2013, is controlled by Zhang Yong and develops, produces and sells Hai Di Lao spices and other food products such as soup bases, packed fish, sauces etc. (Yihai website, 2020).

Key activities
Hai Di Lao's key activities beside restaurant service consist of Hai Di Lao's food supply and supply chain based on standardization of food preparation, which results in lower need of kitchen staff and it attracts employees who thrive with a high level of autonomy towards customer interactions at the same time (Medium, 2017). Furthermore, Hai Di Lao has exploited the restaurant as a platform to launch other products and services. For instance, Hai Di Lao opened online stores on both e-commerce platforms (e.g.

Alibaba) and its own official website, targeting to serve customers who want to enjoy its hotpot at home (website, 2019). It is evident that Hai Di Lao's sensational services do not end here. All a customer needs to do is place an order, a Haidilao waiter will deliver the food, ingredients, sauces, soup base, and most importantly all needed tableware and the hot pot to the customer's home, after finishing the meal, the customer lets the waiter know and they will come help cleaning and take the tableware back (ibid). Particularly, Haidilao's food delivery has paid off during SARS in 2003 and the Covid-19 pandemic lockdown, and even sale of their products such as sauces, soup bases etc. in grocery stores has become very popular (Liang, Interview, 2020).

Value proposition

Hai Di Lao's value proposition is to create a happy experience spent with your family and friends by delivering great and innovative services and healthier, safer and better food with more nutrition while enhancing the stability and safety of food quality (Hai Di Lao website, 2019). This is performed by great table service and followed by a large variety of other services provided at Hai Di Lao. In particular, the restaurant provides snacks, fresh fruit, drinks, and additional manicures or massages, which are all free of charge (Wang and Cheng, 2012).

Customer relationship

Hai Di Lao is a well-known brand in China (Liang, Interview, 2020), so in order to acquire new customers, it is dependent on word-of-mouth. Thereafter, it attracts the customers to come back by its customer-centric and employee-centric approaches. The empowered frontline employees are strong initiators for the first steps of customer relationship creation.

Customer segments

Customers visit Hai Di Lao for different reasons but mostly to "share social meals with their friends or family" (Liang, Interview, 2020). However, Hai Di Lao also experiences groups of colleagues and other social gatherings (ibid).

Key resources

The high level of autonomy provided to waiters leads to a shift of power in Haidilao's restaurants. Traditionally, the main voice in restaurants belongs to chefs, however, Haidilao's model of standardization eliminates the kitchen-centric model and passes the power to the waiters (Yue, Interview, 2020). Specifically, all food delivered to restaurants by Haidilao's condiment supplier Yihai is packed in the serving size, thereby, all staff in the kitchen needs to do is to put the food on the plates according to the customer's order (Yihai website, 2020). However, that is also changing since Hai Di Lao is trying to shift towards the smart restaurant concept, where the new *Intelligent Kitchen Management System*

(IKMS) is implemented to achieve integrated kitchen management. The combination of machine learning and AI, *IKMS* aims for "automatic production management, intelligent and accurate inventory management, informative and visualized production data, and whole life cycle monitoring of dishes to ensure product quality" (Haidilao website, News Center, 2019). Additionally, the new concept would help cut labour costs by around 17% (Caixin, 2018). Hai Di Lao is busiest during lunchtime and suppertime when customers many times have to wait even a few hours to get seated. However, Hai Di Lao employees nurture their customers right at the very moment they interact with each other and decide to sit down in the waiting area for a table. There are plenty of customised and innovative service approaches in Hai Di Lao restaurants, from which 90 per cent of the ideas about services come from the frontline service employees (ibid). According to Mr. Liang (Interview, 2020), every employee is allowed to bring up ideas about potential improvements and innovations, which is then posted on the inner company website and once the idea is recognized and approved by management, it is put into practice immediately. For instance, these ideas include providing soybean milk to customers to decrease the spicy taste, offering consumers an apron to keep their clothes clean, providing hand-care service for customers and many others (Liang, Interview, 2020).

Another aspect that is significant for Hai Di Lao is the accessibility of the restaurants by public transportation. Hai Di Lao and Alibaba Cloud designed an artificial intelligence platform that can show the most favourable location for new Hai Di Lao's outlet by screening targets by population density, business opportunities, close by food facilities and nightlife venues (e.g. karaoke bars) because numerous Hai Di Lao locations are open nonstop (Forbes, 2018). Furthermore, the AI platform addresses inventory management. Deep-learning programs react to table-turnover rate and consumption trends and create supply needs accordingly, whilst these programs also keep a safety watch for fresh ingredients such as meat imported from Inner Mongolia or New Zealand (ibid).

Channels

Hai Di Lao delivers the value to their customers through restaurants where customers encounter the culinary experience. Further, besides the physical channel, customers can purchase the firm's products and services online via delivery service or abovementioned Alibaba's platform. Nevertheless, Hai Di Lao also developed an application "Super APP" that enables Hai Di Lao loyalty program members to enjoy multichannel and membership rights as well as to opt from various customized products, and interact with Hai Di Lao community. Furthermore, the application addresses issues with long waiting time for an available table at the restaurants with the optimization of the queuing process while still enhancing user interaction and experience. The membership system provides customers with point exchange for a discount on the meal, birthday gifts, offline events, VIP exclusives, remote queuing online, frequent guest gifts, Haidilao birthday parties, premium discounts and exclusive previews of new products etc., but more

importantly, the membership system successfully accumulates *data of its self-delivery platform and third-party delivery and payment platforms*. As a result, the points can be shared and used on various platforms, which creates the standardization of points. (Hai Di Lao Annual report, 2019, p.150).

Cost structure

The firm's largest expenses consist of raw materials and consumables used, labour costs, property rentals and related expenses, utility expenses, travel-related expenses, and other expenses such as administrative expenses; consultation service fees, storage fees presented in Appendix 3 (Hai Di Lao Annual report, 2019). Hai Di Lao's business is leaning towards cost-driven since it outsourced most of its products and focus on high standardization (Osterwalder & Pigeneur, 2010; Hai Di Lao website, 2019).

Revenue streams

Hai Di Lao's main sources of revenue lie in the restaurant operation, the delivery business, and sales of Hai Di Lao condiment products and food ingredients (see Appendix 1).

2.3 Future steps

To sustain its competitive advantages, Hai Di Lao built its own university in 2010 in order to train its managers and to enhance the HR system (Haidilao website, 2019). Most of the lecturers are experienced managers themselves who want to share their knowledge. Furthermore, the innovation culture within the company is strong, suggesting frontline employees to share and implement their ideas to improve its service by offering more value-added services to the customers (Hai Di Lao Annual report, 2019). Moreover, Hai Di Lao continues to invest in technology to further optimizing and developing the business management system and smart restaurant technology (ibid). Future steps include strategic expansion of Hai Di Lao restaurant network by intensifying the restaurant density and continuous geographical coverage. Finally, the company wants to strategically pursue acquisitions of high-quality assets to additionally diversify its restaurant business patterns and customer base (ibid).

3. LITERATURE AND THEORETICAL REVIEW

The following section will provide a discussion on the literature and theoretical concepts in the field of strategy and paradigms of strategic management, business models and the role of the customer experience. The section starts by introducing the fundamental ideology through theoretical discussion on strategy and frameworks for strategic management, which are the resource-based view and dynamic capabilities. The theoretical review of the resource-based view and dynamic capabilities addresses the source of competitive advantages gained through core competencies. Thereafter, the next part addresses the definition of business models and business models innovation based on existing literature, which answers the subsequent question of the role of competitive advantage when innovating a business model to capture more value with new product or service. The final part of the section is dedicated to

understanding the customer experience throughout the customer journey and how is the customer-centric approach valuable.

3.1 Strategy

Every existing company has qualities that might seem similar. However, these qualities such as business model, strategy, vision, mission and ROI make a company unique. Even though the term 'business model' and 'strategy' seem to be used for one general meaning, it is not so. According to Teece (2010), a business model is more general than a business strategy. Rumelt (2011) defines strategy as "a coherent set of analyses, concepts, policies, arguments, and actions that respond to a highstakes challenge", which leads to choices of specified business models, market segments and commercialization approaches resulting in discarding old business models for the ones that build and sustain a valuable advantage in the market (Casadesus-Masanell and Ricart, 2011). Furthermore, choosing a business strategy is more particular than developing a business model (Teece, 2010). Additionally, according to Casadesus-Masanell and Ricart (2011), the strategy has been a base for competitiveness over the past three decades, however, the answer to sustainable advantage lies in business models in the future. On the other hand, Teece (2018) points out that unique core competencies, which refer to firm resources and capabilities, are the soil to firm-level competitiveness because they provide business model design, which goes hand in hand with strategy since in many cases it is a corporate strategy that specifies business models design. However, linking strategy and business model analysis is needed to protect any competitive advantage derived from designing and implementing new business models (Teece, 2010). Only when a business model endures the filters that strategy analysis imposes, it is then possible for it to become feasible because many business model traits can be easily imitated by competitors (Teece, 2010). Therefore, establishing a differentiated and hard-to-imitate business model framework which is also effective and efficient is essential for creating a competitive advantage (Teece, 2010). A business model forms a strategy to the extent it can limit some actions but facilitate others. When a conflict between a business model and strategy occurs it is up to top management to decide which of the two should be modified because a business model affects the feasibility of a strategy by specifying costs and profitability (Teece, 2018).

3.1.1 CORE COMPETENCIES

Core competencies are defined as a combination of resources and capabilities that distinguish a firm (Prahalad & Hamel, 1990). The firm's competitiveness depends on how core competencies are defined, cultivated and exploited (Schilling, 2013). Core competencies carry out three criteria (Prahalad & Hamel, 1990). Firstly, they enable potential access to diverse markets. Secondly, they should ensure the customer perceives the benefits of the end product. Thirdly, core competencies should be difficult to imitate by competitors.

3.1.2 COMPETITIVE ADVANTAGE

A competitive advantage is a quality that allows a firm to outperform its competitors (Porter, 1985). Additionally, it makes the firm's products and services superior to all of a customer's other choices by offering more valuable and/or cheaper goods and services. Competitive advantage also provides firms with access to neutral resources, skilled labour, convenient geographic location, access to new technology and many others. Porter (1985) highlight the importance of pursuing a sustained competitive advantage that secure company with long-term advantages.

3.1.3 FRAMEWORKS FOR STRATEGIC MANAGEMENT

The common strategic goal of any firm is to achieve and sustain competitive advantage (Rumelt et al., 1994). The following part describes the four frameworks for strategic management to better understand the logic of the theoretical flow of this paper.

The first two approaches have one point in common, i.e. the rents are generated from the favourable product-market position: First, Porter (1980) developed the competitive forces perspective, this has become the dominant paradigm with emphasis on the processes an organization can take to ensure its competitive position in the market (Teece et al., 1997). The second approach is referred to as a *strategic conflict approach*, which has similarities to the first approach due to its focus on *product-market imperfections, entry deterrence,* and *strategic interaction* (ibid).

However, the other two approaches build their foundation on gaining competitive advantage through *capturing entrepreneurial rents stemming from fundamental firm-level efficiency advantages* (Teece et al., 1997, p. 510): Thus, the third approach referred to as *resource-based-view* underlines distinct firm capabilities and assets and other basic determinants of firms performances (such as *the existence of isolating mechanisms*) (Penrose, 1959; Rumelt, 1984; Teece, 1984; Wernerfelt, 1984). Finally, the last approach based on a firm's efficiency is referred to as *dynamic capabilities*, which aims to identify firm-specific capabilities that are potential sources of advantage and to describe how synergies between firm competencies and resources can be exploited to address changing environments (Teece et al., 1997).

In this paper, we focus on the approach that captures competitive advantage through the firm's internal resources.

3.1.3.1 Resource-based view

Resource-based view's (RBV) anchor lies in benefits for companies owning scarce firm-specific resources rather than in economic profits gained by product-market positioning (Teece et al., 1997). Therefore, the competitive advantage occurs in the firm's characteristic and difficult to imitable resources (ibid). RBV acknowledges that every firm needs to determine and distinguish its strengths and weaknesses. Thus,

RBV describes another perspective on firm potential which is not only how firms seize the opportunities but also what resources they can gather (Learned et al, 1969). Furthermore, it is emphasized that the key to a firm's success and its development rest in the ability to detect and create *a competence that is truly distinctive* (ibid). Teece and colleagues (1997) perceive firms as heterogeneous in terms of their resources, capabilities and endowments. However, these resource endowments are considered as 'sticky' in the short run due to their rigid nature. There are three reasons for the 'stickiness'. First, business development is a complex activity and the level of organizational capacity is not agile enough to develop new competencies promptly (Dierickx and Cool, 1989). Second, some of the firm's assets are difficult to trade such as tacit knowledge (Teece, 1976, 1980) and reputation (Dierickx and Cool, 1989). Last, although some assets can be bought, there is no guarantee that the purchase pays off (Teece et al., 1997).

According to Wernerfelt (1984), RBV provides managerial strategies with an opportunity for developing new capabilities. Teece and colleagues (1997) highlight that if control over scarce resources is the source of economic profits, that implies that issues such as skill acquisition, knowledge management and know-how, and learning become basic strategic issues. Itami and Roehl (1987) argue that the greatest potential for contributions to strategy lies in skill acquisition, learning, and accumulation of organizational and intangible or 'invisible' assets.

The RBV is a method of perceiving a firm as a bundle of resources such as *all assets, capabilities, organizational processes, firm attributes, information* and *knowledge* (Barney, 1991, p. 101). These resources are the inputs of the firm that facilitate the company to execute its strategy, and the way the inputs are combined make firms differentiate themselves from one another (Learned et al, 1969; Porter, 1981). The RBV analysis is built on the internal environment of the firm. Although there are many resources that the firm can exploit, only certain resources have a nature of value-creating and becoming a source of competitive advantage (Barney, 1986b).

The following part is focused on the attributes that a resource should have in order to provide a potential competitive advantage.

Barney (1991) defines competitive advantage (CA) as a value-creating strategy that is not simultaneously being exploited by any current or potential competitors. Furthermore, a firm possesses a sustained competitive advantage (SCA) when the firm's CA is not easy to be duplicated by their competitors (ibid). Barney (1991) suggests that in order for resources to have the potential of sustained competitive advantages they must contain these attributes: it must be *valuable*, *rare*, *imperfectly imitable*, and there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare nor

imperfectly imitable. The attributes can be considered as empirical indicators of how *heterogeneous* and *immobile* resources are and accordingly to what extent they can create SCA (ibid).

Valuable resources

Barney (1991, p.106) argues that firm resources can only become a source of CA if they are valuable, *in the sense that it exploits opportunities and/or neutralizes threats in a firm's environment*. Moreover, valuable resources allow companies to form or implement strategies that enhance their efficiency and effectiveness (ibid). For example, Starbucks Coffee's valuable resources are considered in its strong global presence and unique coffee beverages that include calorie information.

Rare resources

Competitive advantage rises up when a value-creating strategy is implemented while it is not implemented by a large scale of other firms at the same time. Therefore, it is rare among a firm's current and potential competition. However, in the case of competitive parity, even though no single firm benefits from a CA, the probability of economic survival increases (McKelvey, 1980; Porter, 1980). For instance, Amass Restaurant in Copenhagen increased its popularity due to a weekly new menu based on their harvest that is grown by innovative methods.

Imperfectly imitable resources

Nevertheless, valuable and rare firm resources can only be a root of SCA if organizations that lack them also cannot obtain them (Lippman and Rummelt 1982). According to Barney (1991, p. 107) resources can be imperfectly imitable for either one or a combination of these reasons:

(1) the ability of a firm to obtain a resource is dependent upon unique historical conditions,

(2) the link between the resources possessed by a firm and a firm's sustained competitive advantage is causally ambiguous,

(3) the resource generating a firm's advantage is socially complex.

The chance for competitors to imitate complex social phenomena, which reach beyond systematic management and influence, is very limited. For instance, organizational culture and interpersonal relations among managers (Barney, 1986b; Hambrick, 1987), company's reputation among suppliers and customers (Porter, 1980; Klein et al., 1978; Klein & Lefler, 1981) are considered as socially complex. Importantly, social complex sources that add value to a firm can be detected, thereby the causal ambiguity rarely appears (Barney, 1991). For example, Michelin-starred restaurants have incredible head chefs standing behind the menu. These head chefs are considered very costly to be poached to other restaurants.

Substitutability (Non-substitutable resource)

Substitutability is divided into forms that could either *similarly* or very *differently* imitate a firm's resources (ibid). When two resources can be exploited individually to implement the same strategy then they are strategically comparable, and therefore substitutable and cannot be a source of SCA (ibid). For instance, the innovative methods of the culinary world such as molecular gastronomy were once difficult to imitate and thus a potential source of competitive advantage for a restaurant in Erice, Italy, which was the pioneer in such a culinary method, until it was learnt by many chefs worldwide.

Later, Barney (1995) improved a VRIN model into VRIO, where each letter is questioning whether the resource is: **V**aluable, **R**are, costly to **I**mitate, and lastly **O**rganized in terms of the firm's ability to exploit the core competence and capture the value of the resources.

Organization

When companies realize the value, rarity and imitability of their resources and capabilities, the further question addresses the ability of the firm's organization to exploit these resources. For instance, by having a variety of options and continually changing menu based on the location, Starbucks coffee has the access to capture value through gaining and implementing valuable knowledge from different locations, e.g. pumpkin spiced latte is Starbucks's signature drink that their customers can now enjoy outside the United States too due to its popularity on the internet.

To sum up, on one hand, the resources and capabilities by itself are not a source of sustained competitive advantage unless they fulfil the character of being valuable, rare, difficult to imitate and the firm is organized to capture value (Barney, 1995). On the other hand, however, without the favourable firm's organization, even firms with valuable, rare and difficult to imitate resources can suffer competitive disadvantage (Barney & Hesterly, 2012). Nevertheless, the firm's core competencies can still become partly sources of competitive advantages for the company depending on the level of positive answers to VRIO questions, encompassing following competitive implications: competitive parity, temporary competitive advantage, and unexploited competitive advantage (see appendix 4) (Barney, 1995).

3.1.3.2 Dynamic capabilities

Teece (2018, p.40) defines dynamic capabilities as "the firm's ability to integrate, build, and reconfigure internal competencies to address, or in some cases to bring about, changes in the business environment". These capabilities are supported by organizational patterns and managerial competencies (Teece et al., 1997). Very importantly, a benefit of a firm's dynamic capabilities lies in its ability to generate, expand and protect intangible assets, resulting in firm's sustainable profitability and in the long-term support of business efficiency which enables firms to form and modify business models (Teece 2007; 2018), which can contribute to the firm's competitive advantage. Teece (2007) divides dynamic capabilities into three clusters of activities: (1) repeatedly *sense* opportunities and threats, while aligning organizational structure and methods to (2) *seize* opportunities, and (3) *transform* the firm's intangible and tangible assets to be able to proactively continue the dynamic fit and to become resilient towards threats and opportunities in the future, and to form and implement a business model to achieve better outcomes. Moreover, the level of a firm's dynamic capabilities sets the pace of addressing the firm's resources including associated cost and its business model(s) to customer needs and wishes (Teece, 2018).

Nevertheless, Teece (2018) explains that dynamic capabilities are various and it is not always for firms to be excellent throughout all the variation. Therefore, some companies sense new opportunities better but they cannot properly identify new business models to take advantage of. On the other hand, a company could be able to develop new business models yet they would not profit from them due to lack of implementing skills. Nonetheless, Teece (2018) suggests *strong dynamic capabilities* are strong (relatively to competitors) if in all aspects of sensing, seizing, and transforming because only then they can effectively establish and renew resources, assets, and other capabilities that might be reshaped to innovate and react to changing trends in the business. Furthermore, Teece adds that (2008, p. 43): "Dynamic capabilities are underpinned in part by organizational routines and processes, the gradual evolution of which is punctuated by non-routine managerial interventions."

All in all, combining dynamic capabilities and strategy creates and refines business models, which results in organizational transformation. In the best case scenario, the transformation leads to profits providing firms to maintain and enhance its capabilities and resources (Teece, 2018). According to Teece (2007), the core of dynamic capabilities is not only to design new business models but also to replace and configure aspects of the models over time. Teece and colleagues (2016) explain that "firms with weaker dynamic capabilities, to the extent that they even recognize a new opportunity, will be more likely to adopt business models that lean on past investments and existing organizational processes." While strong dynamic capabilities across all elements allow a greater scale of business models that can radically deviate resources and activities (ibid).

3.2 Business Model

In order to obtain knowledge of business model innovation, it is crucial to explore the definition of business models. Although the smallest modifications in the business model that do not reach a volume to disrupt an industry and are only incremental, they still initiate business model innovation (Amit & Zott, 2012).

As aforementioned, the term business model is frequently interchangeably used when talking about strategy (Magretta, 2002). Business models refer to a system of how pieces of business connect to each other, but they do not take into account one crucial aspect of performance: competition, which on the contrary strategy does deal with competitors (ibid). Although there are multiple definitions of a business model, there is no clear universal description accepted by both practitioners and academics (Perkmann et al. 2010). Magretta (2002) argues that business models are the heart of a story, the story that tells how organizations work. Furthermore, a competent business model answers Peter Drucker's questions: 'Who is the customer? And what does the customer value?' (Peter Drucker, 1999), which can also provide a company with more value to a discrete group of customers (Magretta, 2002). Moreover, it also answers the questions of every owner: 'How do we make money in this business? What is the underlying economic logic that explains how we can deliver value to customers at an appropriate cost?'

The phenomenon of business model has progressed in recent years from a complementary reflection of a company's strategy, where it characterizes the logic of an organization to present customer value and layout a viable revenue and cost structure for *value capture* (Teece, 2010). Business models represent important ways for firms to 'commercialize new ideas and technologies' (Chesbrough, 2010, p. 354). Furthermore, they not only provide 'the organization's configurational enactment of a specified opportunity' (George and Bock, 2011, p. 102) but also 'a consistent and integrated picture of a company and the way it generates revenues and profit' (Yunus et al., 2010, p. 312). Nevertheless, value plays an important role in most definitions, which is categorized by Richardson (2008) into a value proposition, value creation and delivery, and value capture, and later including the value network (Zott and Amit,

2010). Zott and Amit (2011) define business models as "[...] a system comprised of activities that are performed by the firm and by its partners, together with the ways that these activities are linked to each other through transactions in factor and product markets".

