

## Co-creating value in retailing: the Eataly case

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### ABSTRACT

**Purpose:** The purpose of this paper is to explore *value co-creation* with customers and its impact on company's value propositions, stressing the centrality of supplier-customer interactions based on the customer experience dimensions in the *acquisition moment*.

**Design/methodology/approach:** In the first part of the paper we present a critical literature review focusing on the linkages between the S-D Logic and its recent evolution and the experiential marketing contributions. Subsequently we adopt a case study approach to examine Eataly, an innovative business model in retailing, and its value proposition. A quantitative analysis of 300 questionnaires submitted to Eataly customers during December 2008 completes the frame, aiming at exploring the customers perceptions about the interaction with the company .

**Findings:** At present, retailing is going through a phase of strong redefinition of business formulas, in order to maximize the opportunities of interaction with customers by developing service solutions aiming at supporting the value creation process. In this framework, Eataly represents an innovative case, a brand-new retail formula that entered the Italian food market two years ago, bridging "retailment" and "edutainment" concepts in order to enhance the value co-creation experience with its customers.

**Originality/value:** We made an effort to examine more in depth the value co-creation process as regards two main topics: the alignments between the company's value proposition and the actual customer value perception and the experiential side of the value co-creation process.

**Research limitations/implications:** The results of our analysis represent a starting point in order to better understand, in a dynamic perspective, implications and limits retail companies are facing in the development of their value propositions, through an experiential perspective.

**Keywords:** value co-creation; retail; innovative business model; service logic

**Category:** Research paper

## **Introduction**

Customers are changing their desires and expectations, seeking for more variety and customisation than they used to in the past. The attention shifts from the material product and service to the sharing of knowledge, typical of the post-modern era, transforming consumption into an immaterial process where the transmission of symbolic meanings exercises a determinant role in respect to the product/service itself (Holbrook 2000; Pine and Gilmore 1999; Schmitt 1999): the value exchanged along the chain comes to depend on the experience that the process of acquisition and consumption helps to accomplish (Holbrook, Addis 2001). In particular, the context of retailing has been going through a process of deep re-engineering of the interactions with customers according to this evolution.

In fact, the management of the subsequent complexity aimed at creating new value propositions for a company, must therefore allow for the value of personal experience and immerse each individual in a circuit of new meanings, ideas, emotions and immaterial values: and so it is on symbolic differentiation of the products and services offered that a company has to play in order to keep a competitive advantage (Prahalad, Ramaswamy 2003).

S-D Logic, in its recent evolution (Vargo, Lusch 2008) pointed out the importance of the experience dimension of value, implicitly considered also in the previous foundational contributions (Vargo, Lusch 2004; Lusch, Vargo 2006).

The acknowledgement of a not exclusively rationalistic approach in value determination adopted by the customer represented, in fact, the input for the introduction of the FP10: "*Value is always uniquely and phenomenologically determined by the beneficiary*" (Vargo and Lusch, 2008).

This premise widens the reflection horizons beyond the traditional way to interpret the experiential side of purchasing in the retailer's perspective and opens new spaces of exploration in order to define value propositions starting from the acquisition moment.

## **Theoretical framework**

The necessity to satisfy clusters of complex needs (Ancarani, Costabile 2005) requires continuous knowledge and the capacity to innovate the management of the offer's details, i.e. that which makes the offer interesting and rewarding for the customer, often spoiling conventional concepts such as sector and market. In this context it is the new "hybrid" business models which best manage to profit from the different elements (functional and experiential) in a single winning formula, in an integrated solution (Wind, Mahajan 2002). The competitive context and the market are therefore reconstructed around new solutions and value propositions which generate convergence and hybridisation between material and immaterial elements.