Additionally, Morris and colleagues (2005) underline three different levels of business model. Firstly, the *economic level* clarifies the method of how the business model generates profit, e.g. pricing, cost structure and venture sources. Secondly, on the *operational level* it is dealt with internal processes and design of infrastructure that gives the firm opportunities to create value, e.g. delivery methods, resource flows and administrative processes. Lastly, the *strategic level* reacts to the market positioning of the business and the overall direction of the company, e.g. 'offering differentiation, stakeholder identification and networks'. Teece's (2010, p.179) conceptualization of business model is about "the benefit the enterprise will deliver to customers, how it will organize to do so, and how it will capture a portion of the value that it delivers". A firm benefits from a good business model because it will provide significant value to the customer and reflect it into the firm's revenues (ibid).

In general, mentioned views of how value can be created, captured and delivered through a business model indicate a variety of frameworks, including Richardson's (2008) Business Model Framework, the Four-Box Business model (Johnson, 2010; Johnson et al., 2008) and Osterwalder and Pigneur (2010) Canvas. Osterwalder and Pigneur's (2010) Business Model Canvas is the most commonly used framework due to its nine clear and easily implementable building blocks mapping out the business model bases.

To sum up, business models describe the logic with which a firm creates and captures value (Afuah, 2014; Osterwalder and Pigneur, 2010; Zott et al., 2011). The essential of the most business models definition underlines the role of divergent capabilities and activities that is a pillar to a cost structure and revenue model regarding the value proposition for a particular customer segment (Bogers and Jensen, 2017). When a business model aims to be a source of competitive advantage for a firm, it must be sharpened to meet certain customer needs, while being non-imitable (hard-to-replicate) by using complex production steps or owning strong intellectual property protection or by a different arrangement of organizational structure (Margretta, 2002). However, once it is implemented, the comprehensive aspects of the business models are often transparent and easy to imitate, thus it is only a matter of time when it becomes "shared" by multiple competitors (Teece, 2010).

3.3 Business Model Innovation

The following section is describing business model innovation and its importance to enhance the sustainable performance of firms.

Teece (2010) argues that successful business models trigger imitative behaviour. Therefore, it is emphasized that the organization's capability to rapidly and successfully explore and enter new business models. Accordingly, a firm's ability to frequently and successfully innovate a business model can result in the organization's resilience to changing environment and create a sustainable competitive advantage (Mitchell and Coles, 2003). As aforementioned business models conventionally refer to firm-level value creation and capture, but business model innovation also answers the questions about unfamiliarities in *customer value proposition* and about *respective logical reframing* and *structural reconfigurations of firms* (Chesbrough, 2010). Kidd and Pels (2014) distinguish two focuses of business model innovation. Firstly, in which aspects innovation occurs, i.e. *business model core components*. Secondly, variations of business model innovation, e.g. revenue, enterprise and strategic model innovation. Teece (2010, p.173) explains the term business model innovation as 'a pathway to competitive advantage if the model is sufficiently differentiated and hard to replicate for incumbents and new entrants alike'.

Casadesus-Masanell and Zhu (2013, p. 464) defines business model innovation as 'the search for new business logics of the firm and new ways to create and capture value for its stakeholders'. Evans and colleagues (2018, p. 405) define business model innovation as:

"*the conceptualisation and implementation of new business models. This can comprise the development of entirely new business models, the diversification into additional business models, the acquisition of new business models, or the transformation from one business model to another. The transformation can affect the entire business model or individual or a combination of its value proposition, value creation and deliver, and value capture elements, the interrelations between the elements, and the value network.*"

Nevertheless, there are authors arguing changes or novelties in business models do not necessarily mean new business models in particular. For instance, Cavalcante, Kesting and Ulhøj (2011) dispute that business models are flexible to an extent that allow new processes or adjustments to be added without jeopardizing the core operations of the actual business model. Therefore, the potential modification is tied to the innovation degree, and eventually their business model adjustment typology, i.e. *creation, extension, termination* and *revision* (ibid), an example of a business model *revision* is linked to radical or disruptive innovations (McDermott and O'Connor, 2002). On the other hand, Chesbrough (2010) emphasizes that business model innovation is not meant to be foreseen ex ante but it is a process of trials and fails and occasionally adapting to the new business model.

It is crucial to know when it is the right time to improve a business model and move from the current one (Johnson, Christensen & Kagermann 2008). Johnson and colleagues (2008) point out that the change of business model in incumbent firms happens rarely due to their managers not fully understanding the current business model. Thus, the situation makes the demand for change even harder. Therefore, the

following part will be describing five strategic circumstances that call for business model transformation according to Johnson and colleagues (2008):

1. There is the opportunity to close a gap of needs of potential customers who are excluded from a market entirely due to the price or other inconveniences of existing products or services with disruptive innovation. Furthermore, it includes the chance to make products accessible in emerging markets.

2. There is space to profit from a brand new technology by introducing a new business model with it (e.g. *Apple and MP3 players*) or the opportunity to exploit an already tested technology by commercializing it into a new market (e.g. 'by offering military technologies in the commercial space or vice versa')

3. The opportunity of *job-to-be-done focus* where it does not yet exist. It is frequent for businesses that focus on products and customer segments which navigate them to improve current products, leading towards higher commoditization with time. Companies have to incorporate its key processes and resources in a more efficient measure to create a niche for undetected needs.

4. The necessity to repel low-end disrupters.

5. The need to react to a moving base of competition due to changing market trends.

   All in all, managers must be able to decide whether the endeavour to alter to a new business model will presumptively pay off. When the advantages do not outweigh the disadvantages, then a firm should not adopt a new business model.

Additionally, Johnson and colleagues (2008) develop four questions allowing a firm to evaluate whether the challenge of business model innovation will generate sufficient results. They also argue that by answering "yes" to all of them means a higher probability of successful execution:

1. *Can you nail the job with a focused, compelling customer value proposition?*

2. *Can you devise a model in which all the elements—the customer value proposition, the profit formula, the key resources, and the key processes—work together to get the job done in the most efficient way possible?*

3. *Can you create a new business development process unfettered by the often negative influences of your core business?*

4. *Will the new business model disrupt competitors?*

   Nonetheless, the innovation of a business model does not mean that the existing model is jeopardized or should be edited because a new model can support and complement the core business (ibid). Another aspect that is needed to be considered is the drawbacks that hinder business model innovation. The conflict lies within managers who are able to find a new more suitable business model but have difficulties to let go of the old one (Christensen, 1997; Amit & Zott, 2001). On the other hand, Chesbrough (2010) argues that managers can face difficulties both in finding a convenient business model and in managing the old model.

3.3.1 CORE COMPETENCIES IN BUSINESS MODEL INNOVATION

Based on Leih and colleagues (2015) implementing a specified business model also requires multiple elements of a firm. When adopting and changing business models not only strong dynamic capabilities but also an innovative and flexible organization are needed. The idea is also supported by McGrath and MacMillan (2000) who argue that the quest for new opportunities is more of a continuous obligation than a choice for entrepreneurial managers. Additionally, after selection of a business model, the owner or management must decide which activities will be produced in-house and which can be outsourced (Teece, 2018), where value capture is a main concern, and additionally, "controlling bottleneck assets is critical to capturing value" (Teece, 2018, p.46). Cooper and colleagues (1997) identify that activities from which a firm cannot extract unique knowledge should be outsourced, considering there are firm's resources that can run the relationship productively. The other reason for exploiting outsourced suppliers is that it provides the firm with resources and attention for dynamic capabilities-level processes that normally are needed for improving daily operations (Teece, 2018). It is important to highlight that "key business model choices have deep systemic implications for the enterprise, affecting the way it does business." (Teece, 2018, p. 46). *Management's leadership skills* belong to another crucial aspect of dynamic capabilities (Teece, 2016) while innovating a business model. Managers must communicate a vision and create a suitable organizational culture and a system that will encourage *organizational identification* and *loyalty* (Augier and Teece, 2009). Overall, the organizational structure has an impact on its business model innovation and its dynamic capabilities (Teece, 2018).

Organizations which operate on a multinational level have a leverage to experiment with different business models and organizational methods in different locations unlike their one-country competitors, thus multinational firms benefit from greater opportunities such as transferring proven business models to other locations where value can be captured (Teece, 2014b). In such cases, all the operations require sensing, seizing and adjustability at both local level and headquarters. Thereby, "business model, dynamic capabilities, and organizational design are mutually interdependent" (Teece, 2018, p.48).

To sum up, companies usually undergo business model innovation as a result of internal incentives or external factors such as pressure from competitors. Although business model innovation is less popular than product or service innovation, it can have better consequences for mediocre products than the other way around (Chesbrough, 2010). On this note, it is evident that business model innovation itself is not an objective but rather the way to obtain sustainable competitive advantage.

3.4 Customer experience

The following section is focused on the new phenomenon of customer experience developed by Lemon and Verhoef (2016). It answers the final aspect of the research question: *What is customer experience and how does it influence the customer journey?*

Customer-centric or also known as client-centric is a strategy which is based on putting the customer at the core of a business in order to provide a positive customer experience and build long-term relationships (Deloitte, 2017). Designing a strong customer experience is a prioritized management goal nowadays (Lemon and Verhoef, 2016). The importance of experiences is emphasized by the Marketing Science Institute (MSI) (2014, 2016) and underlined by Pine and Gimore (1998) who define opportunities that stem from creating strong lasting customer experience for the firm and. The MSI (2014, 2016) suggests that positive experiences in a customer journey emerge into improvements to the bottom line by enhancing achievements in the customer journey at several *touch points*, i.e. higher conversion rates and through advanced customer loyalty and word of mouth (Court et al. 2009; Edelman 2010; Homburg, Jozi´c, and Kuehnl 2015).

Customer management has been focusing mainly on customers' value creation for firms with emphasis on metrics (e.g. customer lifetime value) (Gupta, Lehmann, and Stuart 2004; Kumar and Shah 2009) rather than on value creation for customers (Bügel 2010; Kumar and Reinartz 2016). Schmitt (2017, p.17) identifies customer experience management as "the process of strategically managing a customers' entire experience with a product or company." Lemon and Verhoef (2016) suggest customer experience management is different from customer relationship management (CRM) on several aspects, e.g. CRM emphasizes on value extraction, whereas customer experience management focuses more on value creation. According to Schmitt (2003) customer experience management embodies five steps: (1) *analyzing the experiential world of the customers*, (2) *building the experiential platform*, (3) *designing the brand experience*, (4) *structuring the customer experience*, and (5) *engaging in continuous innovation* (Homburg et al., 2015).

As customers' interactions increase with firms through countless *touch points*, it asks for greater focus on customer experience because the customer journeys are more complex (Lemon and Verhoef, 2016). Lemon and Verhoef (2016) suggest in order to design greater customer experiences it is important to put customers in the center of focus. From the internal firm perspective, it is suggested firms need to develop and master several mindsets and capabilities in order to successfully manage the customer experience, which includes the customer journey design and *partner-network capabilities* and *analytical capabilities* (Homburg et al., 2015). Additionally, social media, novel customer-to-customer interactions,

create significant challenges but also opportunities for firms (Leeflang et al. 2013; Libai et al. 2010). Customer experiences have a more social character, thereby peer customers influence each other's experiences (Lemon and Verhoef, 2016) and firms have overly less control which results in establishing new trends such as showrooming (search in store buy online) (Brynjolfsson, Hu, and Rahman 2013; Rapp et al. 2015). Taking into consideration that firms have reduced control of the experience it is required for them to integrate multiple business functions (e.g. *information technology, service operations, logistics, marketing, human resources, and even external partners)* to create and deliver customer experiences (Lemon and Verhoef, 2016, p. 69). Therefore, it is complex for companies to create, manage, and try to control every single customer's experience and journey (Edelman and Singer 2015; Rawson, Duncan, and Jones 2013).

3.4.1 CUSTOMER EXPERIENCE DEFINED

Pine and Gilmore (1998, p.3) suggest that experiences are distinct from products and services because a customer purchases an experience to "spend time enjoying a series of memorable events that a company stages … to engage him in an inherently personal way." Nevertheless, other authors have noted a broader and holistic in nature view of the customer experience, which also includes the *customer's cognitive, emotional, sensory, social, and spiritual responses to all interactions with a firm* (Lemon and Verhoef, 2016, p.70). For instance, Schmitt, Brakus, and Zarantonello (2015) argue that every service interaction is considered customer experience, despite its nature or form. Another expansive perspective on customer experience defines it as "encompassing every aspect of a company's offering—the quality of customer care, of course, but also advertising, packaging, product and service features, ease of use, and reliability. It is the internal and subjective response customers have to any direct or indirect contact with a company" (Meyer and Schwager 2007, p. 2). Schmitt's (1999) multidimensional view points out five types of experiences: *sensory* (sense), *affective* (feel), *cognitive* (think), *physical* (act), and *social-identity* (relate) experiences. Whilst De Keyser et al. (2015, p. 23) identifies customer experience as "comprised of the cognitive, emotional, physical, sensorial, spiritual, and social elements that mark the customer's direct or indirect interaction with (an)other market actor(s)" - principally, the information contained in every direct and indirect interaction then make an overall experience (Lemon and Verhoef, 2016).

All in all, scholars and practitioners have aligned their understanding of customer experience as a multidimensional model that includes cognitive, emotional, behavioural, sensorial, and social elements that play a role during the customer's entire purchase journey. (Schmitt 1999, 2003; Verhoef et al. 2009).

3.4.2 CUSTOMER EXPERIENCE AS A DISTINCT CONSTRUCT

In the following part, the relationship between customer experience and other customer-focused constructs will be distinguished.

Firstly, customer experience is related to more focused constructs, for example, customer satisfaction and service quality (Lemon and Verhoef, 2016). Customer satisfaction could be considered as a part of customer experience which pays attention to the customer's cognitive evaluation of the experience (ibid). On the other hand, service quality could be perceived as an antecedent of customer experience (ibid).

Secondly, Lemon and Verhoef (2016) argue that relationship marketing, including trust and commitment, are connected to customer experience and could potentially have an impact on a customer's eventual experience. Commitment is a measure of a customer's relationship with an organization and is referred to as a result of customer experience. Trust addresses how customers perceive a company's reliability and benevolence, and does not directly have an impact on customer experience in a customer journey (Geyskens, Steenkamp, and Kumar 1998). Nonetheless, Lemon and Verhoef (2016, p.74) argue that "a good customer experience might, however, build trust" and that "trust can influence experience because it reduces cognitive effort and attention paid to monitoring a relationship, as well as influencing the experience via a "halo effect."

Thirdly, Brakus and colleagues (2009) suggest that there is a distinction between customer experience and other brand-focused theories (e.g. brand involvement and brand attachment).

Lastly, customer experience is closely related to customer engagement, which is going to be explored in detail in the latter part. Customer engagement refers to the level to which a customer "reaches out" to and initiates contact with a company (Lemon and Verhoef, 2016). Lemon and Verhoef (2016) point out that the process of "reaching out" (or engagement) represents touch points within the customer journey and generates *cognitive, emotional, behavioural, sensorial,* and *social* reactions from the customer. Thus, customer engagement participates in overall customer experience because it emerges through specific touch points, for instance during (social) interactions with employees of the service sector (ibid).

3.4.3 CUSTOMER EXPERIENCE AND THE CUSTOMER JOURNEY

Lemon and Verhoef (2016) identify customer experience as a customer's journey with a company over a period of the purchase cycle across multiple touch points. Additionally, the total customer experience has an iterative dynamic nature and moves from *pre-purchase* to *purchase* to the *post-purchase* stage (see Figure 3) (Howard and Sheth 1969; Lemon and Verhoef, 2016; Neslin et al. 2006; Pucinelli et al. 2009). The process is influenced by past experiences and external determinants. Moreover, customers encounter touch points in each phase, however, not all of them are controlled by the firm.

FIGURE 1
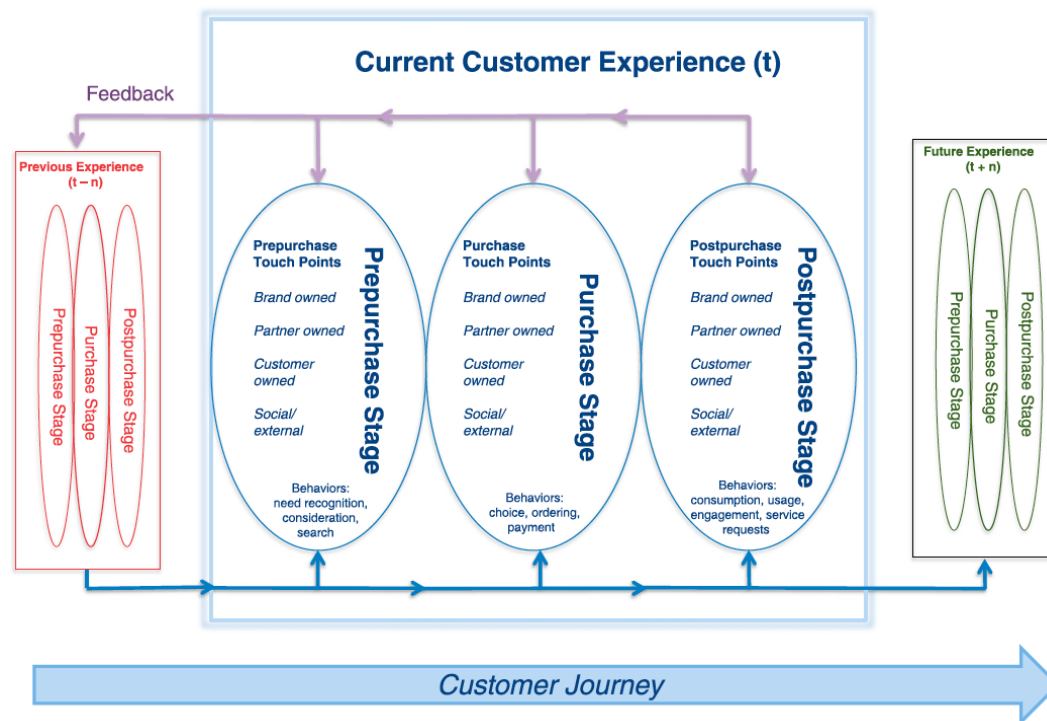**Process Model for Customer Journey and Experience**

Figure 3: Customer Journey (Lemon and Verhoef, 2016)

Based on Figure 3 Lemon and Verhoef highlight the following points. First, companies should explore to understand the company and also customer perspectives of the purchase journey, while recognizing key features in each phase. Second, companies should detect specified factors or touch points that appear across the journey. Third, companies need to locate trigger points that guide customers to keep on or stop in their purchase journey.

3.4.4 Types of Touch Points in the Customer Journey

Identifying the touch points provides companies with potential leverages that lie within customer experience because firms can reveal touch points in the journey that they own or have an influence on and also be aware of those touch points they can not or barely influence (Lemon and Verhoef, 2016). There are four types of customer experience touch points: *brand-owned, partner-owned, customer-owned, and social/external/independent* (ibid, p.76). The customer's interaction with touch points differs in each stage of the experience, depending on the kind of product/service or the customer's own journey, the importance or intensity of each touch point varies in each phase (ibid). In order to learn how companies can influence key touch points, the touch points need to be indicated first. The next part will be discussing the most critical touch points at each stage from a customer perspective.

Brand-owned touch points

Brand-owned touch points are the customer's encounters during the experience that are created and managed by the company and thus, they are under the company's control (Lemon and Verhoef, 2016). These touch points include brand-owned media (such as *advertising, websites, loyalty programs*) and any brand-controlled components of the marketing mix (such as *attributes of product, packaging, service, price, convenience, sales force*) (ibid, p.77).

Partner-owned touch points

Customers interact with partner-owned touch points during the experience cooperatively created, managed and controlled by the company and at least one of its partners (ibid). Some of these include (*marketing agencies, multichannel distribution partners, multivendor loyalty program partners, and communication channel partners*) (ibid, p.77).

Customer-owned touch points

Customer actions are considered as customer-owned touch points because the company, its partners, or others do not have any influence or control over the customer experience (ibid). An example could be "*customers thinking about their own needs or desires in the prepurchase phase. During purchase, the customer's choice of payment method is primarily a customer-owned touch point, although partners may also play a role*" (ibid, p.78). Lemon and Verhoef (2016) suggest that customer-own touch points are most important and frequent postpurchase, when individual consumption and usage itself take place (ibid).

Social/external touch points

Social/external touch points take into account the fact that throughout the experience a customer is surrounded by external touch points that may have an impact on the action, for instance, by *other customers, peer influences, independent information sources, environments* (ibid, p.78). Peer influence can occur in all three phases of the experience (ibid). Baxendale and colleagues (2015) argue that the impact of peer or other customers influences can be comparable to or even greater than advertising effects. Furthermore, according to Lin and Liang (2011) the social environment influences the experience as well and based on Lemon and Verhoef (2016) third-party information sources with review functions and social media can also have an effect on customers.

Dynamics and External Influences

Previous experience influences current satisfaction, which influences future usage (Bolton and Lemon, 1999). Additionally, the dynamic effects of customer experience can exist within themselves since customers change over time after being influenced by iterative experiences with a product or a service (Lemon and Verhoef, 2016). Particularly, customers build relationships with brands, which forms their identity (Bhattacharya and Sen 2003; Fournier, 1998). Thereafter, customer decisions start being a routine (Sheth and Parvatiyar 1995), and remarkable experiences become long-lasting effects (Arnould and Price 1993). According to Verhoef and his colleagues (2009), there are broader externalities

potentially affecting customer experience (e.g. inconvenient weather, extreme crises, the economic situation etc.).

3.4.4 CUSTOMER EXPERIENCE MEASUREMENT

Companies try to measure and evaluate overall customer experience measurement through many metrics. Some of these include Klaus and Maklan's (2012;2013) overall customer experience quality, which focus on four facets of customer experience, i.e. p*eace of mind, moments of truth, outcome focus, and product experience*; Shmidt-Subramanian's (2014) and Temkin and Bliss's (2011) measurement with identifying the voice of the customer across the whole experience; Parasuman, Zeithaml, and Berry's (1988;1996) five dimensions of service quality, i.e. *reliability, assurance, tangibles, empathy, and responsiveness*, which is referred to as a starting point of guiding efforts toward an overall customer experience measurement method; Bolton and Drew's (1991) customer satisfaction as dominant customer feedback, and *behavioural* and *financial consequences* of customer satisfaction; Reichheld's (2013) NPS (Net Promoter Score). Zeithaml and colleagues (2006) suggest that the NPS is considered as a forward-looking metric, whereas satisfaction is a backward-looking metric. Although there are many possible methods to measure and assess all aspects of customer experience, researches still suggest SERVQUAL as it offers a good starting point.

SERVQUAL (consists of service and quality) is based on the expectancy and disconfirmation paradigm, i.e. service quality is acknowledged as the level to which a consumer prepurchase expectations of quality are confirmed or disconfirmed by the actual perceptions of the service experience (Zeithaml et al., 1996). Therefore, when a customer's expectations are greater than her/his perceptions of received products or services, service quality is very low, and vice versa when perceptions exceed expectations then service quality is high (ibid). The following five aspects of service quality form the basis of the individual dimensions in the SERVQUAL research instrument such as survey (Parasuman et al., 1991, p.39):

1. *Reliability: the ability to perform the promised service dependably and accurately*
2. *Assurance: the knowledge and courtesy of employees and their ability to convey trust and confidence*
3. *Tangibles: the appearance of physical facilities, equipment, personnel and communication materials*
4. *Empathy: the provision of caring, individualized attention to customers*
5. *Responsiveness: the willingness to help customers and to provide prompt service*

3.5 CUSTOMER ENGAGEMENT

As aforementioned customer engagement is closely related to customer experience. Both managers and academicians' comprehension of the customer lifetime value indicates that over time more actions must be taken than just to satisfy the customer to transform them into a loyal and profitable customer (Kumar and Pansari, 2016b). Kumar and Pansari (2016b) suggest a firm's objective is to evolve from profitable loyalty and customer's satisfaction to customer engagement on all possible levels, which turns into desired differentiation and sustainable competitive advantage. Therefore, when a relationship reaches a

satisfaction level and involves emotional bonding, it then develops to the phase of "engagement" (see Appendix 5) (ibid).

Bowden (2009, p. 65) explains customer engagement as "a psychological process" navigating customer loyalty, whereas Van Doorn and colleagues (2010, p. 254) define customer engagement as "a customer's behavioural manifestations that have a brand or firm focus, beyond purchase, resulting from motivational drivers." Additionally, if a customer's desires are aligned with the firm's intentions, then customer engagement is inclined to have a positive impact on the firm; however, in case the customer's and the firm's visions are misaligned, customer engagement may cause negative consequences (ibid). Nevertheless, Kumar (2013, p. 6) describes customer engagement from a firm's profitability perspective, as a state of mind or activity that goes beyond purchasing. Furthermore, Kumar and colleagues (2010) emphasize that if customer engagement is not considered, then the organization is undervaluing or overvaluing its customers. Pansari and Kumar (2016a) support the previous note and define customer engagement as "the mechanics of a customer's value addition to the firm, either through direct or/and indirect contribution". Customer purchases could be referred to as direct impact because they have a tangible impact on firm value (Gupta et al. 2004). Furthermore, the purchases of products and services support companies to allocate resources efficiently, which addresses the firm's goal to maximize the profitability from each customer over a longer period with a metric known as Customer Lifetime Value (Kumar, 2008).

However, Van Doorn and colleagues (2010) dispute that customer engagement includes activities which go beyond transactions. Among indirect (intangible) contributions belong customer referrals and feedback, customer influence on social media, and customer knowledge that raises awareness about the organization's brand (Kumar et al., 2010; Pansari and Kumar, 2016b). Customer referrals raise the awareness of the company to other audiences that do not respond to traditional marketing channels, which contributes indirectly to company performance (Kumar et al. 2010; Kumar 2013). Moreover, Schmitt and colleagues (2011) identify that referred customers are more valuable in terms of profitability than non-referred customers on both B2B and B2C level (Kumar, 2013). Since social media platforms have been used by customers to share brand and product related information the customer influence has also become more important because customers can affect others' behaviour within their social network (Chakravarty et al. 2014; Kumar, 2013; Trusov et al. 2009). Although social media influence can extend beyond the customer's close network and indirectly contributes to the firm's profits, not every customer has a power to influence others in their surroundings (Hogan et al. 2003; Kumar 2013; Lee and Grewal 2004). Thus, recognizing the drivers of influential activities in a social network is crucial for firms to exploit the benefits of the social media strategy (Kumar, 2013). Customer knowledge contributes to a company by being actively involved in improving its products or services by providing feedback, which

deepens the company's understanding of customer preferences (Joshi and Sharma, 2004). Firms could exploit the feedback to improve or create new products or services, thereby they indirectly impact company performance (Kumar and Bhagwat 2010).

3.5.1 Principles of engagement theory

The evolution of customer management has shifted from a transaction perspective (see Appendix 5), where the focus was mainly on customer transactions that had an impact on firm's profitability (through *customer value*, *recency*, *frequency* and *monetary value*) to relationship marketing (Kumar and Pansari, 2016b). Further, Morgan and Hunt's (1994) commitment trust theory was a source for relationship marketing. The theory describes how developing commitment and trust with customers leads to accomplishing the core goal of firms to create a positive and long-term relationship with customers, which enhances efficiency, productivity and collaboration ((Berry and Parasuraman 1991; Morgan and Hunt 1994). According to Kumar (2013), customers contribute to a firm when they feel connected to the firm. Therefore, firms underline the importance of the relationship established with their customers and of the outcomes beyond purchases that customers can offer to firms mentioned in Customer engagement section.

All in all, the level of satisfaction, which stems from the customer relationship and the depth of customers' emotional connectedness toward the relationship, plays a crucial role in the quality of this relationship (Pansari and Kumar, 2016b). In conclusion, "*when a firm achieves trust, commitment, and a satisfied and emotional relationship with the customer, we can say that the firm and the customer are engaged with each other*" (ibid, p. 300). Therefore, the tenets of engagement theory are satisfaction and emotion (ibid).

3.5.2 Customer engagement matrix

Kumar and Pansari (2016) suggest that a customer's satisfaction positively influences their direct contribution, whereas the customer's emotions influence the indirect contributions by becoming an advocate or a co-creator. Therefore, firms should find ways to manage both satisfaction and emotion in order to maximize both the direct and indirect contribution. Based on the volume of emotions, and the intensity of satisfaction, which can be either low or high, they are then accordingly defined as *True Love (high emotion–high satisfaction), Attraction (low emotion–high satisfaction), Passion (high emotion– low satisfaction) and Indifference (low emotion– low satisfaction)*, which is displayed on the Figure 2 (Kumar and Pansari, 2016, p.306).

	Passion	True Love
High Positive Emotions	Altruistic - focused	Engagement – focused
Low Positive Emotions	<u>Indifference</u> Fill in need – focused	<u>Attraction</u> Value - focused
	Low Satisfaction	**High Satisfaction**

Figure 2: The customer engagement matrix

Own creation based on Kumar and Pansari (2016)

Indifference

Kumar and Pansari (2016) define the indifference segment as when customers show a lower intensity of emotions and satisfaction, which suggests a neutral attitude toward a firm. In this stage, the customer only opts to interact with the firm if it can fulfil a current need and if there are not many other choices available for the customer, thus these customers are called "fill in need" customers . There are various reasons for the indifference. For instance, the demand for the product/service is low, a customer cannot afford it, the product or service is a result of convenience rather than an active option . The understanding of the phenomena enables managers to convert indifferent customers to transact more, form a strong relationship with them, and engage them more.

Passion

In certain situations, customers have high positive emotions toward the company, but low amounts of satisfaction. These customers are referred to as "altruistic focused", they might experience the low levels of satisfaction due to their unmet expectations. Therefore, the suggested strategy is to exploit and maintain the customer's emotional connection to attract other customers to purchase the product or service, and eventually increase the amount of satisfaction by delivering a better experience.

Attraction

When customers buy products or services from the company and are satisfied with the company, but have low levels of positive emotions toward the company, it is called attraction and the customers are considered as "value-focused". Companies can derive benefit from these customers because they directly contribute to the company's profit through purchases. However, from an indirect contribution perspective, companies should build a deeper emotional connection with such customers, for example,

by surprising them with presents or coupons, inviting them to special events etc.. Therefore, the firm's strategy is to provide the greatest value to the customer in order to get their high positive emotional connection toward the firm's brand, which would move the customer from the attraction section to the true love segment.

True love

Customers are in the true love segment if they have high positive emotions and are highly satisfied with the company. Obviously true love is an ideal phase where companies want their customers to be, thereby, the objective is to sustain the high positive emotional intensity and the high level of satisfaction of these customers known as "engagement-focused". Overall strategy is to ensure the maximum level of customer engagement and to expand the segment over time as it generates higher profit through both direct and indirect contribution. Furthermore, it is very difficult for competitors to poach these customers unless there is an obvious value gap that customers perceive. However, a disruptive innovation could be the reason customers are lured away.

All in all, firms have to learn how to manage customers to engage them in a profitable and sustainable way if their customers are satisfied and emotionally connected. Finally, Kumar and Pansari (2016) identify that the relationships between satisfaction and direct contribution and between emotions and indirect contribution are enhanced in a service industry.

3.6 CUSTOMER AND EMPLOYEE ENGAGEMENT AND COMPETITIVE ADVANTAGE

Customer engagement

The impact of technological developments and social media on the market with increasing competition has resulted in higher customer interactions manifold (Kumar and Pansari, 2016a). Thus, it is crucial to maintain the customer engagement. According to Gallup study "fully engaged" customers accounted for 23% in revenue and "engaged" customers for 7%, whilst "not engaged" and "actively disengaged" customers influence the revenue by a drop of 1% and 13%, respectively (ibid). Furthermore, the Gallup study shows that customer engagement should occur in every possible channel, where customers are *heard, serviced,* and *treated in the best possible manner* (ibid). Overall, positive customer experience needs to be ensured (ibid). To achieve the overall positive customer experience, a firm needs to perform as a cohesive entity and share the same vision among all the employees. Additionally, Kumar and Pansari (2016a) argue that engagement must be an inevitable part of an organization's overall strategy. Based on Kumar and Pansari (2016a) engagement "*represents cocreation, interaction, solution development, and so on, all of which depend on the attitude that drives the behaviour of customers and employees toward a firm.*" Moreover, engagement is defined as the "*attitude, behaviour, the level of connectedness (1) among customers, (2) between customers and employees, and (3) of customers and employees within*

a firm." therefore, the more positive attitude or behaviour the deeper connectedness, which results in higher levels of engagement (ibid).

From the perspective of marketing, customers play a key role to a firm's profit growth, which functions as one of the objectives of companies (Kumar and Pansari, 2016a). It is argued that satisfying customers only by selling the right product or service is not efficient enough because most products and services are homogeneous and thus replaceable due to competition intensity (ibid). On this note, Kumar (2013) suggests that a firm should engage customers with different means than the purchase itself. For instance, firms could encourage customer referrals, ask for feedback on their products or services, and interact with customers on social media (ibid). In case of positive experience, customers tend to purchase more, interact more and provide a firm with feedback and references (Kumar and Pansari, 2016a).

Employee engagement

Nevertheless, Reinartz and colleagues (2005) suggest that also employee performance has a considerable impact on a company's customers, because employees are the differentiators who regularly deliver customer service, which makes them a source of competitive advantage for companies (Harris and De Chernatony, 2001). Employee engagement is defined as "a multidimensional construct which comprises all the different facets of the attitudes and behaviours of employees towards the organization" (Kumar and Pansari 2014, p. 9), consisting of *employee satisfaction, employee identification, employee commitment, employee loyalty, and employee performance* (ibid). Employee satisfaction, measured by the emotions that employees have toward the job, colleagues, and company, influences employee turnover and attendance (Fisher, Locke, and Henne 1992), quality of work (Silvestro and Cross 2000), and how they identify themselves with the firm (Kumar and Pansari, 2016a). Employee identification is "a psychological state wherein an individual perceives himself or herself to be part of a larger whole" (Rousseau 1998, p.217). Therefore, when employees identify themselves with the company they work for, they entwine with its brand success and failure (Punjaisri et al. 2009), which results in the higher commitment toward the company. Employee commitment refers to "the extent of psychological attachment of employees to the brand, which influences their willingness to exert extra effort towards reaching the brand goal" (Punjaisri et al. 2009, p. 213). Moreover, Lockwood (2007) identifies that the most committed employees perform 20% more efficiently than other employees and are 87% less likely to leave the company, implying they are loyal to their company. Employee loyalty positively influences customer loyalty and satisfaction (Allen and Grisaffe 2001). Employee performance has a direct impact on customers as above mentioned.

4. METHODOLOGY

The methodological process is outlined based on Saunders et al. (2015) Research Onion Framework (Appendix 6), which provides a logical trajectory of choices undertaken in the research. The Research

Onion consists of six layers, where the outermost layer describes a philosophy which initiates the research process and builds the following five layers, namely the research approach, strategies, choices, time horizon and techniques and procedures. At the end of the methodology section, a clear perspective is achieved from the data collection procedure that will be utilized in the analysis section (Bryman, 2016).

4.1 Research Philosophy

The research philosophy deals with the beliefs and assumptions that determine the development of knowledge, and shape the data collection and analysis process of the research (Saunders et al., 2015). There are several philosophies, including positivism, critical realism, interpretivism, postmodernism, and pragmatism.

The main research question of the Master Thesis has exploratory nature, as it strives to explain *how core competencies can become a source of competitive advantage and enhance the customer experience*. To answer the question, the analysis is done from the resource-based view perspective. The character of the question is rather complex as it touches upon many research fields. On this note, the following exploratory elements were designed to address the different elements of the research question.

The fundamental philosophy of this research is critical realism, as this approach aligns with researchers' view on the nature of reality in the context of identifying links and effects of core competencies on the customer experience. Specifically, it focuses on explaining what is noticed and experienced in terms of the underlying forms of reality that define these observable events (Saunders et al., 2015). The standard research pursues a rationale for visible firm occurrences by identifying the main causes and mechanisms by which "deep social structures shape firm life" (Saunders et al., 2015, p. 140).

Critical realists acknowledge the world by registering sensations and incidents which are then mentally processed, which implies that our socio-cultural background might have an impact on the research (Reed, 2005). Although this research is rather quantitative, it also has qualitative elements, thus I have tried to be as objective as possible to minimize potential biases. However, it is evident that the complete elimination of biases created by my own values and beliefs, due to social conditioning, influence the research. This can be recognized throughout the decisions made due to scope and time constraints as I chose to focus on customer service of Hai Di Lao which is the most discussed aspect of their business model, therefore, it provides the most data-intensive findings. Furthermore, within the literature review, topics such as relational view, Porter's Five forces, organizational structure have been either superficially tackled about or excluded. It is because I believe that such issues would be too extensive to cover with the respect deserved. Moreover, if included, it would specify the main ideas for the research. Therefore, as only a small fragment of reality can be observed and the sensory information of the observed occurrences need ratiocinating to be fully understood, the answer to the research question does not attempt to create

a law-like generalization. Alternatively, it intends to accumulate knowledge regarding core competencies that have an effect on customer experience setting by focusing on customer engagement within the customer journey.

4.2 Research Approach and Methodological Choice

Research can be conducted in these following approaches. Firstly, a deductive approach which uses theory as a basis for research which is eventually tested. Secondly, an inductive approach which begins with the observation of the real world and, then, gathers data to analyze a phenomenon that is presented afterwards, through a theoretical framework (Saunders et al., 2015). Thirdly, an abductive approach, which is a combination of the two previous approaches, provides hypothesis formulation, which is logically evaluated with a deductive approach and empirically through induction approach (Eriksson and Lindström, 1997). This research applies the inductive approach, as I have observed a phenomenon, this being the lack of implementation of the distinct core competencies that could enhance customer experience. The data collected utilizes mixed methods. A quantitative method through the survey strategy, which focuses on Hai Di Lao's customer journey, to analyze how core competencies can enhance customer experience. On the other hand, the data collection has been deepened by the qualitative method by conducting interviews.

4.3 Research strategies

The research strategy defines how the research is executed, potential strategies for the execution include experiments, surveys, case studies, archival research, systematic literature review, etc. (Saunders et al., 2015). The thesis applies two main strategies, which seemed appropriate for achieving the research objectives: survey strategy and case study. Additionally, Saunders and colleagues (2015) suggest that a survey that discovers customers' perspectives can be complemented by in-depth interviews to explore and understand these perspectives. Therefore, firstly, a survey is referred to as a self-completed questionnaire, that includes the data collection "in which each person is asked to respond to the same set of questions in a predetermined order" (Saunders et al., 2015, p.437), which is beneficial because responses are then easier to compare (De Vaus, 2014). In this case, the survey approach was considered due to the scope of the research question focusing on customer experience, more specifically customer journey and customer engagement. Therefore, using the survey as a pillar for the research strategy helps clarify the customer's perception of their experience in the restaurant.

Survey questions are based on a thorough assessment of the literature review and after the supervisor's approval, the survey ran through several pilot tests by my colleagues to avoid ambiguity of the questions (Saunders et al., 2015). They were set up in Qualtrics™ afterwards which is a platform providing survey tools and data analysis. Furthermore, the survey in this thesis was designed with forced-choice questions with the majority of close-end answers, where a number of answers are provided from which respondents

are instructed to choose; and one open-end question, where respondents can express their opinion or suggestion for Hai Di Lao's improvement. Thereafter the survey was distributed online on social media to respondents due to Covid-19 restrictions. The advantages of the survey are that the sample is more accessible and cost-effective, it is not time-constrained because a respondent decides when to answer the survey, and due to the anonymity respondents are relatively unlikely to answer to please or to appear socially desirable (Dillman et al. 2014).

Secondly, a case study approach was applied, which is an in-depth exploration of a subject matter, within a real-life setting (Yin, 2014). The case company, Hai Di Lao, was selected as the unit of analysis for this research as the firm claims to deliver high customer service to enhance the customer experience. Therefore, the role of a firm's core competencies and capabilities can be analyzed through this firm, making it a suitable fit for this research question. Additionally, the exploitation of a case study approach creates research specific findings that are favourable for collecting in-depth knowledge into the subject field (Dubois and Gadde, 2002). Nonetheless, as critics underline, these findings are unique to the chosen case and inadequate for generalizing an experience, unless it can be replicated with similar findings (Saunders et al., 2015).

The findings of this case study would have been more relevant if other firms utilizing firm's resources and capabilities to enhance customer experience were compared to that of Hai Di Lao, to grasp deeper knowledge of what role different competencies play. However, due to a limitation of the scope and time, it was unattainable as the idea stimulating this research has yet to be thoroughly researched amongst scholars, which reiterates that this thesis does not attempt to generalize its findings.

4.4 Time Horizon

The time horizon decides whether a snapshot of a certain time, which refers to a cross-sectional time horizon or a longer frame, which refers to a longitudinal time horizon, has been analyzed (Saunders et al., 2015). This is a cross-sectional study since the research has been confined to one semester that equals to five months and the data have been collected throughout this time period. This has allowed the researcher to observe some of the decisions made by Hai Di Lao regarding the exploitation of their resources and capabilities.

4.5 Techniques and Procedures

The following section discusses the data collection process which describes the primary and secondary data used in the thesis. Furthermore, data analysis clarifies the chosen frameworks and techniques in order to structure the data. At the end of this section, the critical review of the theories and data collection is provided.

4.5.1 DATA COLLECTION

Primary Data

The primary data collection for this research consists of an online survey and in-depth semi-structured interviews. The survey stems from an initial idea of the topics expected to come across in the data set, thus the questions address factual and demographic variables which include characteristics such as gender, age, occupation. These variables support the exploration of "how attitudes and opinions, and behaviours and events, differ," as well as to examine whether the data collected are representative of the entire population (Saunders et al., 2015). Furthermore, there are questions regarding attitude and opinion variables which were based on the Parasuman and colleagues' (1991) SERVQUAL method that include questions on *reliability, assurance, tangibles, empathy, responsiveness* and were answered by the Liker-style rating.

The interviews were conducted with Jiucheng Liang and Zongpu Yue frontline employees of Hai Di Lao restaurant situated in Zhongshanlu Street, Siming District, Xiamen which is the largest and the most popular outlet in Xiamen. It was not planned beforehand how many interviews were to be held, instead, only two interviews were conducted due regulations regarding Covid-19 in China and the lockdown from the 23rd of January until the 25th of March, except for Wuhan where the lockdown ended on the 8th of April 2020. Furthermore, due to the pandemic, the interviews were held via WeChat call with the help of my Chinese-speaking friend Xuanyi Wang who was at the restaurant in person.

The aim of the interviews was to collect data from the frontline employees which would be utilized for analyzing Hai Di Lao's business model and its operational level. Table 1 provides an overview of the date, duration and topic of the interviews. Prior to the interviews I prepared a list of questions and translated it with my friend into the Chinese language to be accurate. The interviews were held on the 10th of July 2020.

Interviewee	Date	Duration	Topic	Transcript
梁九城 (Jiucheng Liang)	10th of July 2020	1 hour	Customer and Employee engagement	Appendix 7
Zongpu Yue	10th of July 2020	30 minutes	Business Structure and employees	Appendix 8

Table 1: List of Conducted Interviews

(Own Creation)

Secondary Data

The literature review is predominantly based on secondary data which consist of among other articles in academic journals and reports. The articles used are peer-reviewed and were obtained from the Copenhagen Business School database to ensure quality, while Google Scholar was utilized to obtain articles with similar authors and/or theoretical premises. Reports were used from Deloitte, Marketing

Science Institute, Gallup, Reuters to see the reality and practicalities of customer experience and engagement.

The data collection on the case company was complemented by internal documents that have been provided by Hai Di Lao's employees. These include marketing and commercial plans, a business plan, annual reports, journal and newspaper articles, LinkedIn posts, academic papers on Hai Di Lao, and video interviews with Hai Di Lao representatives. The sources were used to get a deeper understanding of Hai Di Lao's business operations.

4.5.1.1 Sampling

The first step for determining the sample for a research begins with the identification of a target population and their elements with characteristics that enable them to provide information that is useful for the analysis and further inferences (Malhotra et al., 2017). In this thesis, as Hai Di Lao operates globally, it is appropriate to include a population that is as diverse as possible to the sampling construction. Therefore, there is no set limit in terms of gender, age, and occupation, to increase representativeness, which describes the consistency between the collected data within the sampling construction and the actual expression of the whole target population (Fricker, 2016).

As mentioned, the survey aims to reach out to a diverse population. The survey is accessible to anyone who owns an electronic device. However, it is acknowledged that there are some limitations to the full application of such a technique, e.g. due to the uneven distribution of the survey since it was posted on social media.