In the path of evolution and rethinking that marketing is going through, customer experience is for sure one of the most noteworthy framework, adding new interesting insights and perspectives of analysis. Even if the idea that "value" mainly resides in the experience of individuals dates back to the works of Smith, Stuart Mills and Keynes, surely the real starting-point of experiential marketing and management is represented by the seminal works of Holbrook and Hirschman (Holbrook, Hirschman 1982; Hirschman, Holbrook 1982). According to them, consumption is a complex activity, which from the simple satisfaction of needs (in an

"utilitaristic way") is enriched by symbolic significances, aesthetic and hedonistic criteria. Starting from the first contributions, numerous authors have underlined the relevance of creating extraordinary experiences for the customers, as a strategy to compete on the market. We cannot therefore take as a reference the stereotyped customer who distinguishes between his being and his consumption acts, but we should rather think of a consumer who defines himself in an holistic perspective, in which material and intangible aspects melt in a process that involves him completely.

The contemporary management of the total customer experience, via the synergetic employment of functional and rational clues, and of emotional clues which evoke affective and emotional responses, enable companies to create value and achieve competitive, defendable and inimitable advantages (Pine, Gilmore 1999; Berry, Carbone, Haeckel 2002; Haeckel, Carbone, Berry 2003; Prahalad, Ramaswamy 2003). From such a principle, experiential marketing has been developed as a whole of policies and strategies aiming at "putting on stage" memorable experiences (Schmitt 1999): in order to understand experiences the company must however start precisely from the consumer, analysing in-depth the heart and soul of its customers, so as to individuate those experiences that satisfy them most (Zaltman 2003). In this perspective, many authors suggested some models to create and manage the memorable experiences evoked by products and services (Hetzl 2002; La Salle, Britton 2003), although the main touchstone is the work of Schmitt (1999). According to him, we can distinguish among five experiential frames. *Sense* relates to the aesthetic pleasure, euphoria, satisfaction. *Feel* embraces states of mind, emotions, different feelings with different intensity. *Think* refers to the cognitive component of the experience, while *Act* includes lifestyle and interactions with customers. *Relate* involves the relationships between the customer and the socio-cultural context in which he is immersed. The objective is to stimulate all the five experiential frames in order to create an holistic experience: in doing so, companies are asked to mobilize different resources (both material and immaterial, such as products, brands, in shop activities...) and different linkages among heterogeneous suppliers. According to the Show Business principles, further developments suggest that entertainment, also, plays a crucial role in the attempt to create a solution to the customer's search for pleasure and satisfaction: enchanted and enjoyable contexts and spectacularity become pillars in the process of value creation (Schmitt, Rogers, Vrotsos 2003).

Moreover, Customer Experience stream of research has been shifting the initial focus, from how to produce and manage experiences developed around a specific product, to the need to build and manage the customer experiences along all the activities and interactions between the company and the customer: Thus, the exasperation of this approach to create "entertaining experiences of consumption" has been criticized by some authors as the pleasure to be immersed in "McDisney" banalities (Thompson, 2000), opening up a huge debate on the real contribution and extent to which experiential theory can be applied. The S-D logic concept of value co-creation could help us to better focus on the real meaning of the experience: according to Vargo e Lusch (2006:44) "there is no value until an offering is used – experience and perception are essential to value determination".

Experience is recognized as a key dimension in the value co-creation process and specifically embedded also in the buying behavior; thus becomes a fundamental determinant of the value propositions that retailers could offer to their market.

In line with this interpretation, value appears as phenomenologically determined and context related.

Moreover the emphasis on the experiential nature of the value is confirmed by the recent introduction of the FP10 (*"Value is always uniquely and phenomenologically determined by the beneficiary"*) (Vargo and Lusch, 2008) that contributes to improve and specify the theoretical framework of the S-D Logic.

Notwithstanding, the authors stressed the fact that "experience" could be considered "a more contemporarily specific and descriptive term" (Vargo and Lusch, 2008:3).

The shifting from operand to operant resources contributes to enhance the criticality potential of the experiential drivers that retailers could put in place in order to support the value co-creation process with their customers.

We want also to point out that value, according to this interpretation, has specific characteristics on which retailers could reflect: contextuality, idiosyncraticity, meaningfulness and experientiality.