Thereafter, it is fundamental to determine a sample size in order to define how many elements are supposed to participate in the study (Malhotra et al., 2017). According to Sekeran (2003), the interval from 30 to 500 elements is appropriate sample size for most projects. Therefore, the aim is to get more than 30 respondents with the consciousness that it is not a sufficient number of a representative sample, moreover, it also requires to include elements with a broad spectrum of characteristics and different insights.

Finally, occurrences such as not completing the survey or leaving out question(s) for any reason can come up. In that case, missing an answer is considered more relevant than receiving a casually given or misleading answer, as that could harm the entire study (Sanchez & Morchio, 1992).

4.5.2 DATA ANALYSIS

The data analysis of survey answers are presented by Qualtrics™, that designed the results in bar charts (= bar graphs) or pie charts which are the most frequently used diagrams to emphasize the share or proportion of occurrences (Anderson et al. 2014). Each question is then analyzed separately. The questions 1-3 are regarding the pre-purchase phase asking about the respondent's personal motivation

of dining out and frequency of going to a restaurant. The objective of these questions is to understand the pre-purchase behaviour, what incentives drive the decision making of which restaurant to choose, and how often they spend their income on dining out. Thereafter, question 4 is concerning customer experience and reaction to each situation and to what extent they agree or disagree with each statement. The next block of questions (number 5 to number 10) focuses on Hai Di Lao, it contains the short introduction of the case company in the beginning of the block. Question number 5 asks whether the respondent has heard and been to Hai Di Lao. Then respondents who answered yes to both questions are asked about the experience in the hot pot restaurant including the level of engagement they experienced. Finally, the last two questions have demographic nature. As mentioned in the previous section, there are no set demographic barriers for data collection of the sample. However, it is necessary to delineate the profiles of the respondents, which allows for more accuracy while analysing the data, providing to draw conclusions based on their gender, age, and occupation.

The data analysis regarding interviews started with transcribing parts of interviews which are considered relevant to the research, these are presented in Appendix 7, 8. The transcriptions have been edited with minimal changes of the language to keep the rightful meaning and then translated to English from Chinese. Next step was breaking down and dividing the data into the business model and core competencies, customer engagement and employee engagement. The data analysis followed the structure of the analytical frameworks defined by me.

Business Model Data Analysis
The primary and secondary data regarding Hai Di Lao's business model has been structured based on Osterwalder and Pigeneur's (2010) Business Model Canvas. Osterwalder & Pigeneur (2010) divide it into nine *building blocks* (see Appendix 2), which describe a firm's or product's *value proposition, infrastructure, customers, and finances*. The building blocks include:

- *key activities*, which are the most important activities for executing a firm's value proposition;
- *key resources*, they are assets that are necessary to create value for customers (e.g. human, financial, physical and intellectual);
- *key partners*, which optimize firm's operation and reduce risks of a business model, companies encourage buyer-supplier relationships so they can focus on their core activity (e.g. joint ventures, strategic alliances between (non-)competitors);
- *value proposition*, which includes products and services a business offers to target its customers;
- *customer segments*, which define a group of customers the firm tries to serve (e.g. mass or niche market, segmented, etc.);
- *channels*, which deliver the firm's value in efficient and cost-effective means to targetted customers;

- *customer relationships,* which ensure the survival and success of a firm through the identification of the type of relationship it wants to have with its customers, furthermore, it is crucial to know the answers to how to get new customers, keep customers purchasing and grow the revenue from the customers;
- *cost structure,* which describes the monetary consequences while performing under various business models (e.g. classes of business structure are either cost-driven or value-driven, fixed and variable costs, economies of scale or scope);
- *revenue streams* show how a company generates profit from each customer segment (e.g. asset sale, usage fee, licensing etc.).

    A table was created to map out each element of Haidilao's business model which was used in section 2.4 and can be seen in Appendix 2. Although the firm's business model can be presented by various frameworks, I have chosen Osterwalder and Pigeneur's (2010) as it provides an extensive overview and focuses on the infrastructure, offering, customers, and finances. Admittedly, I have considered opting for the Richardson's (2008) framework at first, however, due to the more detailed components and subcomponents of Business Model Canvas such as key activities and resources that are utilized in VRIO analysis, I learnt it is a better fit for the research. Applying only Business Model Canvas ensured that the consistent structure of the business model components was retained within this thesis.

    In the next step, the data regarding Hai Di Lao's business model has been structured and analyzed based on Osterwalder and Pigeneur (2010). The conducted interviews and secondary data provided an overview of Hai Di Lao's key resources which has been already identified in Business Model Canvas. The key resources and key activities were grouped according to their role in Hai Di Lao's business model. In order to analyze Hai Di Lao's resources and capabilities whether they are sources of competitive advantage, they need to be outlined and sorted into a table (table 2). Thereafter, the questions regarding VRIO analysis were asked in the logic of a flow diagram (see Appendix 4) (Barney, 1995):

- *Valuable*: Do resources and resources of Hai Di Lao allow the company to exploit an opportunity or neutralize a threat?
- *Rare*: Is the valuable resource or capability rare?
- *Imitability*: Is the resource or capability costly and difficult to imitate by the competitors?
- *Organization*: Is Hai Di Lao organized in order to capture the value or exploit the potential of its resources and capabilities?

    In case, the competencies are only valuable, it could result in a competitive disadvantage. However, the scenario of owning valuable but also rare competencies indicates competitive parity. When the firm's competencies are valuable, rare and hard-to-imitate, then it implies temporary competitive advantage. Consequently, if the competencies have the elements of value, rarity, inimitability but the firm is not organized to exploit these resources then the result is an unused competitive advantage.

Customer experience

The analysis of the customer experience was predominantly based on the conducted survey and the interviews latter. The survey has dealt with respondents' experience and journey when dining out, i.e. *pre-purchase*, *purchase*, *postpurchase* stages (Lemon and Verhoef, 2016). Furthermore, the survey analysis has been addressing topics such as how customer service has become an experience that is considered competitive, and how culinary and restaurant competencies are significant core competencies. The gathered survey responses were analysed by frequency distribution and cross-tabulation methods to generate recommendations for Haidilao and secondarily for managers of other restaurants who want to innovate their business model towards a more customer-centric strategy.

4.6 Reliability and the validity of the data

The thesis aims at sustaining reliability and validity as quality criteria for the conducted survey (Nesbary, 2000). Saunders and colleagues (2015, p.202) suggest reliability refers to *replication* and *consistency*, which was achieved by repeated measurement of 7 participants using the same survey and checking the same variable, i.e. answered questions. The conclusion showed that the answers of each person were in general similar, thus the survey is reliable and can measure the same data in the longer period of time. For reliability to be valid properties that are stable over a time period must be measured such as personality traits, e.g. intelligence, extroversion or social bias, which played a role in the survey. Furthermore, the response bias is taken into account, which is the effect of non-responses on estimates of the survey (ibid). The phenomenon implies that in case some of the questions are answered by non-respondents (i.e. a respondent who refuses to participate in the research or answer a question (ibid)), the overall result would have considerably changed (Creswell, 2014). However, mostly only question 10, which is an open question, was not answered. The objective of this question is to deepen the understanding of the respondent's perception of Hai Di Lao and what they think Hai Di Lao can improve, and it was not inclined to the response bias.

Saunders and colleagues (2015, p.202) suggest validity refers to "*the appropriateness of the measures used, accuracy of the analysis of the results and generalisability of the findings*". To ensure validity of this research it was fundamental to see whether it was possible to have meaningful and useful outcomes from the gathered data on Qualtrics™. Therefore, the thesis has aimed to achieve validity through content validity (Creswell, 2014) by ensuring survey questions would provide adequate coverage of the investigative questions (Saunders et al., 2015, p.405). However, it is important to note that the author is not expert in conducting interviews and that the language barrier might play a role. Therefore, this could reduce the validity of the findings.

Lastly, respondents did not know the survey concerned Hai Di Lao, therefore, the answers were based on their opinions which were influenced by their experience in restaurants. Nevertheless, when respondents

who have been to Hai Di Lao restaurant before found out that the survey is focusing on Hai Di Lao, their answers were immediately influenced by the experience as will be seen in the Analysis section.

5. ANALYSIS

5. 1 Core competencies

Hai Di Lao is a popular hot pot restaurant amongst many Chinese and tourists travelling to China due to its great reputation of a high standard in customer service. As previously mentioned, complimentary products, services and board games, and hot face towels, aprons, protective cell phone bags etc. provided before dining generate the positive results even though the waiting time can take up to a few hours. To ensure sustained good customer experience, Hai Di Lao entertains while dining. These include handmade noodles prepared by twirling them in front of customers by a "noodle master" or short cultural performances during the night by traditionally clothed dancers. Furthermore, staff attention to customers is welcoming and exemplary. For instance, young children are surprised with merchandised toys, and when someone celebrates her/his birthday in the restaurant (s)he gets surprised with a birthday song, gifts from Hai Di Lao and always a free bowl of golden eggs noodles as a symbol of a longer, healthier and wealthier life. The waiters are the interface between Hai Di Lao and the customers, thus their behaviour is crucial in determining the customer's dining experience. Although the entry barriers are low in the hot pot industry, Hai Di Lao's extraordinary customer service has shown a refreshing and innovative approach to Chinese culinary service (celé z Linkedinu, 2017).

Strong empowerment of employees also referred to as inspiring the "closely knitted family" indicates the employee value proposition. Strategically, while Hai Di Lao's organizational structure is rather flat where restaurant managers report directly to headquarters and are given remarkable autonomy to lead their branch restaurants, headquarters do not intervene in daily operations or processes. However, headquarters support their restaurant managers with guidance through coaching teams.

From the firm's political perspective, the empowerment also applies to its frontline employees who are entrusted with the power to respond accordingly to customer demands. This kind of empowerment plays an important role because of these two reasons: firstly, the customer will be pleased with the frontline employee's initiative and authority and secondly, the employee will better recognize the outcomes of the customer engagement because the employee initiates it, e.g. offering free appetizers or waiving payments for unsatisfied customers. Zhang Yong (Forbes, 2018) highlights that there are aspects of the brand that the firm can largely control, however, there is another important part, which is how the customer interacts with others affiliated with the brand. With respect towards the main characteristics of Confucianism, such as family-based collectivism as the main value of Hai Di Lao, Haidilao ensures its employees and their family feel cared, respected and trusted (Ma, 2008; Huang, 2013; Zhao et al.,2011;

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Hong, 2011). Indeed, Hai Di Lao's high levels of employee loyalty are rare, indicating the frontline staff turnover is 10 per cent per month, which is far below the average annual turnover rate in the Chinese restaurant industry while management turnover is almost zero (Chen et al., 2015).

From a strategic perspective, Hai Di Lao has designed attractive pay incentives and welfare packages to take care of its employees, including a free apartment with air-conditions, Wi-Fi, washing machine, TV and eventually even nannies for outstanding employees, and parental subsidy allowance for assistant managers or higher-level managers and other benefits (Ma, 2008). Moreover, the company also sets an extra 100,000-200,000 RMB from the annual budget referred to as "Family Care Team" to help employees with a family crisis and in emergency needs. Furthermore, due to employees' satisfaction, the incentives to refer their friends and family are also increasing.

From a political perspective, Hai Di Lao only promotes its current employees, which also brings many benefits. First, there is a level of fairness since managers can only get promoted by working from the bottom lines. Second, it is a motivation for anyone regardless of their background to work their way up towards a management position. Additionally, evaluation standards of a managers' performance depend not only on revenues but also significantly on customer satisfaction and staff morale. Therefore, working relationships and competence are built consistently from day one so when someone gets promoted it is known that it was well-earned.

From a cultural perspective, Zhang pays attention and nurtures his employees, he argues that "employees are more important than customers" (Ma, 2008). Zhang has established a bonus system from the company's early days to show his appreciation towards his employees. He gives away bonuses and gifts to his team just before Chinese New Year, which is a significant cultural event in not only China.

Nevertheless, Haidilao also faced some challenges when it had to address customer concerns due to the food scandal. Haidilao's quick response to food safety problems faced in 2018 in one of its Beijing and Singapore outlets saved their reputation. When the food safety issues in the kitchen occurred, the company did not try to hide it but quite the contrary, it offered greater transparency for customers with live-stream footage of the kitchen that customers could watch while waiting or even during dining (Caixin, 2018; Forbes, 2018). Furthermore, Haidilao hopes that the aforementioned AI-driven smart restaurant expansion will end its sanitation crisis since the automated warehouse operates in temperatures between 0 and 4 degrees celsius, creating impossible conditions for rats and cockroaches to survive (Caixin, 2018).

Although they are well-known with their branded food, Haidilao does not stop improving their menu with a richer selection of innovative culinary and higher quality products. In the first half of 2019, it introduced

187 new dishes such as milk tea which is very popular in Asia and other soft drinks under the Haidilao brand (Haidilao Annual report, 2019). By enlarging its product range and investing in its R&D department with an amount of approximately $7.562 million in 2019, Haidilao is becoming less dependent on other suppliers of the products and can better navigate the prices (ibid).

5. 2 VRIO Analysis

The following part will analyze resources whether they are a source of sustained competitive advantage or not based on Barney's (1995) VRIO analysis. According to Haidilao's Business Model Canvas and conducted interviews, these resources and capabilities are identified: Haidilao food and beverages, employees, innovative products and services, location, food delivery and waiter service, Haidilao brand, central kitchen. Thereafter, the listed resources and capabilities are organized into the table (see table 2).

	Value	Rare	Imitability	Organization	Competitive implication
Food & beverages	YES	YES	YES	YES	Sustained competitive advantage
Employees	YES	YES	YES	YES	Sustained competitive advantage
Innovative products and services	YES	YES	YES	YES	Sustained competitive advantage
Location of the resturants	YES	NO	NO	YES	Competitive parity
Food delivery & waiter service	YES	YES	YES	YES	Sustained competitive advantage
Central kitchen	YES	NO	NO	YES	Competitive parity

TABLE 2: VRIO analysis framework based on Haidilao's resources and capabilities
(own creation)

Haidilao's **food and beverages** served in their restaurants are considered valuable due to its original taste of their own condiments and soup bases that it is developed by the R&D department. Furthermore, in-house developed and produced goods enhance the independence of the firm from its food suppliers and contribute to the standardization of the ordering system, which is rare and difficult to imitate at the same time. Additionally, due to the improved standardization and their organizational structure Haidilao

can exploit the resources to capture value by offering their differentiated products. Therefore, Haidilao's products are considered as a source of sustained competitive advantage.

In terms of Haidilao's **employees**, Haidilao's strong employee-centric culture underpins the value of their employees. Moreover, since the employees are the face of the restaurant they indirectly generate the value of the firm and its profitability. In return, employees have engaged with the organization creating a high level of employee loyalty which is rare especially in the restaurant industry. Additionally, Haidilao's benefits, bonuses and "Family Care Team" packages are considered costly to imitate because it is expensive to invest in human resources the way Haidilao does. Lastly, due to the employee value proposition in the firm, the organization is structured around these capabilities by giving them a space of autonomy and initiative to solve a problem on spot. Thus, employees are a source of long-term competitive advantage.

Innovative products and services in Haidilao restaurant attract customers to visit. For instance, in one of Beijing's outlets, the first AI-driven hot pot restaurant, has become a signature for Haidilao brand, which generates profit and increases customer interest to visit the restaurant. Furthermore, innovative processes such as standardization have improved Hadilao's stock efficiency. Additionally, Haidilao aspires to innovate its services to satisfy their customers. For example, an employee noticed that customers are scared to get their clothes dirty from the hot pot broth while cooking it, so she proposed offering an apron for every customer before dining. In some cases, the employee even takes care of the cooking process while still managing to engage with customers. Therefore, Haidilao's customer engagement strategy also differs from other restaurants. The technology and the services provided prior to dining such as manicure, massages and entertainment during dining are not considered hard to imitate but rather expensive to do so. Furthermore, all Haidilao restaurants are designed to deliver such products and services. On this note, innovative products and services are Haidilao's source of sustained competitive advantage.

Zhang Yong emphasizes that the convenient **location of the restaurants** are essential and belongs to one of the main attributes of Haidilao's business model. As most of the restaurants are open 24 hours every day or at least until the AM hours, it aims to target a mass market, including customers sharing the meal with friends, family, or their colleagues but also customers leaving bars or late-night events. Although it seems to be an advantage that could be profitable for the firm, it is not rare, not a difficult-to-imitate capability because other eateries can rent a place nearby. However, the locations of the restaurants provide Haidilao with potential to capture value. For instance, employees work late shifts to cover all the hours required to support the Haidilao's strategy of opening all day and all night. All in all, this implies competitive parity.

Food delivery and waiter service exploit Haidilao's capabilities and resources since the increasing popularity of taking out is creating new opportunities for traditional restaurants to expand their value proposition (Liang, Interview, 2020). Specifically, during the pandemic caused by Covid-19, Haidilao has reduced the threats of negative pandemic impacts on profit by delivering its hotpot and other ordered products to customers' place. While most of the eateries collaborate with food delivering companies such as Meituan in China, Grabfood in other Asian countries, or UberEats in Europe, Haidilao's products are delivered by its waiters. The own delivery service has allowed the firm to ensure that the level of customer service responds to Haidilao's standards and to reduce cost on outsourcing services, especially during the pandemic when a lot of employees lost their jobs. Haidilao is organized to enable food delivery. Therefore, food delivery and waiter service are a source of sustained competitive advantage.

The Haidilao brand has brought some opportunities for the organization. Due to its famous condiments, their products can be purchased in many supermarkets in Asia and some Asian supermarkets around the globe. Most importantly, its reputation has provided Haidilao with collaboration with Alibaba, the world's most valuable "unicorn" (Zhu, 2020, Nasdaq website), to sell their products on the platform developed by this technology giant. Haidilao brand is rare and hard to imitate compared to other existing hot pot brands because it costs to build up the same brand recognition (Porter, 1980). Finally, the organization is designed around this resource as Haidilao offers its own merchandised goods to increase brand awareness. Thereby, its well-developed brand is a source of sustained competitive advantage.

Haidilao restaurants utilize **central kitchen** strategy. As the food served in the restaurants is pre-packed it reduces the cost of kitchen staff and increases the level of efficiency because the staff only needs to put the pre-packaged ingredients on the plates. However, this strategy could be implemented by many other firms so it is not a rare nor hard-to-imitable capability. Nevertheless, the restaurant design is built to increase the efficiency and effectiveness with the central kitchen scheme. Thus, this resource is referred to as competitive parity.

5. 3 Customer Experience based on Survey results

The following part presents the questions contained in the survey and the relating answers to each question will be singularly examined with the assistant of the most appropriate graphs. After a description of the collected data, partial conclusions will be drawn, specifically regarding the possible reasons for the answers to each question will be addressed. Then, the findings from the different questions will be analysed jointly to discover possible significant patterns and relationships amongst the variables.

The analyses are built on a sample that eventually resulted in being composed of 140 individuals, which corresponds to the number of actual respondents. Although 176 responses have been collected in total, 36 of them are not considered in the final analysis due to incomplete or partial participation.

Question 1

The first question of the survey asked the participants to indicate how often they dine out. As illustrated on Grap 1 below, over half of respondents dine out at least once a week. The second most chosen answer was at least once a month. The noteworthy fact is that 124 respondents out of the total 140, which refers to almost 90% of the respondents dine out at least once a month indicating the interest of participants to spend money in restaurants relatively often. However, nine respondents go out for a meal once a day and seven respondents go out once a year, but no respondent chose the option of never dining out.
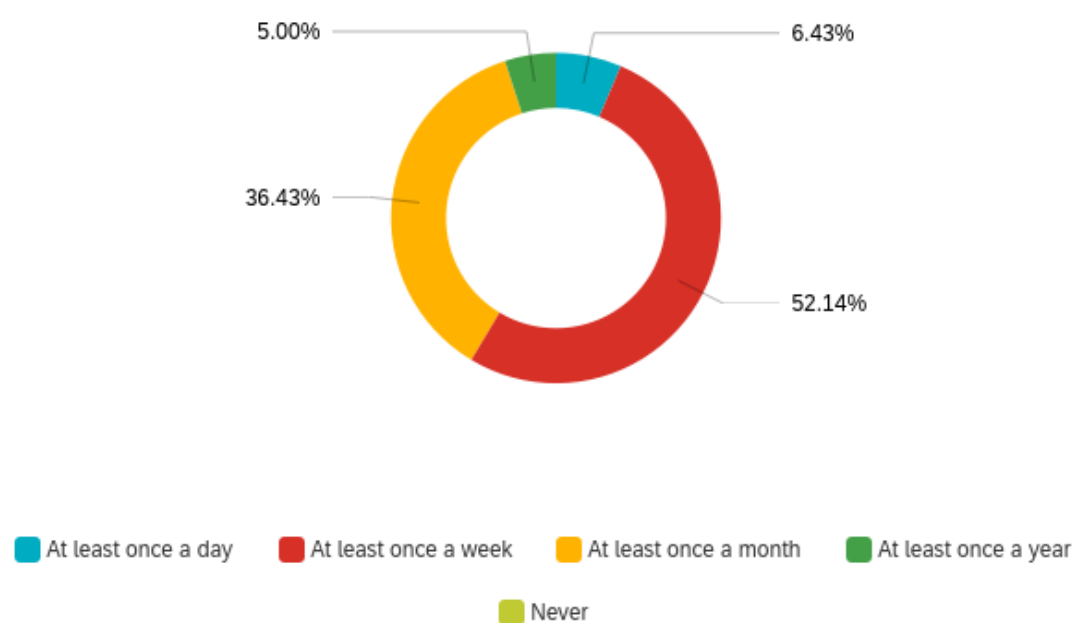
Graph 1: graphical representation of question number 1

Question 2

The second question was concerning reasons or dining out (see Graph 2). Over half of the respondents chose more than one option why they choose to go out for a meal. The majority dines out to hang out with friends. Besides that, 36 (which is almost 17% of the) participants dine out to celebrate a special occasion and 26 (over 12%) eat in restaurants with their family. Besides that, 21 (which is less than 10% of the) participants indicated, respectively, other reasons and out of tradition. The answers to the second question included an open-end answer, where participants could write other reasons why they go out to a restaurant. This option was used by five respondents, encompassing these answers: due to work-related

meals, going out on a date, to try new cuisines and interesting food, and lastly because they do not want to cook for themselves.
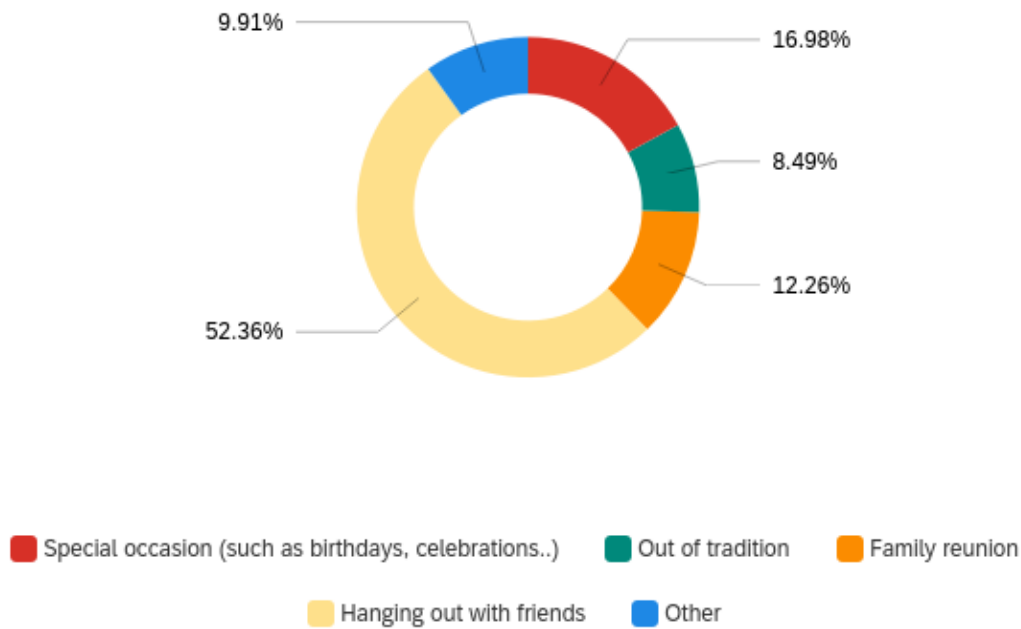
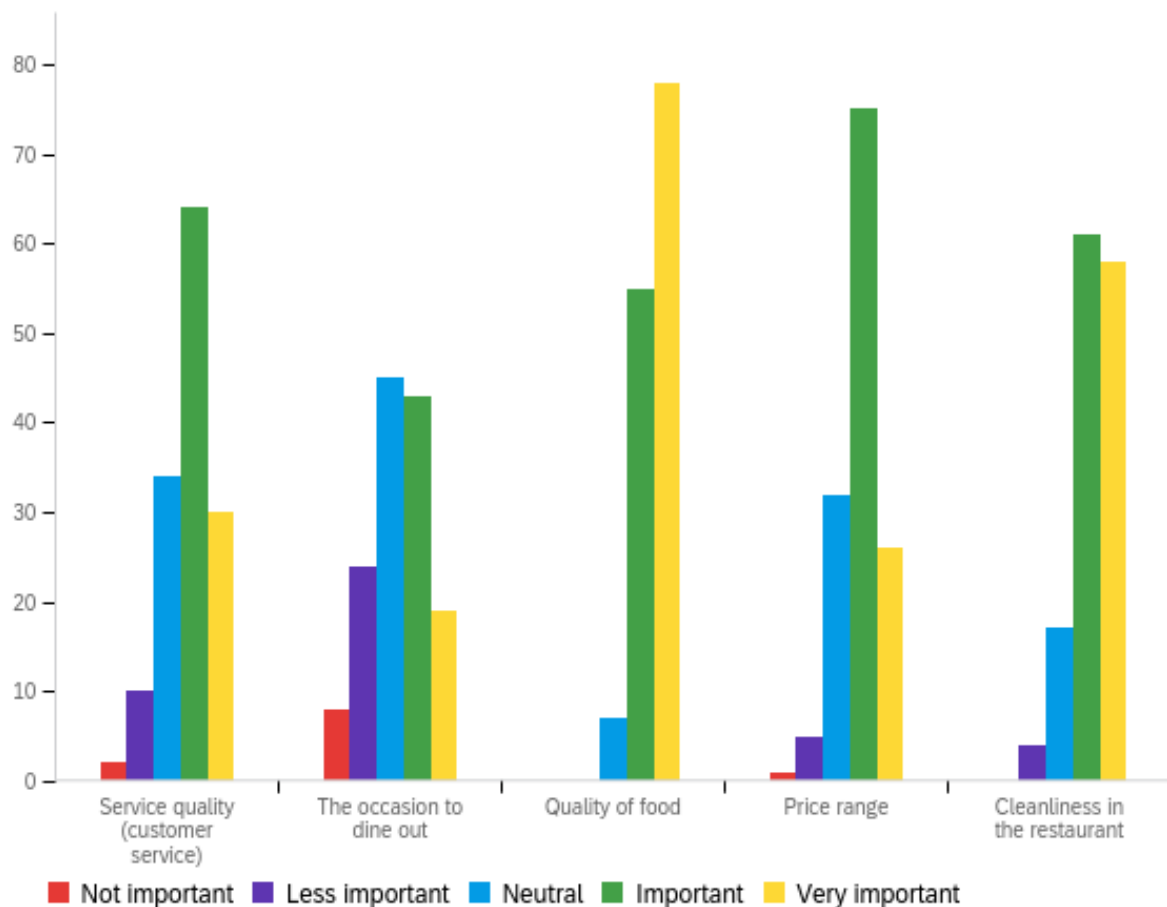Graph 2: graphical representation of question number 2

Question 3

The third question asked participants to indicate to what extent the listed aspects affect their decision making when choosing a restaurant to dine at (see graph 3). The aspects were intentionally designed to learn about their pre-purchase behaviour. Overall, the quality of food was the most important aspect for participants when deciding on a restaurant, where 78 and 55 respondents indicated, respectively, that it is a very important and important element when making a decision. On the other hand, only one respondent stated that it is very important a restaurant has a loyalty program for decision making, while three respondents voted that the entertainment included in the experience while waiting for a table should be considered as a very important aspect as well.
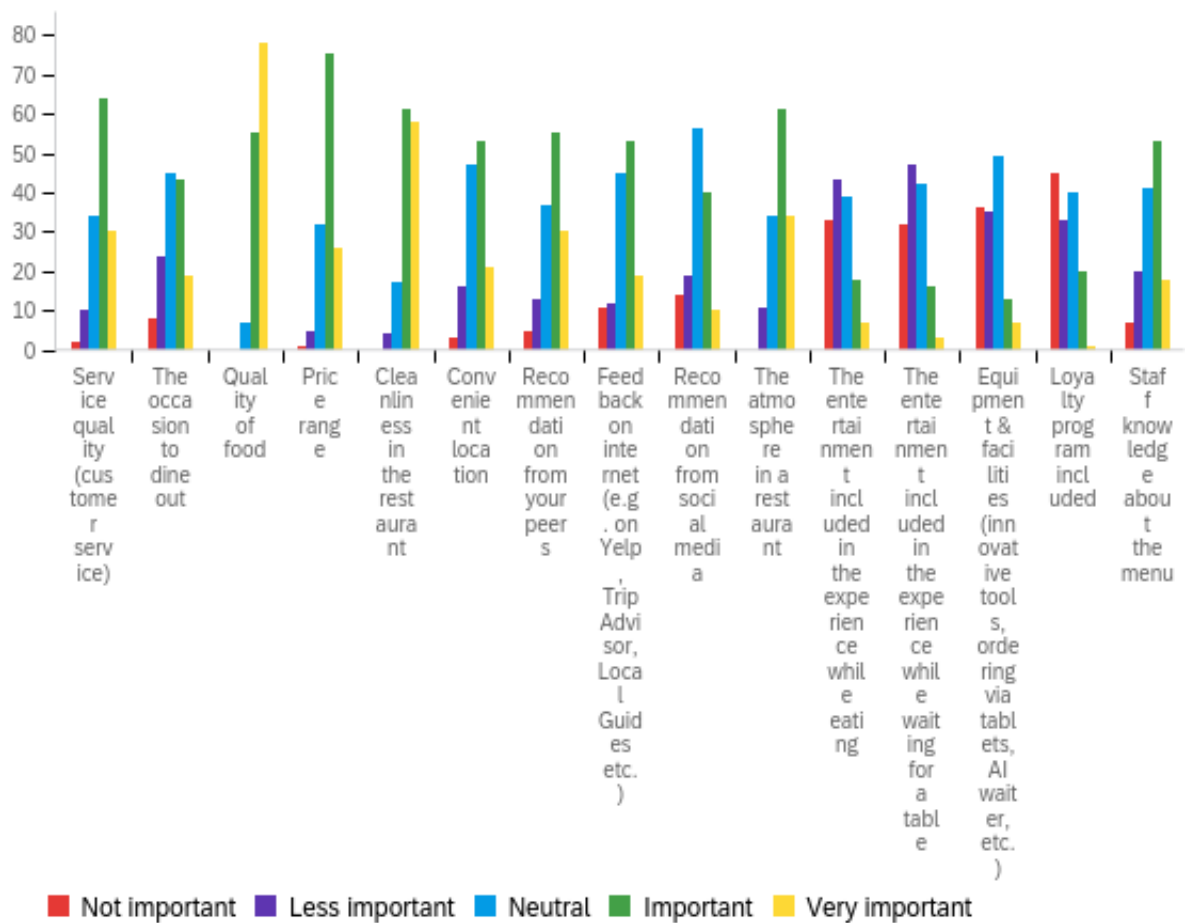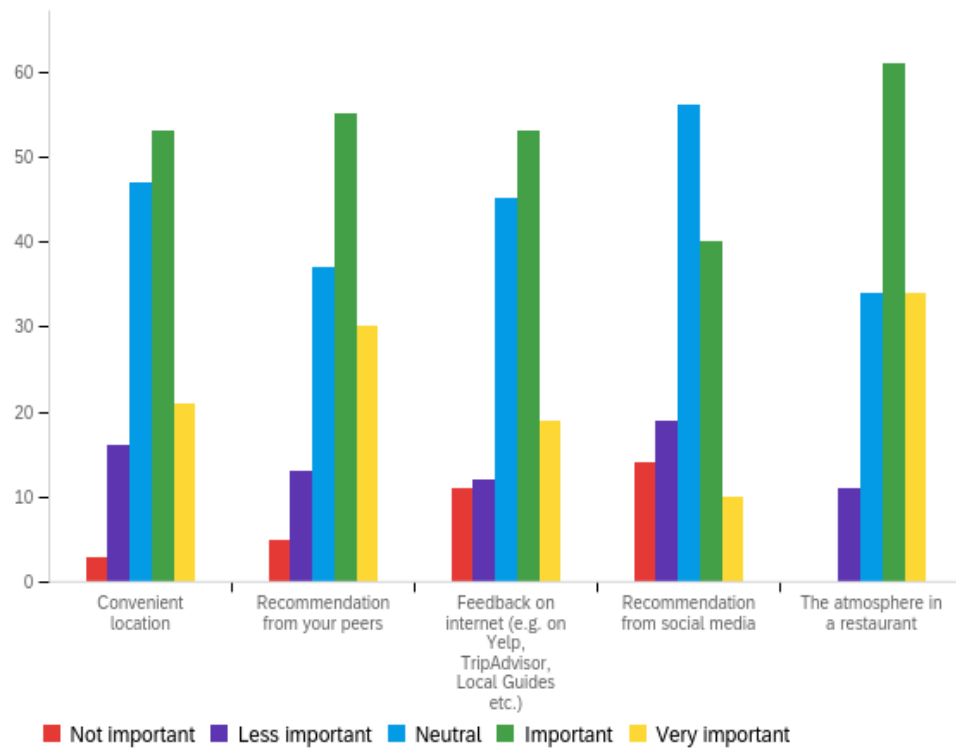
Graph 3: graphical representation of question number 3

However, to make it visually clearer, the question has been divided into three parts, and each part illustrates five aspects from the total fifteen. The Graph 3a shows the first five aspects, i.e. service quality (customer service), the occasion to dine out, quality of food, price range, cleanliness in the restaurant. After the food quality where no one indicated that it is less or not important at all, it is evident that the price range and clean environment also play a significant role in the decision-making process. 75 participants perceived price range as an important and 26 respondents as a very important factor, whereas 61 and 58 participants, respectively, indicated cleanliness in the restaurant as important and very important. Furthermore, customer service belongs to the fundamental reason for selecting a certain restaurant, 94 out of a total of 140 respondents indicated the aspect to be no less than important. The participants feel mostly neutral about the factor based on the occasion to dine out, 24 of them indicated this factor as less important and 8 people as not important.
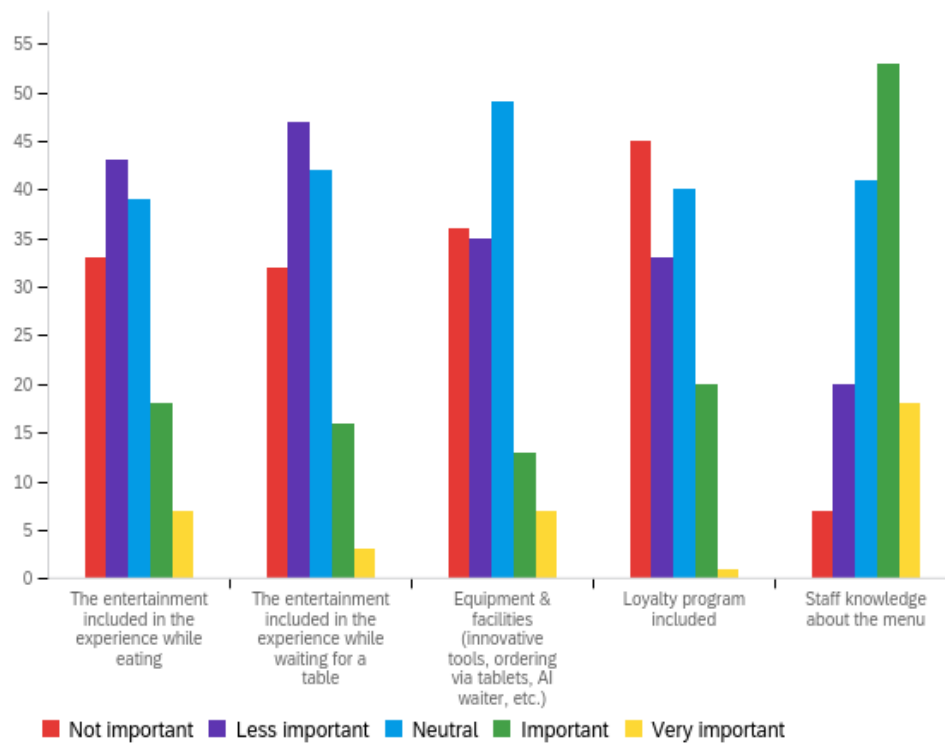
Graph 3a: graphical representation of the first part of question number 3

Graph 3b shows the result of aspects concerning convenient location, a recommendation from your peers, feedback on the internet (e.g. on Yelp, TripAdvisor, Local Guides etc.), a recommendation from social media, an atmosphere in a restaurant. Convenient location, the recommendation from peers, feedback on from the experience applications and the atmosphere in the restaurant indicate a similar significance, where more than 33% of respondents perceive the aforementioned aspects important. In particular, recommendations from the surrounding (e.g. through word of mouth) display a bigger impact than advertising strategies (Baxendale et al., 2015). Interestingly, a perception of recommendations on social media is very neutral even though a lot of consumers follow influencers nowadays who review eateries and other services (Lin and Liang, 2011). From Graph 3b is also evident that the atmosphere in a restaurant belongs to the notable factor during the decision-making process as no respondents mark it as not important.

Graph 3b: graphical representation of the second part of question number 3

Graph 3c displays the final five aspects of the third question: the entertainment included in the experience while eating and while waiting for a table, equipment and facilities (innovative tools, ordering via tablets, AI waiter, etc.), loyalty program included, staff knowledge about the menu. Overall, participants answered that a restaurant' provided entertainment during the experience either while dining or while waiting for a table does not play such a significant role in the prepurchase stage. The similar outcomes are seen with the equipment and facilities, where half of the respondents found this aspect either less important or not important at all and 49 respondents answered neutrally. Finally, 45 respondents stated that the aspect of loyalty programs is not important for them, which is also the highest number of the votes for an irrelevant factor.
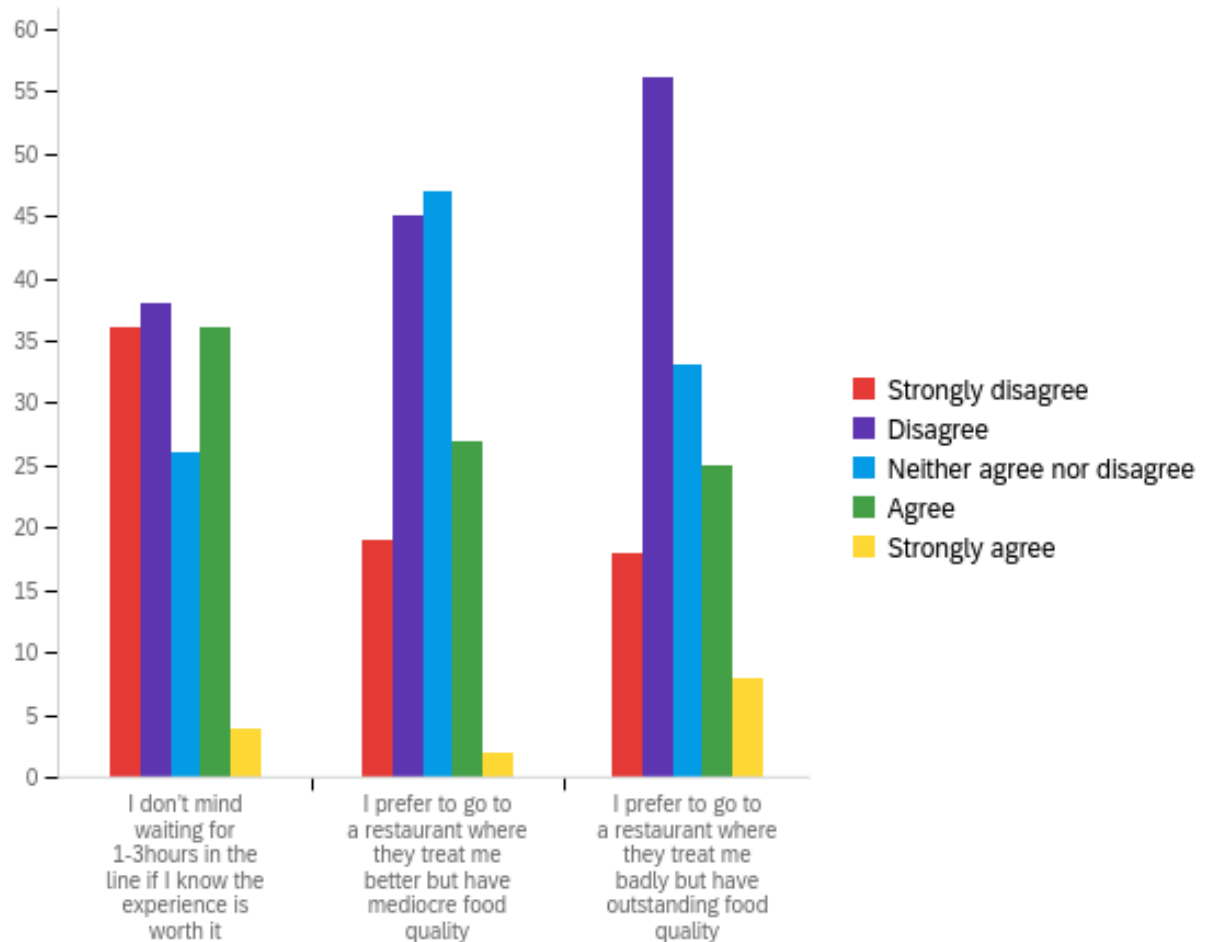
Graph 3c: graphical representation of the third part of question number 3

Question 4

Question number 4 aimed to get respondents' opinion on to what extent they agreed or disagreed on the listed statements. To make it visually clearer the question is divided into two parts, where the first part deals with the first three statements while the second part deals with the rest four statements. Overall, there has not been found any statement that would have been strongly agreed on by the majority. However, 68 respondents agreed on the last statement, which shows the participants' enjoyment when employees engage with customers. On the contrary, 36 and 38 respondents, respectively, strongly disagreed and disagreed with the waiting time even though they knew the experience would be worth it, whereas a similar number of respondents (36) agreed they would not mind waiting for a great experience.

The results of the following statements: "I don't mind waiting for 1-3hours in the line if I know the experience is worth it", "I prefer to go to a restaurant where they treat me better but have mediocre food quality", and "I prefer to go to a restaurant where they treat me badly but have outstanding food quality" are displayed on the Graph 4a. Over half of the people who participated on the survey strongly disagreed or disagreed with the first statement regarding the waiting time. The outcome of the second statement is combined mostly with respondents who disagree or strongly disagree or feel neutral about it. When customers go to a restaurant it is already considered customer experience due to interactions with the waiters (Schmitt et al., 2015). Therefore, according to Pine and Gilmore (1998), these customers purchase

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the experience to spend enjoyable and memorable times with their family and friends. However, the fact that staff would treat them badly seemed very unappealing. That may be the reason 56 respondents disagreed with the last statement "I prefer to go to a restaurant where they treat me badly but have outstanding food quality" because of the nature of the question. Nevertheless, there are eight participants who strongly agreed on the preference of a bad treatment if they could experience the outstanding food quality.