Starting from these attributes of the value concept, new opportunities emerge for retailers to differentiate their value propositions, overcoming the traditional boundaries of activities and opening new spaces of interpretation of the interaction with the customers.

In this perspective, we concentrated for our analysis on the role of the buyer in the value co-creation process (Michel et al. 2008) with specific attention to in-shop activities.

Retailers, in fact, play a key part to this end: they are able, in fact, to develop value propositions able to enhance the occasions of experiential interaction, both rational and emotional, with the customers, as highlighted in the case of Eataly.

## **The Empirical Results**

### ***Methodology***

The first phase of the research relates to the case-study analysis of the Eataly innovative experience, a brand-new retail formula that entered the Italian food market two years ago, bridging "retailment" and "edutainment" concepts. The case, that is based both on personal interviews to the management and integrated by secondary data, allows us to better understand the logic of the project and the way the company approached the customer experience and the new path to co-create value.

The subsequent objective of the research was to investigate the Eataly customers' opinion about the innovative formula adopted, in order to understand if the project of the "three souls in a single environment" was really perceived by the market, if the value proposition was clear and which were the areas of incomplete satisfaction and where margins of improvement could be found. In particular we were interested in understanding if the five concepts of customer experience (Feel, Sense, Think, Act, Relate), as underlined in Schmitt's works were fulfilled by the Eataly formula.

A questionnaire was submitted to a sample of 300 customers visiting the Turin shop, during December 2008-January 2009.

We wanted to investigate:

- Reasons for visiting, also considering differences between loyal customers and first time visitors. The aim was to deepen the purposes, the attitude of customers and the main areas of interest (products, restaurants, educational area) during the visit (evaluating the time spent for each).
- Opinions about the shop. We asked to express in a likert scale (1-5) their judgment about different components, such as the environment, products, services. We wanted to understand which elements could effectively influence their actual purchasing behavior.
- Opinions about the coherence between the customers' perceptions inside the shop and the Eataly philosophy, on one side, and its wide assortment, on the other.

Data were completed by personal data and information about the purchases.

### ***Eataly: the quality food experience***

Eataly was founded in 2007 by the entrepreneur Oscar Farinetti, which background was developed in the consumer electronics retailing. He was the founder of Italian well-known chain UniEuro, that today counts more than 90 shops of electronics all around Italy, starting in 70s from a small unspecialized familiar shop in the Turin area. After the sell-off of his retail chain to the English company Nixon in 2005, the successful experience of UniEuro persuaded Farinetti to invest in a new ambitious project, also thanks to the personality of Carlo Petrini, the president of Slow Food, the worldwide association devoted to protect enogastronomic patrimony: the Slow Food philosophy played a key role in the business model created for Eataly. Good, Fair and Clean are the three words characterizing the products Slow Food promotes. In the same way, Eataly aims to provide, together with the food distributed in its shop, a fusion of traditions, culture and values embedded in good and respectful tasting. The challenge since the beginning was to merge in the same location a place for customers to learn about foods of high quality, to eat, and to buy excellence but with sustainable prices: the "democracy of quality" is one of the main values of the company. Eataly promote a selection of products that must be good and tasty, clean (because they respect rough materials and guarantee transparent and traditional productive processes), fair (because they assure correct margins to producers). In this sense, Eataly wants to merge the characteristics of small traditional shops (in terms of quality excellence) and the logics of modern retail (shops size, managerial strategy, supply chain and category management, free service inside the shop).

Three are the key factors that made the Eataly formula particularly innovative:

- The choice of partners. The Slow Food endorsement and consultancy was fundamental to establish a model able to harmonize mass market retailing practice with values highly recognized and appreciated by the customers (i.e. the concept of "slow eating", "territorial products", "short supply chain"). Coop, one of the main food retailers in Italy already developing strategy for sustainable products, entered the capital of Eataly (40%), providing new forces and experiences in the market. Two hundred of different local producers were selected as supplying partners according to a rigid common code.