Graph 4a: graphical representation of the first part of question number 4

Graph 4b shows the results of the other four statements, which includes: "I go to a restaurant for the whole experience rather than for the culinary experience itself", "I would write positive feedback if I enjoyed the experience", "I would write negative feedback if I didn't enjoy the experience", and "I enjoy it when staff try to engage with their customers". 41 participants go to a restaurant only for the culinary experience which could be connected to the previous statements about food quality from question 3, where 133 respondents found it as an important factor when selecting a restaurant. The statements about writing feedback on both bad and good experience have evenly distributed votes on agree, neither agree nor disagree, disagree.
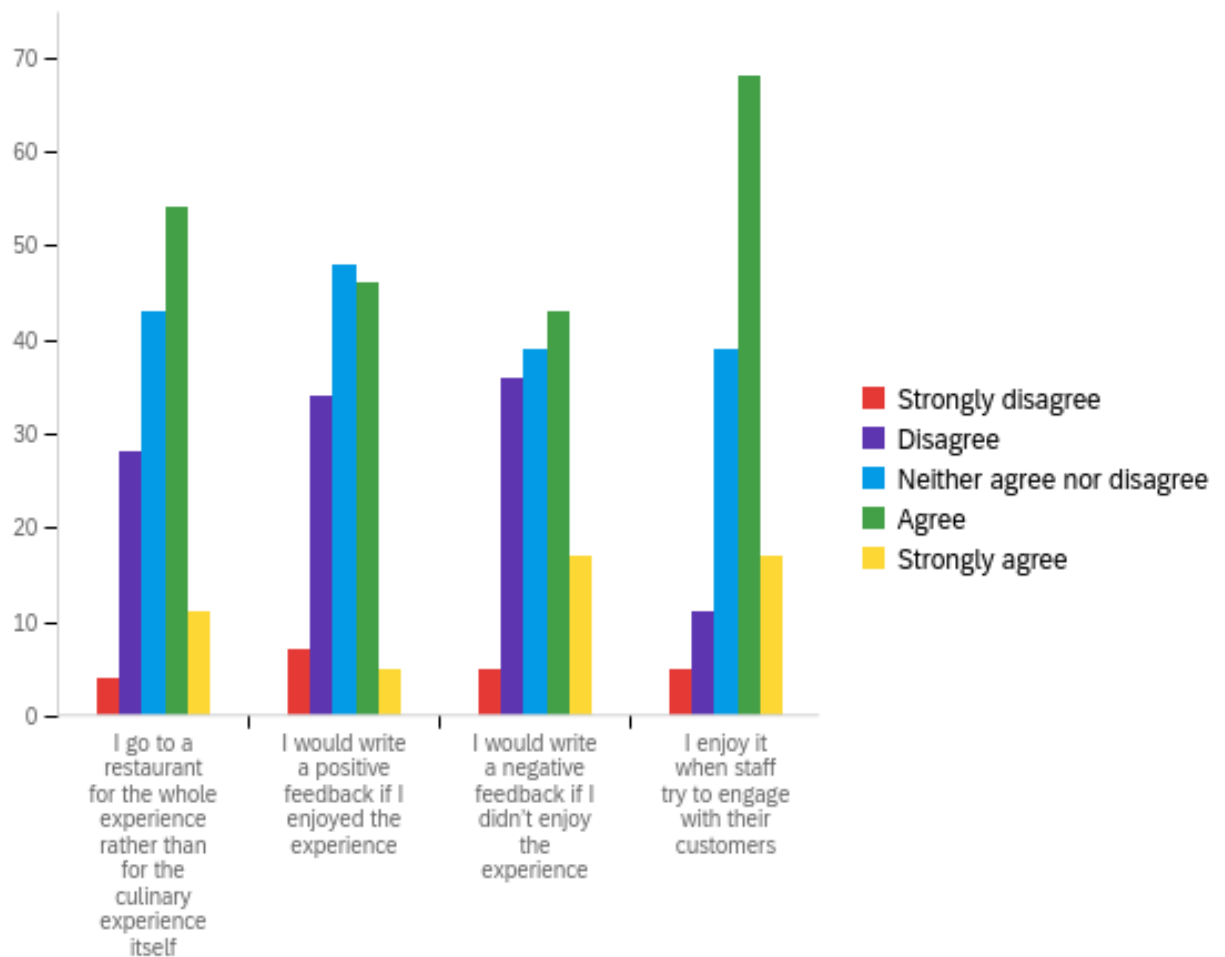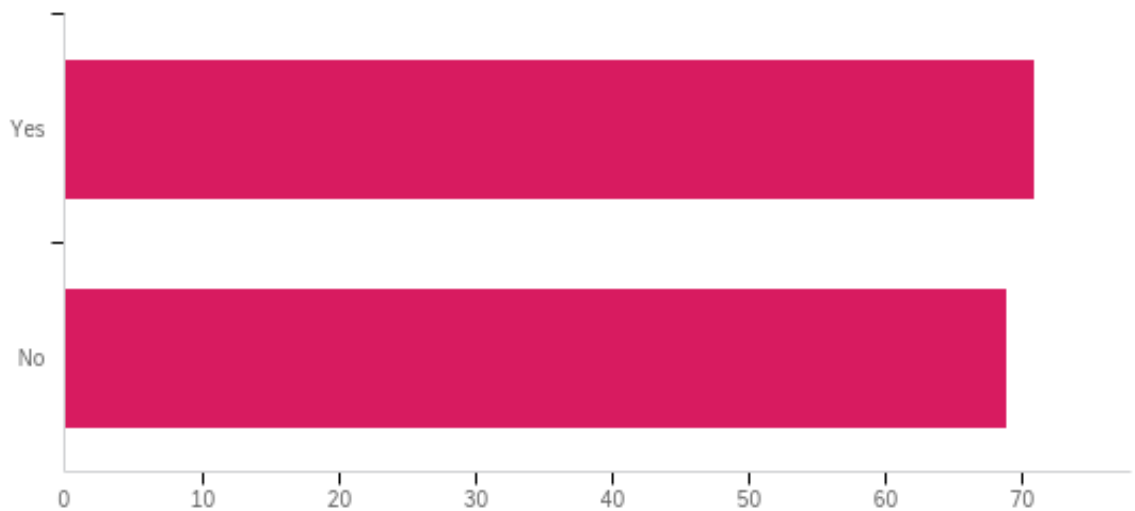
Graph 4b: graphical representation of the second part of question number 4

The following questions asked about Haidilao to gain knowledge about respondents' opinion about the firm.
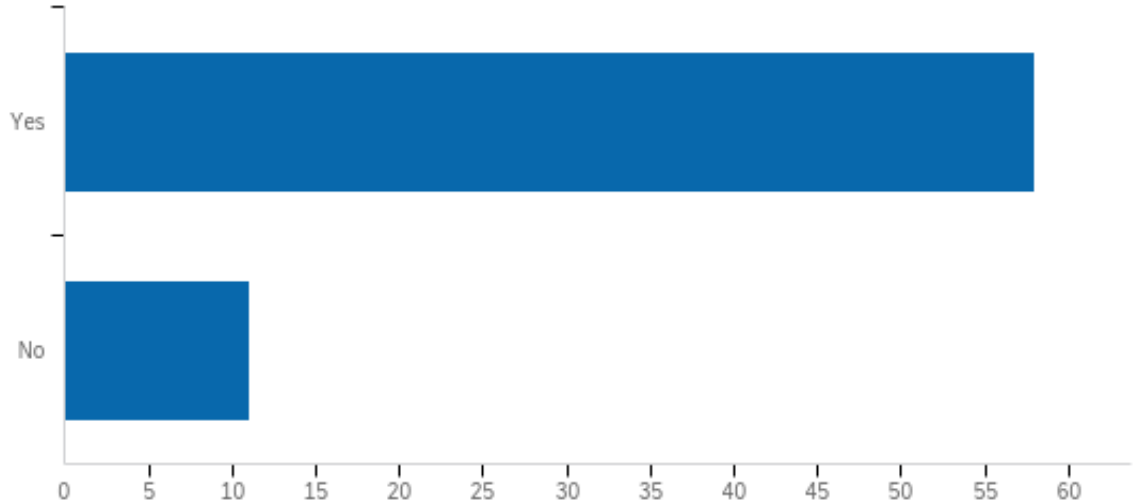
Question 5

Question number 5 commenced with a short introduction of Haidilao and then asked whether participants had ever heard of the hot pot restaurant. The outcome showed almost even numbers; 71 participants had heard of Haidilao before but 69 participants had never heard of it. The sample of the participants who took the survey came from various places including mostly from Europe, then Asia, North and South America as well as Australia, which implies that the popularity of Haidilao has not reached globally. However, Haidilao is gradually expanding outside Asia (Haidilao Annual report, 2019), thus, the Haidilao brand awareness might change in the future.

Graph 5: graphical representation of question number 5

Question 6

Question number 6 was linked to the previous question. If the respondents answered 'yes', then they were asked whether they had ever been to Haidilao. In the case, they answered 'no' in question number 5, the survey algorithm would redirect them to question 11 and further. From 71 respondents who had heard of Haidilao 59 of them had also visited Haidilao.
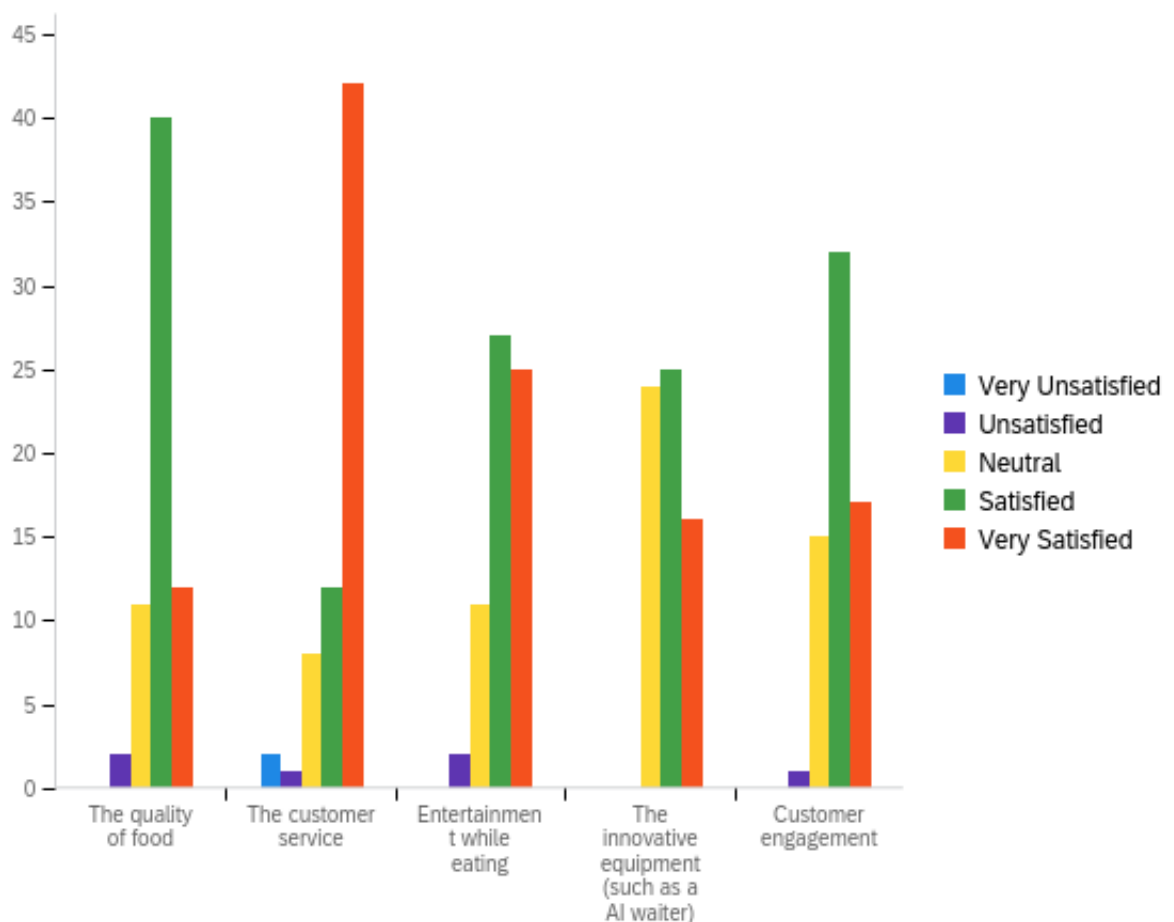

Graph 6: graphical representation of question number 6
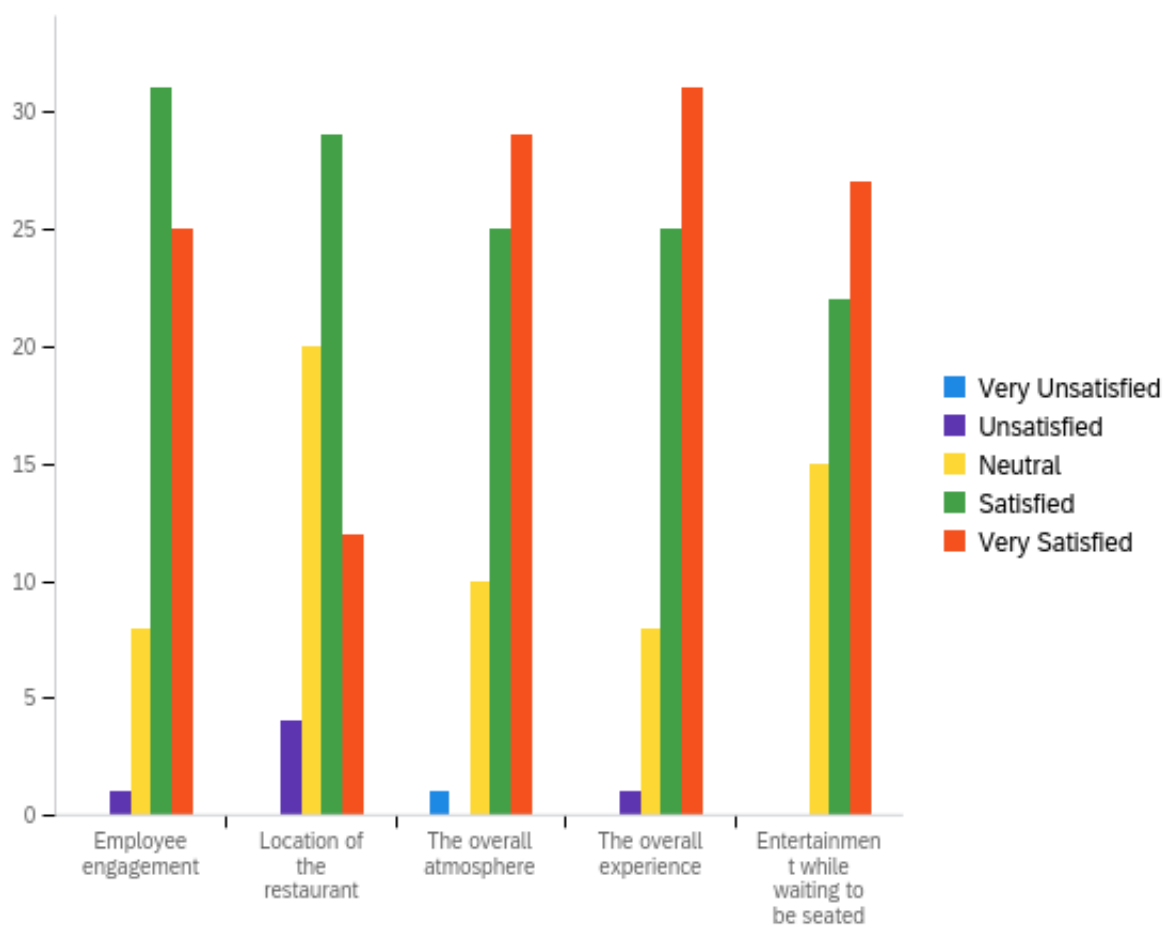
Question 7

If the respondents answered 'yes' in question 6, then they were asked to evaluate the listed aspects of Haidilao restaurant. In the case, they answered 'no' in the previous question, the survey algorithm would redirect them to question 11 and further. For clearer results, the question is broken down into two parts.

Outcomes of the first five aspects from question 7 are shown in Graph 7a. The majority of the respondents who have tried Haidilao before indicated they were satisfied with the food quality and 11 were very satisfied, whereas there are 2 respondents who were unsatisfied. The noteworthy result is observed at Haidilao's customer service where 41 respondents are very satisfied with it. However, there are 2 consumers who are very unsatisfied too. In general, entertainment while dining and the innovative equipment was perceived as mostly positive and the latter as neutral or satisfactory, which may be explained with the low level of expectation of these facets. In question 3, half of the respondents indicated that equipment of the restaurant is either less important or not an important aspect for selecting a restaurant, therefore, the outcome of the question on the Haidilao equipment turned out to be only neutral or positive (Zeithaml et al., 1996). The especially important factor for this study is, however, customer engagement. The greater number of respondents were rather satisfied with how staff engage them whilst one respondent was unsatisfied with the level of engagement, which contributes both directly to the firm's profitability and indirectly by providing the firm with feedback (Kumar and Pansari, 2016a).

Graph 7a: graphical representation of the first part of question number 7

Moreover, another significant facet is employee engagement. Customers who have visited Haidilao indicated high satisfaction with its staff and how employees engage with the activities during interaction with customers. This level of satisfaction perceived by customers results in many advantages for the firm such as employee attendance (Fisher, Locke, and Henne 1992), good quality of work (Silvestro and Cross 2000), and most importantly customer loyalty (Allen and Grisaffe 2001). The aspect of the location of the restaurant is appreciated by 39 respondents but it is generally perceived neutrally. The overall atmosphere at Haidilao received positive feedback, however, there is presence of one very unsatisfied customer. Nevertheless, the majority of respondents found the overall experience in Haidilao positively and only one found it unsatisfying. The negative answers in the previous two elements could be due to waiting time which takes up to a few hours, or due to other aforementioned aspects that received negative votes too such as: to the quality of food, entertainment while eating or customer service.
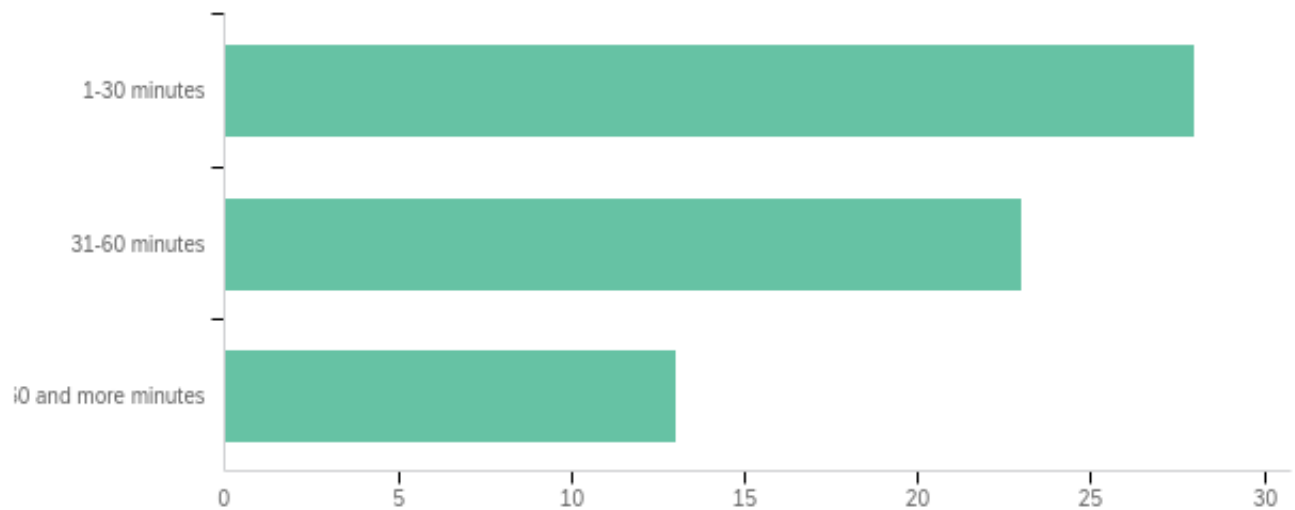

Graph 7b: graphical representation of the second part of question number 7

Question 8

Question 8 asked about the approximate time participants had to wait before being seated. The most respondents waited for less than 30 minutes, 22 respondents waited for more than 31 minutes but under

one hour, whereas 12 had to wait for over one hour. The results show that more than half of respondents waited longer than 31 minutes which implies the availability of the restaurants.

Graph 8: graphical representation of question number 8

Question 9

Question 9 aimed to detect to what extent customers agree or disagree with the following statements from the scale of not at all to extremely likely: "I would recommend Haidilao to my family and friends", "I would write positive feedback about Haidilao", and lastly "I would write negative feedback about Haidilao". Overall, the first statement has a positive reaction, most of the respondents would very likely or extremely likely recommend Haidilao to their family and friends. Interestingly, the respondents would rather write positive feedback than negative, which suggests the satisfaction level of customers after the experience.
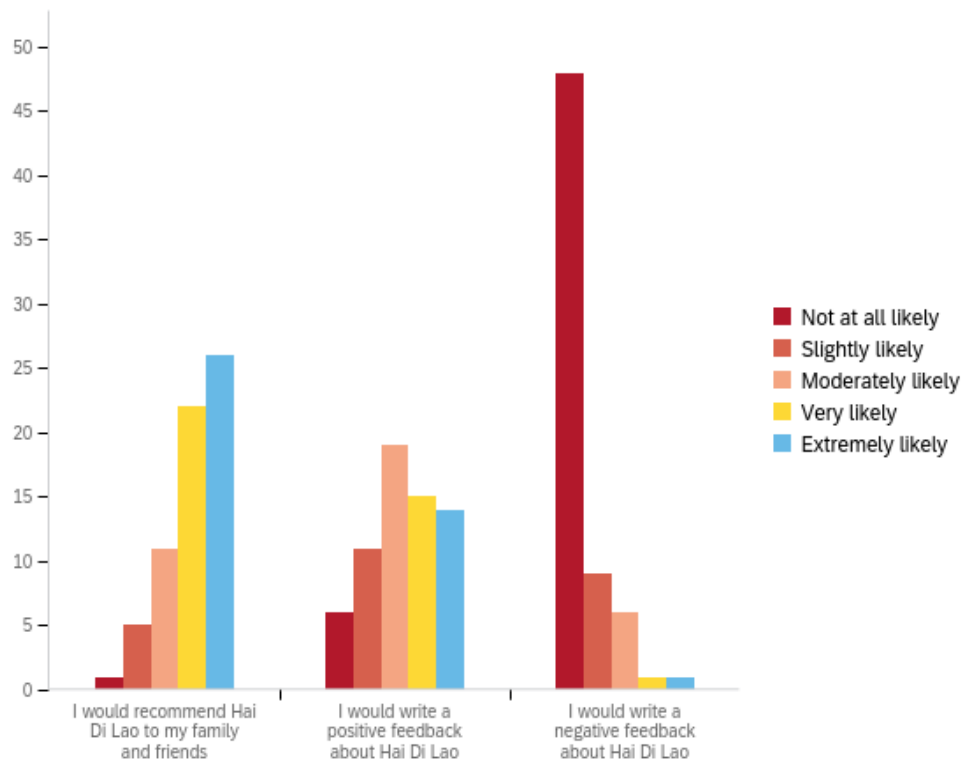
Graph 9: graphical representation of question number 9

Question 10

Question number 10 was an open-end question where respondents were asked what they would improve at Haidilao. The question was not compulsory to answer.

There were several repetitive or similar answers. The first suggestion was concerning the quality and price of food, respondents ask to reduce the price of the food because Haidilao is more expensive than other hot pot restaurants in China. Moreover, one respondent mentioned that the prices had been increasing, while the quality of food remains the same. Others noted that the food variety must be improved, for example, the range of offered beer as well as the drink options while waiting should be more diverse. Although Haidilao offers more than ten kinds of sauces, customers ask for more options. Overall, the food quality needs to improve, as one respondent wrote that their "hot pot sauces are worse than the ones I can buy in the supermarket". Furthermore, the menu should include more healthy options for sauces and soup bases. The second category of recommended improvements is regarding the waiting experience. Few participants suggested, besides reducing the waiting time, that Haidilao should work on activities that could entertain customers during the waiting period and then integrate an online reservation system. Although the reservation system already exists, it works only in the Chinese language. The language barrier is related to the next suggestion for Haidilao. As Haidilao is getting more popular among tourists and internationals in China, it would be beneficial for them to invest in English proficiency of its staff.

Furthermore, one participant observed that in one of Haidilao's outlets, specifically in Thailand, it was crowded with too many employees instead of customers, which could be a little bit intimidating as other respondents suggested. One of the responses did not suggest any improvements in Haidilao but highlighted the fact that there are plenty of other restaurants and hot pot places in China, therefore, it is not possible for him/her to visit Haidilao over and over again. Nevertheless, there were also positive feedbacks rather than recommendations on what Haidilao could improve, including a note to expand to Europe.

The following section ("block", according to the official Qualtrics™ name) of the question aimed to gather demographic information of the sample, which is useful to understand how different demographic aspects may – or may not - influence respondents' opinion and ideas. Parameters as gender, age and occupation are considered.
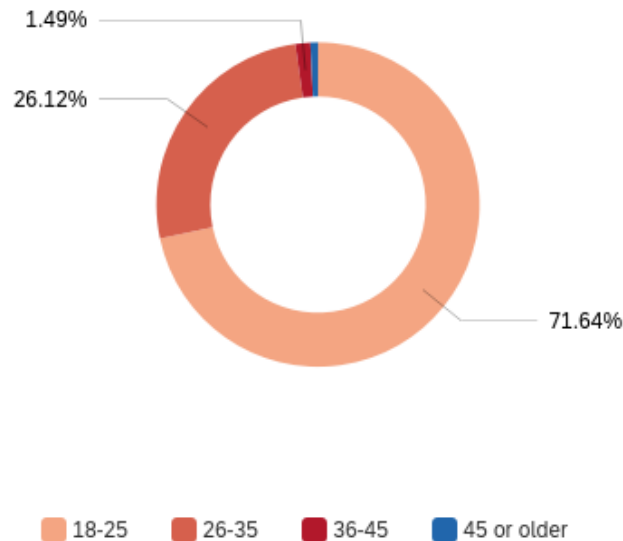
Question 11

Question 11 asked participants to select their gender out of three options: male, female, and third possibility has been provided for people who do not identify with any previous two choices or do not wish to disclose it even though the survey was anonymous. As seen in Graph 11, 62.69% of the sample identified as female, 36.57% as male, and one person preferred not to disclose it. According to Smith's (2008), who explored academic literature, women are more inclined to participate in surveys.

36.57%

62.69%

■ Female   ■ Male   ■ Prefer not to say
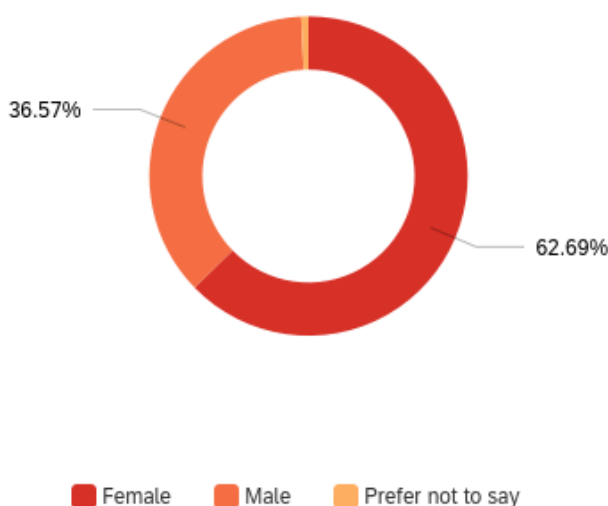
Graph 11: graphical representation of question number 11
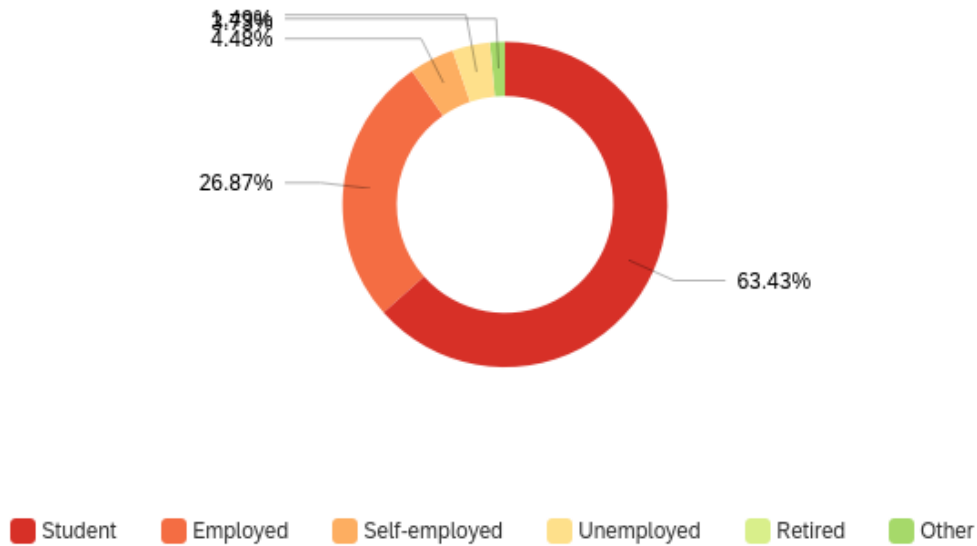
Question 12

Question 12 asked respondents to indicate to which proposed age category they belonged. As visible in Graph 12, the majority of the respondents are between 15-25 years old. Additionally, it becomes noteworthy if the following age range is included, it is distinct that more than 97% of the participants, constituting almost the entire sample, are either 35 years old or younger. One of the potential reasons for such a result is the fact that the survey was distributed on social media (e.g. Facebook, Linkedin, Instagram), and to my surrounding and peers, who are mostly people in the 15-35 age range.

Graph 12: graphical representation of question number 12

Question 13

Question 13 was aimed at collecting data concerning the occupation of people who take part in the survey. As it is presented in Graph 13 below, over 63% of the sample is represented by students, which may be connected to the previous fact of young participants. Further, almost 27% is employed and over 4% self-employed. Five respondents indicated "unemployed" and two "other", which could be caused by Covid-19.

Graph 13: graphical representation of question number 13

To find the relationship between overall experience from Haidilao (question 7) and the waiting time (question 8), the method of cross-tabulation was used (Graph 14). It is evident that the reason for the customer to be unsatisfied was not the long waiting time. Quite the contrary, 5 and 7 respondents who were, respectively, satisfied and very satisfied with the overall experience had to wait over one hour before being seated.

The overall experience
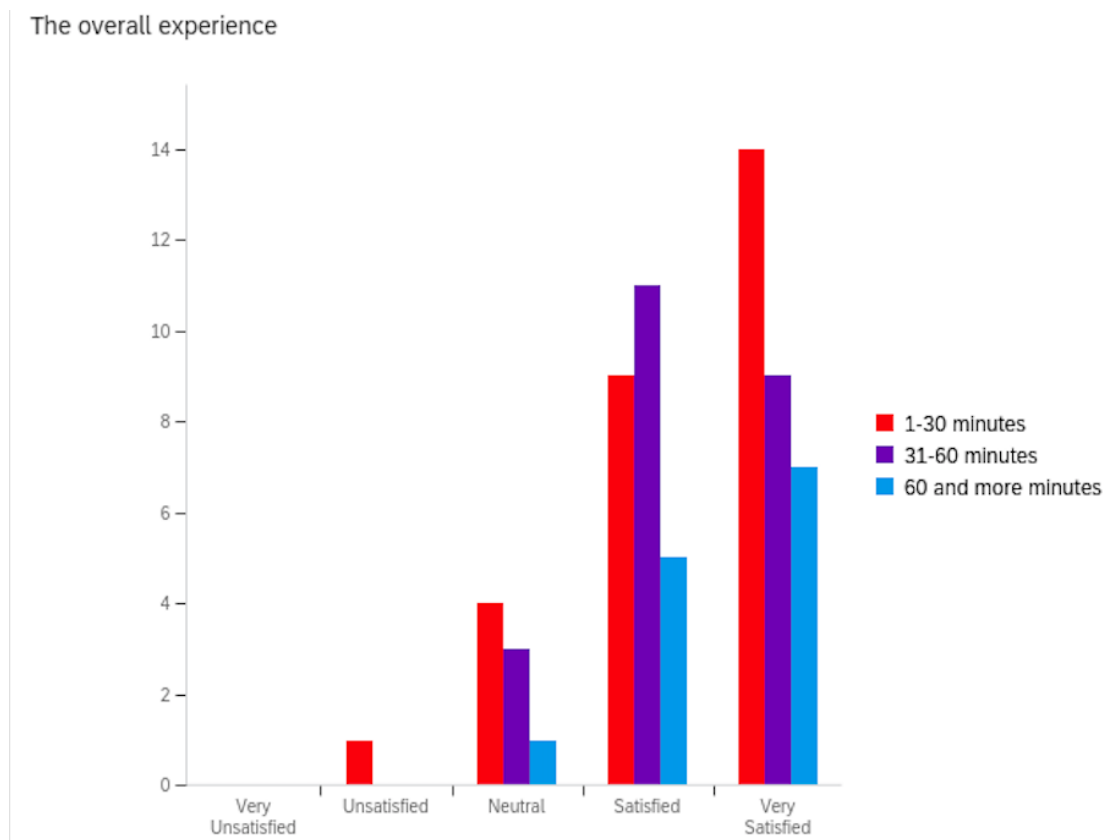
Graph 14: graphical representation of a relationship between two variables the overall experience and the waiting time before being seated

Types of Touch Points in the Customer Journey in Haidilao

The following part discussed Lemon and Verhoef's (2016) types of touch points in the Haidilao's customer journey.

Brand-owned touch point

Haidilao brand-owned touch points besides the traditional components of marketing mix such as their food, beverages, packages, service and price and other, also include advertisements on social media such as Wechat in China, Facebook in Southeast Asia and Europe, their elaborate loyalty program. Additionally, its newly developed "Super APP" which is targeted for customers who have visited Haidilao to sign up and enjoy the benefits of being a member. The aforementioned touch points are mostly created by Haidilao, and thus, controlled and managed by the firm.

Partner-owned touch points

Haidilao's customers interact with partner-owned touch points when purchasing its products on the platform developed by Alibaba or in the supermarkets selling their products. During these touch points, Haidilao has only partial control.

Customers encounter customer-owned touch points in the pre-purchase phase when they decide where or what to eat, but also in the purchase phase when they decide about the payment method , and importantly in the post-purchase stage during which the meal is consumed. It is obvious that Haidilao does not influence and control the customer experience.

Social/external touch points

As Lemon and Verhoef (2016) highlighted peer influence can occur in the pre-purchase, purchase and purchase stage. As a result of survey question number 3 indicates, many respondents found recommendations of their peers important. Therefore, restaurants such as Haidilao have to take into account that the environment and a customer's surroundings play an essential role throughout the customer experience.

6. DISCUSSION

6.1 Discussion on findings

6.1.1. CORE COMPETENCIES AND VRIO

The prior step was to compile and draw the business model of Haidilao with applying Business Model Canvas (Osterwalder & Pigeneur, 2010). Identifying the case company's core competencies showed the significance and the role they play in order of becoming a source of sustained competitive advantage. As mentioned in the Methodology section the research will be based on the Resource-based view perspective. From the theoretical review, it was summarized that in order to be a source of sustained competitive advantage, firm's resources and capabilities must have all of these following attributes: valuable, rare, difficult to imitate, the firm is organized to capture value (VRIO) (Barney, 1995). In case, the competencies are only valuable, it could result in a competitive disadvantage. However, the scenario of owning valuable but also rare competencies indicates competitive parity. When the firm's competencies are valuable, rare and hard-to-imitate, then it implies temporary competitive advantage. Consequently, if the competencies have the elements of value, rarity, inimitability but the firm is not organized to exploit these resources then the result is an unused competitive advantage. Therefore, to learn which resources and capabilities are a source of Haidilao's sustained competitive advantage the VRIO framework was applied. The framework was utilized due to its straightforward functionality. The outcome was presented in Table 2. The following Haidilao's capabilities and resources are considered as a source of sustained competitive advantage. The special taste of food and beverages Haidilao serve in the restaurant give it a sustained competitive advantage. Employees are the significant long term competitive advantage if they remain the same employee-centric strategy. Innovative products provided in the restaurant turn out to attract a large number of customers and differentiated services are remarkable due to its originality and

the level of customer engagement. Last but not least, Haidilao's new service, food delivery and waiter service has also highlighted their customer-centric approach, and created a source of competitive advantage by the quick reaction to changing market trends during the pandemic lockdown (Johnson and colleagues, 2008). Nevertheless, it was identified that Haidilao owns the resources for which the organization is adapted but they are not rare nor costly-to-imitate, therefore their restaurants' location and central kitchen strategy display competitive parity.

6.1.2 SURVEY RESULTS

The phenomenon of non-respondents has caused a decrease in legit participants from 176 to 140 (Saunders and colleagues, 2015). As the survey also looked into demographic information about the people who undertook the survey, the sample indicated the dominance of young respondents who still study. The occurrence of young student respondents may have influenced some results. For instance, outcomes of the first question showed that the majority (90%) spend their money on the restaurant experience at least once a month. Young people, especially, dine out for these potential reasons. Young people do not want to cook for themselves, which is also stated as another reason for going to a restaurant (Survey Question 1). Going out to eat at restaurants is considered as the way of meeting people or reuniting with the family or hanging out with friends, which was proved to be a popular reason to dine out in the results of the second question.

The customer behaviour in the pre-purchase phase includes recognizing the need, considering the options and lastly looking for relevant information about eateries (Lemon and Verhoef, 2016). Respondents indicated that the experience and feedback on food quality, price range, clean environment and service quality are the most relevant information for selecting a restaurant. On the other hand, aspects such as loyalty programs or innovative equipment in restaurants do not play such a significant role in the pre-purchase stage. Admittedly, recommendations that a customer's peers make gained higher importance than the recommendations found online on social media or on the applications such as TripAdvisor or Yelp, which is in accordance with Baxendale and colleagues (2015) findings.

The results of the fourth question are slightly contradicting, while 56 respondents disagreed with the statement "I prefer to go to a restaurant where they treat me badly but have outstanding food quality" 8 respondents strongly agreed. The reason for such a situation may be an effect of "value-focused" customers (Kumar and Pansari, 2016). The value-focused customers have no emotional connection with the restaurant but are attracted to their products due to a high satisfaction level. The outcome of the other statement "I prefer to go to a restaurant where they treat me better but have mediocre food quality" could be caused by the influence of the previous statement where participants could compare which one of these two situations one would prefer. Alternatively, it may be influenced by a previous experience that had an effect on satisfaction (Bolton and Lemon, 1999). Another reason for such results might be caused by

"altruistic focused" customers, who have a high level of emotions towards the employee but low level of satisfaction due to the mediocre food (Kumar and Pansari, 2016). The noteworthy fact is that over 30% of respondents would not write either positive or negative feedback on the experience. The occurrence shows the low desire for interaction with restaurants, which results in a poor level of customer engagement.

The following section of the questions concerned Haidilao. Over 50% have heard of Haidilao before taking the survey which showcases brand awareness. It is quite understandable since the firm is represented in 15 countries (Haidilao Annual report, 2019), which also highlights that 59 out of 71 respondents who have heard of Haidilao also visited the restaurant. Overall, customers are very satisfied with Haidilao's customer service, employee engagement, entertainment while waiting to be seated, and lastly the overall atmosphere and experience of dining here. Furthermore, the innovative equipment received quite positive feedback which may be influenced by the fact that respondents had either no expectations or low expectation and what they have experienced exceeded these expectations (Zeithaml et al., 1996). However, there are some aspects Haidilao should still work on as suggested by the respondents. Although Haidilao has brewed their own brand beers, customers suggest offering a greater range of well-known alcoholic beverages. Haidilao could address this request by outsourcing from companies producing alcoholic drinks because Haidilao does not extract unique knowledge from the alcohol-producing activities yet (Cooper and colleagues, 1997). Other elements will be elaborated in the Recommendation section. Although the majority of respondents waited longer than half an hour for a table, it turns out it was not a reason for being unsatisfied with the experience. The consequence is that most of the participants would recommend Haidilao to their family and friends, which indirectly contributes to firm performance (Kumar et al. 2010), especially when the respondents trust their surroundings when deciding on a restaurant (Survey question 3). Last but not least, the respondents opting for writing rather positive feedback than negative suggests the customer satisfaction level. Overall, however, the results of willingness to write feedback still show a low level of customer engagement.

6.1.3 TOUCH POINTS

Lemon and Verhoef (2016) suggest that brand-owned touch points are created and managed by the firm, therefore "Super APP" is fully under Haidilao control. Haidilao interacts with their customers who signed up through the content of the application. These include offering special meal deals, giving out rewards for loyal customers such as merchandise goods who have collected enough points from the meals. While purchasing their branded food products in the supermarket or on the platform created and managed by their partners, Haidilao has only partial control over it. However, Haidilao could influence the packaging of its goods or decide on distribution partners. Nevertheless, firms do not have control over some touch points over the purchase process, that is when the encounters are based on customer activities such as deciding where to eat, what to order, how to pay and how they like the experience. In these cases, however,

partner firms could play a role, therefore it is essential for Haidilao to develop strong partner-network capabilities (Homburg et al., 2015). The significance of the digital era has an impact on the service industry, especially in the restaurant industry, where customers can find relevant information and ratings of the restaurants online (Lin and Liang, 2011). Therefore, Haidilao has to make sure it creates an ecosystem that will deliver the same customer experience as Haidilao's expectations of the food and service quality. Furthermore, in the case of Haidilao, a multinational company, they have to ensure the same quality in all of their branches.

In conclusion, after identifying the significance of Haidilao's core competencies and analyzing their sustained competitiveness, the data collected through a survey has shown that some aspects of the business still needs to be improved, for instance, food quality. On the other hand, Haidilao's high praise of the customer-centric approach has been underpinned by discovering their other sources of competitive advantages. As the goal is to enhance customer experience, which Lemon and Verhoef (2016) explains as a customer journey with multiple touch points, firms can develop and master capabilities to successfully manage the customer experience throughout these touch points (Homburg et al., 2015). It is clear core competencies such as Haidilao's innovative culinary approaches or technological innovation do attract customers to visit Haidilao, it is resources like employees, which is the key success for attracting more customers and making them loyal by enhancing the customer experience. Furthermore, Haidilao's strong organizational and managerial competencies enable integrating, building, and reconfiguring internal competencies in order to address changes in the business environment as seen on the idea of Food delivery and the waiter service (Yue, Intervire, 2020; Teece, 2018). Specifically, Haidilao has *sensed* and *seized* opportunities of changing market due to the pandemic and *transformed* its intangible and tangible assets to continue the dynamic condition and to become resilient towards threats and opportunities. These Haidilao's dynamic capabilities have saved many jobs even through difficulties many businesses not only in the restaurant industry have been facing.

6.2 Managerial implications

This research has contributed with a unique insight into the employee-centric firm that aims to enhance the customer experience through its core competencies such as employees' level of engagement with customers, innovative culinary approaches and outstanding services in the restaurant as well as while delivering food, own-branded food and beverages, not only strong customer engagement but also employee engagement. The findings further contribute to the immediate consequences that this overview has for business model innovation but also customer experience enhancement, not only for Haidilao, but also for other business in the restaurant industry, as it is important to recognize the significance of core competencies a firm own and what role they play in the customer engagement to improve the customer experience and it other firm's activities that may more value, i.e. business model innovation.

As the literature suggests, the common goal for all the firms should be pursuing a sustained competitive advantage. To achieve the state of sustained competitive advantage the findings on this study suggest firms should recognize the core competencies and identify their significance for the firm. In the case of Haidilao, several sources of sustained competitive advantages have been revealed by analyzing its core competencies' value, rarity, imitability, organization set up. However, Haidilao owns the capabilities and resources that are not fully exploited and therefore they miss out on opportunities of gaining other sources of long-term competitive advantages. Furthermore, recognition of the firm's resources and capabilities, the firm also realizes what are the attributes of the business that attract customers and make them loyal. Therefore, the following recommendations are offered.

6.2.1 RECOMMENDATION FOR HAIDILAO

This section provides Haidilao with recommendations on how firm resources and capabilities strengthen Haidilao's position and create more value in the future. The section is broken down to the recommendation derived from the VRIO analysis, then followed by recommendations made by its current customers and finally ends with a short discussion on Haidilao's influenceable touch point.