- The hybrid convergent formula: the three souls. The Eataly idea is to offer a place where to buy, eat and learn at the same time. By contrast with other operators, Eataly neither simply enlarges the core business with new services as retailers are doing in last few years, nor aspires to enter the restaurant and fast food service business. The business model comes out from a process of convergence among different stimuli arising in different business areas. The three souls of Eataly melt in a single place, create an involving experience that can be defined "eatertainment": it's an integrated offering system that, if correctly implemented through time, can generate a higher level of value than the one produced by the sum of the single activities, because of the possibility to satisfy integrated needs of entertainment, purchase, socialization and information.

The experiential marketing: Eataly, as declared by the founder, aims at becoming a "all around show", through a clever equilibrium among information, training, tastes, fragrances, that can transmit emotions to customers. In the first of the 5 shops opened in Italy and Japan, the one located in Turin, 11.000 mq contains 11 mini thematic restaurants (focused on cheese, pasta, ice cream, etc), multiple areas for books and non food products (i.e. cooking tools), rooms for conferences and training courses. Many areas are built in order to reproduce the sensation of traditional market place, with many stalls in which customer can touch, smell, and choose food. This can exalt the playful atmosphere of the shop, attracting the attention, enlarging the time of customers in shop, and increasing the identification with the company's values and products.

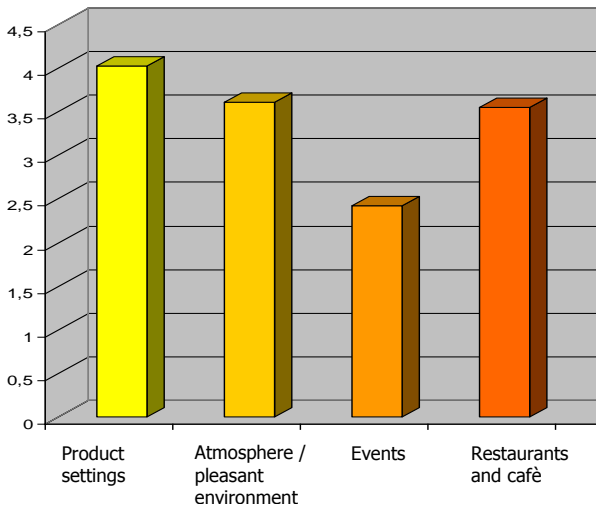
### ***The quantitative analysis: first results***

Here below we present some of the key results emerging from the quantitative analysis. Although not being fully re-elaborated, they give us the chance to better understand some crucial dynamics in the perception of value, in terms of ability to create and transmit a total experience to customers.

A first discriminator in the data analysis is given by the loyalty of the sample. 66% of customers interviewed declared to have been in the shop before: among them 46% declared to visit Eataly very often or at least monthly, underlining that a consistent part (30%) of our sample was formed by customer committed with the innovative formula presented. This gave us the chance to go more in depth with a qualified group of customers that already know the business model.

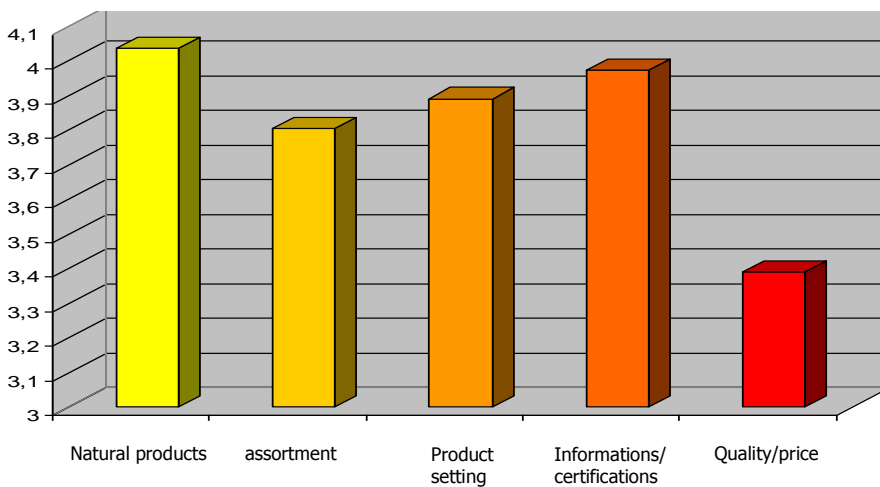
As our first results pinpoint, the assortment is one of the differential elements positively characterizing the value offered: 32% of customer underline this element (its richness and quality) as a determinant of the decision to visit Eataly and to purchase. The score obtained by the products (see below) it's coherent with this perception.