6.2.1.1 Competitive advantage based VRIO Analysis

Haidilao exploits several capabilities and resources which are the source of competitive advantage. However, it was identified that both restaurants' location and central kitchen strategy still lack two attributes to be perceived as sustained competitive advantages. Although Haidilao emphasizes that their restaurants must be in a convenient location so all the customers can access it without any hinders, other restaurants can still achieve the same goal. Moreover, the challenge could be the fact that many customers dine at peak hours when the traffic is overwhelmed. To address this, Haidilao could reach out to bike-sharing organizations that function in many cities nowadays (e.g. Ofo in China, Santander Cycles in the United Kingdom, and many others) for collaboration. Haidilao could utilize their company brand, that is the source of competitive advantage, and collaborate with these organizations to offer special deals for customers who use these bike-sharing applications to bike to certain Haidilao's outlets. Additionally, the idea of collaborating with bike-sharing companies could enhance its Corporate Social Responsibility by propagating greener cities with less car emission. In exchange, Haidilao would provide these companies with its large customer base signed up in the Haidilao loyalty program. The central strategy has already provided Haidilao with several advantages, including increased efficiency and effectiveness. As Haidilao strives to innovate its restaurants in both services as well as in facilities, the central kitchen should not be an exception. The robotic arms and AI waiters that are already utilized in a Beijing branch could be an interesting addition to signature ideas created by Haidilao. To elaborate on that, Haidilao restaurants could provide each table with a tablet where customers could watch a livestream of how their ordered ingredients are prepared and served by these technology innovations, which would also enhance the entertainment while waiting for food, and therefore, enhance the whole customer experience. To sum up, utilizing their core competencies for collaboration with bike-sharing organizations and exploiting the

technology innovations may result in rare and costly to imitate resources, and consequently to sustained competitive advantages.

6.2.1.2 Customer feedback based on the survey

Haidilao's customers' recommendations addressed the question of quality and range of food and beverages, waiting time before being seated, language barrier, level of customer engagement. As aforementioned in the discussion section on the Survey results, even though Haidilao has been developing their own signature drinks and brewed beers, customers would prefer a greater range of healthy food and beverages options. Therefore, Haidilao should outsource beverages they are not able to produce in-house yet to satisfy customers' needs. The waiting time in Haidilao restaurants should be solved by integration of their "Super APP" with a function or possibility to reserve a table. The application would inform the customers how many people wait in front of them and when it is their turn to be seated. This way, customers could enjoy other activities while waiting. Furthermore, as the "Super APP" application is fully managed and controlled by Haidilao, it should have an English version too. Moreover, with Haidilao's gradual expansion into foreign markets outside China, tourists visiting countries, where Haidilao operates, can pay Haidilao a visit since they would know the brand already. Therefore "Super APP" would enhance customer engagement by creating an ecosystem of Haidilao's customers from all around the world. Tightening relationships with customers through their engagement, Haidilao may also increase its brand awareness, because of the indirect contributions of customer engagement. The result of increasing globalization and opportunity to travel, many tourists visit Haidilao in China, therefore, it is very beneficial if the staff speak English too.

Furthermore, recognition of the firm's resources and capabilities, the firm also realizes what are the attributes of the business that they can utilize to collaborate with other firms; what their strengths are and what firm qualities attract customers and make them loyal.

7. CONCLUSION

This study has aimed to address a gap in the literature by reviewing existing literature on recognition of the significance of core competencies and the role firm's resources and capabilities play in implementing innovations to enhance the customer experience.

In the era of the customer in the center focus, businesses have to adapt their business models towards the customer-centric approach. Innovation of business models might be challenging to some firms, therefore, recognizing the significance of firm's resources and capabilities and their ability to become dynamic capabilities it is crucial for companies who attempt to develop a new business model. Dynamic capabilities enable intangible and tangible assets to sense, seize, transform capabilities to address the needed changes in the organization. Nevertheless, the significance and the role of the competencies does

not end here, by exposing these resources and capabilities firms can allocate the source of competitive advantage and exploit them to enhance the customer experience. This is done by attracting new customers to visit with capabilities such as innovative culinary approaches or technological innovations; and make them loyal customers by managing the encounters that are brand-owned. All in all, firms can achieve a sustained competitive advantage by owning valuable, rare, difficult to imitate ad organized core competencies, which can sense, seize and transform the business model toward more customer-centric focus to enhance customer experience throughout the customer journey.

7.1 Research Limitation and Future Research

On the theory side, one limitation comes from aiming for integrative findings. Through scoping systematic review and related literature (Saunders, 2015), several primary business practices have been identified that contribute to core competencies and competitive advantage but due to the partly pragmatic purpose of this study, the scoping was not exhaustive, and some concepts might have been missed. Furthermore, as customer experience theory is still a novel, there is no clear and unambiguous tool to measure customer experience that would be accepted by both practitioners and academicians.

The study has explained how core competencies can become a source of competitive advantages and enhance customer experience from the resource-based perspective. The purpose is to learn how the new recognition of core competencies significance and role should be tested and further validated to make the results more powerful. The insight that was analyzed in this study is based on the findings of a specified case company. Consequently, this calls for further research on validating the effects of core competencies in the service industry to create more generally applicable findings. Furthermore, the future research should employ other firms from different parts of the world for a clearer comparison of customer experience based on the cultural background. Observing the scope of this research and applying in the different services or industries, will validate how and if these findings are relevant and accurate in other contexts. Additionally, by expanding the breadth and depth of these findings, the generalizability will be intensified.

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APPENDIX

Appendix 1: Haidilao total revenue 2019
Appendix 2: Business Model Canvas
Appendix 3: Haidilao total cost 2019
Appendix 4: VRIO framework
Appendix 5: The evolution of customer management
Appendix 6: Research Onion
Appendix 7: Interview with Haidilao
Appendix 8: Interview with Haidilao

Appendix 1: Haidilao total revenue 2019

| | | For the year ended December 31,
截至12月31日止年度 | | | |
		2019 2019年 (RMB' 000 except percentages) （人民幣千元， 百分比除外）		2018 2018年 (RMB' 000 except percentages) （人民幣千元， 百分比除外）	
Haidilao restaurant operation	海底撈餐廳經營	25,588,523	96.3%	16,491,223	97.2%
Other restaurant operation	其他餐廳經營	21,154	0.1%	–	–
Delivery business	外賣業務	448,543	1.7%	323,585	1.9%
Sales of condiment products and food ingredients	調味品及食材銷售	494,425	1.9%	154,292	0.9%
Others	其他	3,147	0.0%	–	–
Total revenue	總收入	26,555,792	100.0%	16,969,100	100.0%

Source: Haidilao Annual Report, 2019

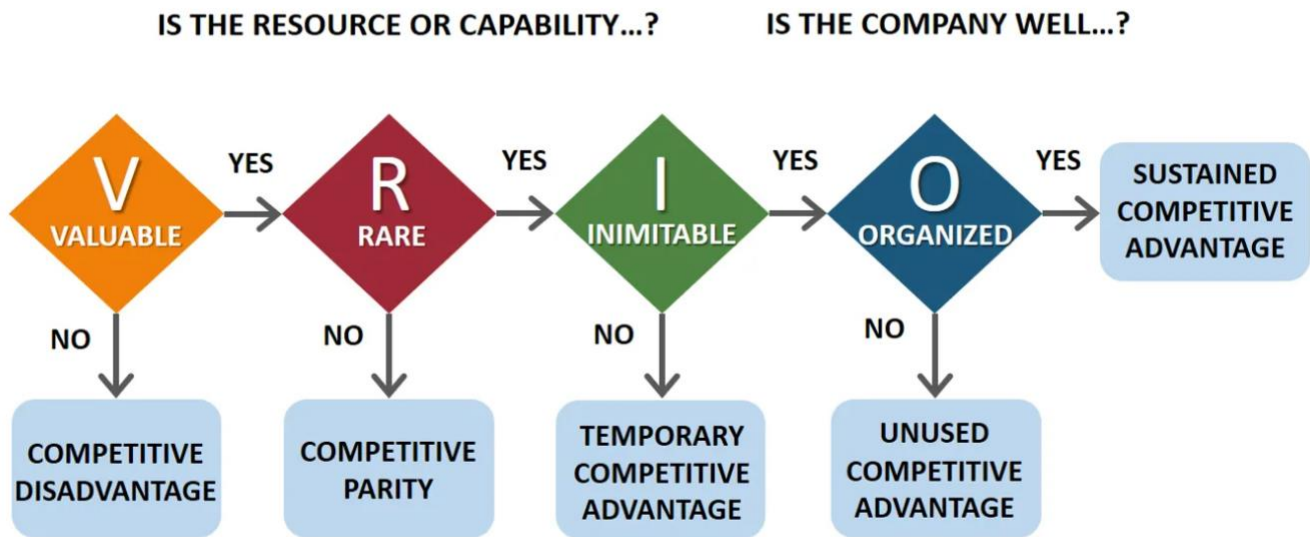Appendix 2: Business Model Canvas
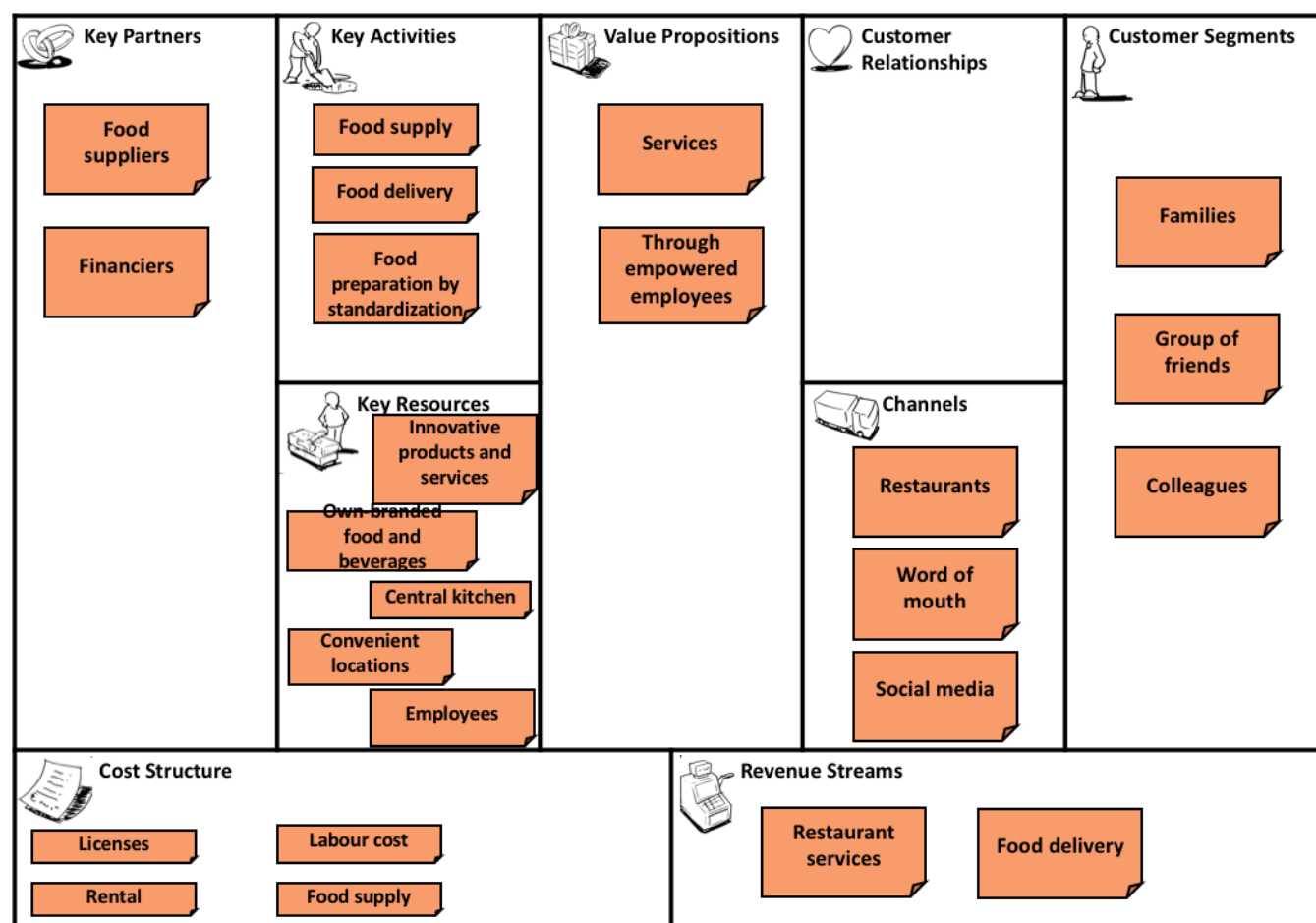
Source: own creation inspired by Osterwalder & Pigeneur (2010)

Appendix 3: Haidilao total cost 2019

| | | Notes
附註 | For the year
ended December 31,
截至12月31日止年度 | |
			2019 2019年 RMB'000 人民幣千元	2018 2018年 RMB'000 人民幣千元
Revenue	收入	5	26,555,792	16,969,100
Other income	其他收入	6	262,701	104,318
Raw materials and consumables used	原材料及易耗品成本		(11,238,992)	(6,935,033)
Staff costs	員工成本		(7,992,555)	(5,016,321)
Property rentals and related expenses	物業租金及相關開支		(240,230)	(684,910)
Utilities expenses	水電開支		(911,635)	(594,772)
Depreciation and amortization	折舊及攤銷		(1,891,324)	(689,321)
Travelling and related expenses	差旅及相關開支		(219,934)	(159,470)
Listing expenses	上市開支		–	(85,540)
Other expenses	其他開支		(1,000,131)	(660,533)
Share of profits of associates	應佔聯營公司溢利		75,262	30,049
Share of loss of a joint venture	應佔合營企業虧損		(10,023)	(2,363)
Other gains and losses	其他收益及虧損	7	95,084	17,857
Finance costs	財務成本	8	(236,791)	(31,231)
Profit before tax	除稅前溢利		3,247,224	2,261,830
Income tax expense	所得稅開支	9	(900,262)	(612,984)
Profit for the year	年內溢利	10	2,346,962	1,648,846

Other comprehensive expense
Item that may be reclassified
    subsequently to profit or loss:
	其他全面開支
	其後可能重新分類至
	    損益的項目：			

Exchange differences arising on
    translation of foreign operations
	換算海外業務產生
	    匯兌差額
			(1,682)	(18,501)

Total comprehensive income for the year	年內全面收益總額		2,345,280	1,630,345
Profit for the year attributable to:	以下人士應佔年內溢利：			
Owners of the Company	本公司擁有人		2,344,711	1,646,156
Non-controlling interests	非控股權益		2,251	2,690
			2,346,962	1,648,846

Source: Haidilao Annual Report, 2019

Appendix 4: VRIO framework

From: source: https://io.wp.com/www.business-to-you.com/wp-content/uploads/2016/11/VRIO-Model.png
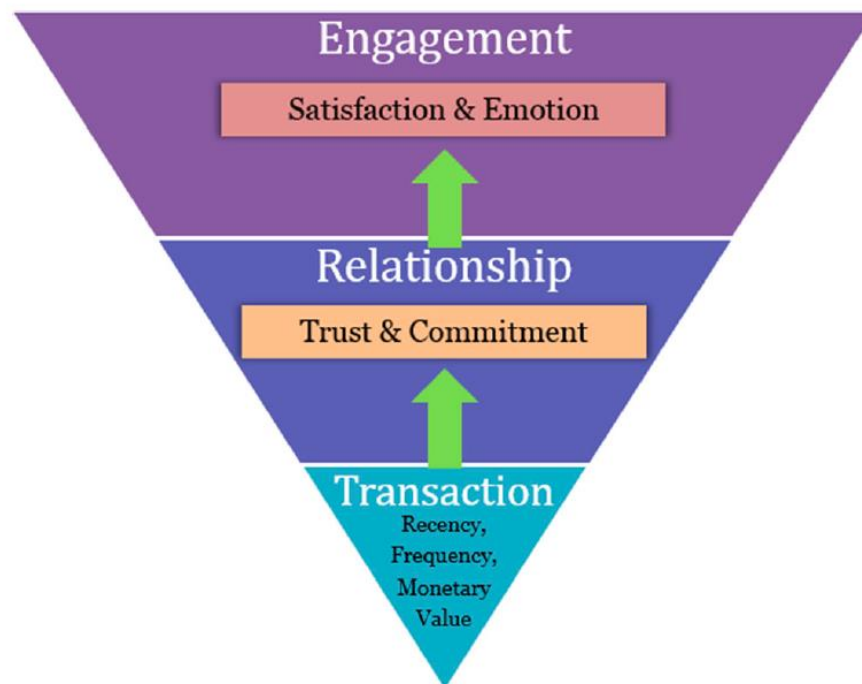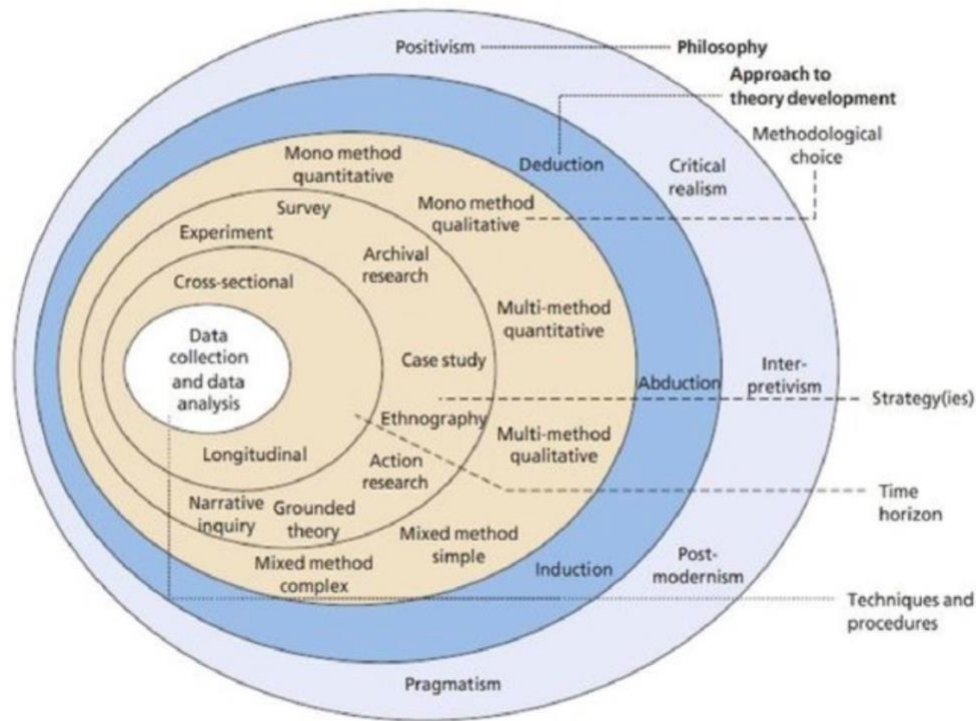
Appendix 5: The evolution of customer management

Fig. 1 The evolution of customer management

Source: Kumar and Pansari, 2016

Appendix 6: Research Onion

Source: Saunder et al., 2015

Appendix 7: Interview with Haidilao

Interview 1: Haidilao

Date: Date: 10.07.2020

Respondent (R): Jiucheng Liang

Interviewer (I): Xuanyi Wang

Customer and Employee engagement

1. I: How do you engage with customers?

   R: There are two important aspects: service and attitude. I think as a waiter, I will tell myself that customers are everything to me. So once I bear that in mind, I will think for them throughout the meal, I will give them things they need, smile at them, try to offer them what they are asking for and so on. And I will also talk to customers to make them feel comfortable.

2. I: What kind of activities do you feel the most successful when it comes to engaging customers?

   R: Being recognized and praised by customers, and also when they say thank you to me. It is important to know many different things from them. I really like to talk with my customers, some of them are willing

to talk and they tell me their experience and many different things, which makes me expand my horizon and also makes me proud since that means their recognition towards my service.

3.   I: Which position do you have in the company and do you see your future at Haidilao?

R: I am a table service waiter and I would say I am one of the best waiters there. Yes, I think I'm doing great now and I really enjoy this job, so I think I will stay here and get a better position, like a manager or so.

4.   I: (I have read that many employees stay loyal to the Haidilao company because of great treatment from management and potential career development even though you do not have any higher education you still have a potential to grow as a person - is it true?)

R: Haidilao does have the great treatment and potential career development. But working at Haidilao is a really demanding thing since the competition is fierce and serving customers are really hard. So whether staffs like to stay at Haidilao really depends on their own characters. If they are outgoing, willing to learn and grow, like associate with other people, then most of them would stay loyal to Haidilao and really enjoys Haidilao's culture.

5.   I: Can you contribute your own ideas to the daily basis activities in restaurants? If yes, can you provide me with some examples? Do you feel that you have a voice in the decision-making process?

R: Yes. Everyone is allowed to talk about their innovations and improvements, we can post it on the inner website and once the idea is recognized by the management, it will be put into practice immediately. For example, provide soybean milk to customers to ease spicy feeling; give customer aprons; provide hand-care service for customers and so on. No. However, staffs can contribute innovated ideas, but we hardly participate directly in the decision-making process, unless that's something related to their own welfare.

6.   I: How often do you have team building events if any? Do you have any employee benefits?

R: Yes, four to five times a year. most of these events are simple ones like summer vacation, camping, picnic and meals together, they may also include travel to other provinces. Yes, we have staff discounts and when a festival comes we can receive little gifts.

7.   I: How do you deal with a customer who is not satisfied with the service or the food or the whole experience in the restaurants?

R: First I will say sorry to him and ask why he felt that way. Then I will ask myself which part I did wrong and which part can be improved. I may feel a little sad but I will definitely learn from it, improve myself and do better next time.

Appendix 8: Interview with Haidilao

Interview 2: Haidilao

Date: Date: 10.07.2020

Respondent (R): Zongpu Yue

Interviewer (I): Xuanyi Wang

Business structure and employees

1. I: What do you think are the biggest strengths of Haidilao?

   R: Service and food quality. We always try to be more innovative and answer the demand of the market. For example, because of Covid-19 a lot of employees started food delivery because our restaurants were closed.

2. I: What are the most different approaches Haidilao uses compared to Haidilao's competitors that are so popular (with customers not only in China but also tourists)?

   R: Our outstanding service.

3. I: Does every Haidilao restaurant have the same strategy (or rules) that you have to follow or does it differ from a location to location?

   R: The general value stays the same but specified requests may differ from places to places.

4. I: How many employees work at a location?

   R: 120. We are divided into many different departments, like front service, table service, food control and so on. There is a system related to promotion: first of all, new staffs have their own masters, who teach them service skills and also care about their personal well-being; second, they are scored by consumers, managers, masters and even fellow staffs to get their performance evaluated; last but not least, they get to different position according to their performance and start a new round of learning.

5. I: How firm knowledge is passed to employees? (Maybe through training, brochures etc..?

   R: Through training. Haidilao will have brief training, which only teaches employees basic things about the company, other knowledge comes from each employee's assigned master as mentioned earlier, a master is someone who has long working experience at Haidilao, and he will be responsible for 5 or so students. They pass important firm knowledge to his students.