**Figure 1**



Among the most important factors influencing the choice to purchase from Eataly , the positive evaluation of products and their features (see figure below) , represent a confirmation on the customer side of the clear positioning that the company wants to transmit. It's interesting to notice the central role of the "mise-en-scene" of the products as a determinant factor in the positive perception of the products offered.

**Figure 2**



The chance to live a pleasant experience is a relevant element influencing the choice to visit (20% of the sample). The analysis underlines the importance of architecture, space arrangements, the amount of light as primary determinants of this positive perception, in coherence with the specific Eataly way to interpret the meaning of the product as an "experience provider".

According to the data gathered, the chance to eat and to participate to events and training activities connected to the experience of food, are not perceived by customers as really differentiating the formula (quoted as distinctive factor only by 8% of the sample): customers seem not to be influenced, in the decision to enter the shop, by these elements, although appreciating them in terms of quality perceived (see figure 1).



Another important element emerging from the first phase of data analysis is the judgment expressed by the customers belonging to the Slow Food association: although representing only the 5% of the total sample, the Slow Food members interviewed show higher level of knowledge than average, about founding values and approaches of Eataly formula. Thus, they perceive a low level of coherence between the formula and the philosophical premises adopted, underlining the need to progressively renovate the model while the customer get used to the central benefit provided by the quality of foods.

The three pillars of selling, catering and providing education appear as clearly unbalanced in favour of the selling activities. This represents a weakness for further developments of Eataly. The company needs to invest in order to exploit the other two souls of the formula, and to co-create an all around experience for customers and guarantee sustainable advantages, in comparison with other retailers that nowadays are trying to work more and more on the "product settings" as Eataly already does.

### Discussion and conclusion

Our work attempts at outlining some of the main linkages emerging between the service dominant logic and the experience marketing corpus of theory, supporting both a new perspective to look at the process of co-creation of value and the potentialities for companies to maximise the customer experience and involvement. It is possible to draw a common framework for the five concepts pinpointed by Schmitt (1999) and some of the service-dominant logic foundational premises (Vargo, Lusch, 2008):

Experience concepts:	S-D premises
sense	FP 10 – value is always uniquely and phenomenologically determined by the beneficiary
feel	FP 10
think	FP 1 – service is a fundamental basis of exchange
act	FP6 – the customer is always co-creator of value
relate	FP8 - A service-centered view is inherently customer oriented and relational

These linkages allow companies to exploit the differentiation potential connected with their value propositions, especially in retailing or in services with high levels of interactions and experience. In these cases, in fact, experiences derive from lots of stimuli such as environment, furniture, light systems, etc, that companies have to manage in order to better perform.

In this perspective, we can refer to this common framework as "value co-creation experience". This underlines also the crucial problem of alignment between the companies' value propositions and the actual customers' perceptions in order to maximize the value in use.

We could talk as value co-creation experience as a means to render companies' value propositions.

In particular, Eataly case shows how some dimensions and concepts are still not exploited enough:

<b>Experience concepts:</b>	<b>Eataly</b>
sense	High level of exploitation – quality of “global products” provided
feel	High level of exploitation - shop design/environment
think	Medium level of exploitation – customer education as a premise for the formula
act	High level of exploitation – interactions at different levels (purchase, information, trial, etc...)
relate	Low level of exploitation – different levels of interaction according to different kind of customers (i.e. slow food associates)

This could be a model that companies could adopt to enhance their business formulas while approaching the new perspective of value co-creation experience.

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